



2003-2004
City Manager's Budget Request

&

2004-2008
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

March 2003

**2003-2004
CITY MANAGER'S BUDGET REQUEST
&
2004-2008
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS**

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Prepared by
Office of the City Manager
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HONORABLE MAYOR AND CITY COUNCIL:

In compliance with City Charter Section 1204, provided herein is the 2003-2004 City Manager's Budget Request, and 2004-2008 Five-Year Economic Forecast and Revenue Projections for the General Fund and Capital Improvement Program.

Issuance of the City Manager's Budget Request and Forecast are key components of the City's annual budget process, and are critical steps in the development of both the City's annual Operating and Capital Budgets, and the Five-Year Capital Improvement Program (CIP). Included in the City Manager's Budget Request are the budget balancing strategy and principles that the Administration proposes to use in developing the 2003-2004 Proposed Budget. This strategy is predicated on the current projections for expenditure requirements and available revenue in the coming fiscal year. As these projections are an integral part of the Administration's proposed approach to preparing next year's budget, this document also provides a detailed discussion of the key economic, revenue, and expenditure assumptions used to project the City's budgetary status in 2003-2004 and the subsequent four fiscal years.

The Administration recommends City Council review, approval, and/or amendment of the proposed strategy be provided through the Mayor's March Budget Message review process.

2003-2004 City Manager's Budget Request

As we are all aware, the 2003-2004 operating and capital budgets are being prepared in the face of a local economic disruption of historic proportions. Consequently, as discussed later in this message and in greater detail in this document, the General Fund shortfall for 2003-2004 projected in this document is the largest in the City's history. To make matters worse, we are also threatened by proposed State budget actions that could almost double the size of that shortfall. All of the General Fund's economically-sensitive revenues continue to suffer greatly, including Sales Tax, Transient Occupancy Tax, Commercial Solid Waste Franchise Fee, and development-related revenue sources. In addition, the construction-related taxes that fund much of the Traffic Capital Improvement Program are still dropping, with a corresponding negative impact on our Five-Year Capital Improvement Program. Further, though real estate-related taxes are expected to stabilize in 2003-2004, this stabilization is at a much lower level than recent years and those proceeds are expected to remain flat over the forecast period.

Clearly, under the present circumstances facing the City, balancing next year's budget will be an enormous challenge, and will require the development of a very strategic approach to assure that

2003-2004 City Manager's Budget Request (Cont'd.)

the least amount of damage possible is inflicted on City services, while still bringing expenses in line with available resources. In approaching the process of developing budget balancing proposals, therefore, the Administration proposes to utilize the principles outlined in this message.

City Council priorities identified in prior policy sessions, including the current year budget, will guide efforts. Protecting, to the extent possible, priority service areas such as public safety, meeting neighborhood needs (e.g., traffic calming, the Strong Neighborhoods Initiative, etc.), and delivering on capital project commitments will continue to be the goals during the development of the Proposed Operating and Capital Budgets to be submitted on May 1, 2003. Again, to the extent possible given the current fiscal condition, the Administration also intends to protect and preserve its priorities related to performance-driven government, support for effective Council policy-making, neighborhood-focused service delivery, customer service, effective use of technology, and becoming the best public-sector employer.

Consistent with the Mayor's Proposed Budget Strategy approved by the City Council on February 4, 2003, the following specific principles are proposed for use in formulation of the Proposed Budget balancing strategy:

- Balance the City's ability and capacity to continue providing basic essential services to the community, revive the economy, build strong neighborhoods, and stabilize the City's budget;
- Partially mitigate the size of direct service reductions by utilizing a combination of ongoing expenditure reductions and new ongoing revenue sources coupled with one-time expenditure cuts, one-time revenues, and/or a portion of the reserves designated for budget balancing purposes;
- Work to retain a portion of the City's one-time reserves (over and above the required three percent Contingency Reserve policy level set by City Council) for further economic uncertainty;
- Defer consideration of any new program commitments and initiatives, unless those program commitments stimulate the local economy and job creation and/or are funded through redeployment of existing resources and/or until economic recovery occurs;
- Focus on protecting vital core City services. Focus service reductions first in those areas that are least essential;
- Emphasize quality over quantity: do fewer things as required, but do them well;
- Continue to emphasize prevention and expenditures that reduce costs to the City and the community;

2003-2004 City Manager's Budget Request (Cont'd.)

- Once efficiencies and appropriate cost savings have been achieved, utilize fee increases to assure that operating costs are fully covered by fee revenue;
- Consider alternative service delivery mechanisms (e.g., appropriate community partnerships, public-private partnerships, outsourcing/insourcing services delivered by City staff, etc.);
- Reprioritize capital improvement program schedules to accelerate projects that have beneficial or neutral impacts on the General Fund and defer those that have negative impacts;
- Emphasize performance by focusing on improving employee productivity, and continuously improving business practices, including streamlining, innovating, and simplifying City operations;
- Balance reductions across the organization and employee groups, including a careful review of all non-essential overtime and non-personal/equipment expenses;
- Make every effort to eliminate vacant positions, rather than filled positions; and
- Work together with employee bargaining units to find ways to limit the number of employee layoffs.

In light of the current forecasted budgetary situation, the Administration has directed each of the seven City Service Areas (Aviation, Economic and Neighborhood Development, Environmental and Utility Services, Public Safety, Recreation and Cultural Services, Transportation Services, and Strategic Support) to develop 2003-2004 budget proposals necessary to eliminate the projected shortfall, utilizing these principles. The Mayor will issue a proposed Budget Message later this month. The Message will then be discussed and adopted by the City Council. The contents of that Message will provide more specific guidance for the preparation of the City Manager's Proposed Operating and Capital Budgets. As required by City Charter, the Proposed Budgets will contain comprehensive plans for how the City organization can meet the City Council's priorities and community's service needs while maintaining the fiscal integrity of the City. Additional input by the City Council and community will be incorporated into the budget through the Proposed Budget Study Sessions, Public Hearings, and the Mayor's Final Proposed Budget Modification Memorandum during the months of May and June 2003.

As described in this document, projections for the 2003-2004 fiscal year reflect a \$72.6 million gap between revenue expenditures in the General Fund and smaller incremental shortfalls in the subsequent years. This is obviously a dramatic change from the \$11.7 million shortfall estimate for the same period issued one year ago at this time. The increased size of the shortfall is the combined result of two factors: an ongoing budget shortfall that was not solved in the 2002-2003 budget and an economic downturn in Silicon Valley that has far exceeded all earlier estimates in terms of its depth and length.

2004-2008 Five-Year Economic Forecast and Revenue Projections

The forecast for Capital Budget revenues for the entire five-year period, including 2003-2004, although also uniformly down from the levels of the last several years, is more consistent with recent forecasts. In the case of those revenues, we came much closer in predicting the impact of the downturn.

Forecast Highlights

This forecast is built upon a set of assumptions about the future economic environment. These assumptions have been formulated through the review of a number of forecasts of economic conditions, including the UCLA Anderson School Forecast utilized by the City's consulting economist.

- Overall, the forecast has as its basic assumption that the local economy is close to bottoming out, but will not significantly rebound in the near term. It also assumes that, because of the serious breadth of local economic challenges, the resumption of local growth will lag behind that of any national economic improvement. It is thus anticipated that the local slowdown will continue to be pronounced for much of the first year of the forecast, with the resumption of growth in City revenues lagging that recovery, and the resumption of low to moderate growth expected in the out years. This forecast clearly reflects an expectation that growth will be slow and low, very unlike the robust levels experienced in the five years prior to 2001-2002, but similar to that of the early 1990s. The recession and its effects are evident in the first year with dramatic negative impacts on the City's economically sensitive revenue categories such as Sales Tax, Transient Occupancy Tax, and development-related fees.
- National data, along with general forecast projections suggest that a recovery at the national level began last year, but that recovery is both weak and tentative. The predominate characteristic of the economy at the moment is uncertainty. Until the geopolitical situations and, in particular, the Iraq situation are resolved, any presumption about the national economy is risky. Even with that uncertainty, the available data also indicates that the national economy is continuing to fare far better than Silicon Valley's. The extent of the local recession is simply much greater than anyone predicted. The presumption used in this forecast is that a significant recovery in the technology industry must occur for a significant local economic rebound to occur, including any gain in the number of wage and salary jobs.
- As discussed above, the General Fund projections for the coming year (2003-2004) are significantly worse than those included for that year in the last forecast issued by the Budget Office (March 2002). In that forecast, an incremental 2003-2004 (base case) shortfall of only \$11.7 million was projected. In this forecast, that shortfall has grown to \$72.6 million. It should be noted that the projected shortfall for 2003-2004 is the largest ever faced by the City. The forecast further indicates that in year two of the forecast (2004-2005), predicted increases in City retirement contribution costs (\$13.2 million) will result in an additional significant General Fund shortfall (\$26.6 million). In fact, the forecast indicates that expenditure growth will exceed revenue growth in every year of the five-year period, resulting in deficits in each of those years.

2004-2008 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Forecast Highlights (Cont'd.)

- It is very important to note that this forecast does not presume any negative impact on our revenues from State budget balancing actions. That is likely to be a very optimistic presumption, but it is just not possible at this point to predict the likely outcome of a process that will likely drag on until next fall. The latest estimates place the State's budget problem between \$26-\$34 billion. If the Governor's proposed solutions issued in January were to be approved, the City would face an estimated increase of \$57.2 million to its General Fund shortfall. The Governor's proposed solutions include reductions to the Motor Vehicle In-Lieu Fee "backfill", Public Library Foundation Funds, and the SB 90 Jail Booking Fee revenue categories. This \$57.2 million figure does not include losses in reimbursements to the General Fund from the Redevelopment Agency that could well result from other provisions of the Governor's budget plan that would devastate the Agency's housing, economic development, and neighborhood programs as well as its fiscal health.
- The forecast also projects combined shortfalls of about \$4.4 million in the development-related fee programs in Public Works, Fire, as well as Planning, Building and Code Enforcement Departments. The forecast presumes, however, that the combined revenue and expenditure imbalance in these fee programs will be resolved through some combination of fee adjustments and expenditure reductions.
- The forecast does not include projections for the financial impact of the new Civic Center project on the City budget. Debt service costs are now known, but further analysis is needed to accurately project the specific lease savings amounts by fund and by year that will occur. There is no impact on the General Fund from this project next year. The results of the analysis will be available for inclusion in next year's five-year forecast.
- This document also includes projections for revenues generated by construction-related taxes used to support several key Capital Budget programs. The forecast for these taxes has been prepared using activity estimates made by the Planning, Building and Code Enforcement Department, as discussed in detail later in this document. This activity forecast includes a review of specific projects that are in progress, as well as a general prediction of expected levels of new construction. The department anticipates that construction activity, which began its steep decline in 2001-2002 that has continued through 2002-2003, will reach a low point this fiscal year and will stabilize over the forecast period.

Background

The Five-Year Forecast portion of this document is divided into five sections.

1. **Elements of the General Fund Forecast** – This section begins with a description of the overall economic outlook and the expected performance of the economy over the five-year period, followed by detailed descriptions of the assumptions made concerning each of the General Fund revenue and expenditure categories.

2004-2008 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Background (Cont'd.)

General Fund Forecast – The forecast model itself is presented in this section. It includes a worksheet on the economic drivers (e.g., Gross Domestic Product, unemployment rates, etc.) that are expected to impact revenue collections over the next five years, and projections for each of the revenue and expenditure categories. The expenditure summary is divided into three sections:

- *Base Case without Additions* – This section describes projections associated with existing expenditures only.
- *Base Case with Committed Additions* – This section describes the existing expenditures (base case) along with those expenditures to which the City is committed and has no discretion, such as debt service payments and maintenance costs.
- *Base Case with Extended Additions* – This section describes existing expenditures, committed additions and extended additions. Extended additions are expenditures for selected programs previously reviewed by City Council for which additional funding may prove necessary, but for which more discretion exists.

For each expenditure scenario, an operating margin comparing projected revenues and expenditures is provided in Section 4, Alternate Forecast Scenarios, of this document. The Five-Year Forecast discussion is based on the Base Case with Committed Additions scenario. The Base Case with Committed Additions is considered the most likely scenario for the upcoming year.

2. **Additions and Deletions to the Base** – This section describes the committed and extended additions considered in the forecast.
3. **Alternative Forecast Scenarios** – Because all forecasts are burdened with a large degree of uncertainty, two plausible alternative forecast scenarios are presented – an “optimistic” case and a “pessimistic” case. These cases are compared with the base case to show the range of growth rates for revenues and the associated operating margins.
4. **Capital Revenue Forecast** – A discussion of the estimates for construction and real estate related revenues that are major sources of funding for the City's Five-Year Capital Improvement Program.

Two appendices are also included in this document. The first appendix, prepared by the Planning, Building and Code Enforcement Department, documents the basis for that department's five-year projections for construction activity. The second appendix is a compilation of descriptions and definitions of the City's major General Fund revenue categories.

2004-2008 Five Year Economic Forecast and Revenue Projections (Cont'd.)

General Fund Forecast

The General Fund Forecast (Base Case with Committed Additions) predicts a 2003-2004 shortfall in the amount of \$72.6 million. This is followed by projections for net incremental shortfalls in each of the subsequent four years of \$26.64 million, \$10.52, \$12.63 and \$10.69 million, respectively.

It is very important to note that the forecast utilizes an incremental approach to each year's projection. Under this approach it is assumed that the budget is completely balanced on an ongoing basis in each year. To the extent that shortfall in any one year is closed using one-time measures, the shortfall in the following year would be increased by any amount resolved using one-time means.

The following table compares last year's forecast to this year's forecast:

2004-2008 GENERAL FUND FORECAST
Projected General Fund Margins
 (Base Case with Committed Additions)
 (\$ in Millions)

	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
March 2003 Incremental Surplus/Shortfall	(\$72.65)	(\$26.64)	(\$10.52)	(\$12.63)	(\$10.69)
March 2002 Incremental Surplus/Shortfall	(\$11.73)	(\$8.49)	(\$6.97)	(\$3.33)	N/A

The projections are clearly much more pessimistic in the first two years compared to the last forecast. The worsened situation projected for the General Fund in those two years is the result of three primary factors: 1) an ongoing shortfall that was not solved in the 2002-2003 budget; 2) the impact of a recession that has far exceeded earlier projections, and 3) the lower retirement investment performance which is expected to require a larger City contribution to the retirement funds in 2004-2005, when the next actuarial study is scheduled to be completed.

In the final three years of the forecast, presuming ongoing resolution of the problems in the prior two years, the size of the shortfalls is smaller. Their continued presence, however, is an indication of a continued structural problem: expected growth in revenues is not keeping pace with the growth in expenditures. This reflects the key assumption used to develop the revenue

2004-2008 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

General Fund Forecast (Cont'd.)

forecast: that the economy will not soon resume the record setting pace experienced in the last years of the 1990s decade, and over the forecast period will experience slower and lower growth.

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

Potential Expenditure Additions

The basic format of presenting potential expenditure additions used in past forecasts has been continued. The potential additions are presented in two categories. The first category, "Committed Additions", includes unavoidable cost increases or those matched by revenue. The second category, "Extended Additions", represents program additions which may prove desirable, or even unavoidable, and follow from prior City Council direction, but where costs still need to be reviewed by the City Council before deciding if, and at what level, they will be approved. Typically, the forecast case considered most closely by the City Council is the "Base Case" forecast, which includes ongoing program costs plus the Committed Additions.

Committed Additions

Reflecting previous City Council decisions, a number of specific committed additions are included in this forecast in the specific years that they are now assumed to come on-line. Included in the Committed Additions category are the following:

Scheduled maintenance costs for new projects now in the adopted Capital Improvement Program such as for new park and recreation facilities, street improvements, Communications Hill Fire Station, bond-financed facilities for libraries, parks, and public safety, and the Main Library. Funding to bridge the gap in the Capital Program for the scheduled replacement of communications equipment also continues to be included in the Committed Additions section.

Not included in the Committed Additions section is the additional operating costs related to the projects now in the adopted Capital Improvement Program. In the past, these expenditures were included. As a majority of these items are expansions/modifications to existing facilities, which are more discretionary in nature, they have been moved to the Extended Additions category.

Given the current financial situation, the ability to actually add all of these items to the budget next year will need to be carefully reviewed during the next phase of the budget process.

2004-2008 Five-Year Economic Forecast and Revenue Projections (Cont'd)

General Fund Forecast (Cont'd.)

Comparison of Base, Optimistic and Pessimistic Cases

As has been the practice in these forecasts, in order to model the range of financial scenarios possible under varying economic conditions, two alternative revenue forecasts have again been developed. "Optimistic" and "Pessimistic" revenue cases were developed to model economic scenarios considered possible, but less likely to occur than the "Base Case". In these scenarios revenue collections can be seen to diverge from the Base Case at increasing rates over the five years. These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario for planning purposes.

In developing these alternate cases, selected economic variables that are the primary drivers of the revenue estimates in the forecast model have been raised or lowered so that revenues would be pushed to plausible optimistic or pessimistic levels.

In the Pessimistic Case, a war in Iraq produces a long open-ended occupation of that country and prolonged uncertainty in the psyche of the American public and American financial markets. Consumer confidence drops as does the stock market; general economic activity slows; and increased uncertainty causes businesses to curb additional spending on technology equipment. This case is also one of higher interest rates produced by a weaker dollar and extremely high federal deficits. In this pessimistic case, local revenues are much lower than the base case, staying that low for the entire forecast horizon. Only in the out years of the forecast do the revenues and local economy start to show any significant improvement.

The Base and Optimistic case scenarios presume an acceptable outcome to the Iraq situation, with no lasting negative impact on the economy. The Optimistic Case differs from the Base Case in that it is one in which general economic conditions, particularly those that have a significant local impact, are more favorable than those assumed by the Base Case. In the Optimistic Case, interest rates are lower, consumer confidence is higher and, therefore, general economic growth (as measured by the Gross Domestic Product) is higher than the base case. This scenario also assumes that information technology spending, a key driver for local economic growth, improves over that assumed by the Base Case. Coupled with increased local employment, the housing market improves significantly over the base case.

2004-2008 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Capital Revenue Forecast

Section Five of this report describes the 2004-2008 Capital Budget Revenue Forecast that will be used to formulate several major elements of the Capital Improvement Program (CIP). As in past years, the construction-related revenue estimates included in this report are derived from construction activity projections provided by the Planning, Building and Code Enforcement Department. The projections and their basis are described in a report prepared by that department, which is included as Appendix A of this document (Development Activity Highlights and Five-Year Forecast [2003-2008]).

The following table compares the estimates for the economically sensitive capital revenue categories included in this Five-Year Forecast with those included in the Adopted 2003-2007 CIP.

**Forecast Comparison Summary
 (\$ Thousands)**

	2003-2007 CIP	2004-2008 Forecast	Difference	Change
Construction and Conveyance Tax	80,000	80,000	0	0 %
Building and Structure Construction Tax	47,632	43,659	(3,973)	(8) %
Construction Excise Tax	64,256	58,950	(5,306)	(8) %
Residential Construction Tax	785	428	(357)	(45) %
Sanitary Sewer Connection Fee	3,664	4,331	667	18 %
Storm Drainage Connection Fee	1,698	1,818	120	7 %
TOTAL	198,035	189,186	(8,849)	(4) %

Real estate activity determines the collection level of one of the major capital revenue sources, the Construction and Conveyance Tax (C&C). The five-year projection for C&C revenue totals \$80.0 million, which is consistent with the projections included in the 2003-2007 CIP. This estimate is built on the conservative assumption that collections will remain flat at \$16.0 million annually for each year of the five-year forecast. In recent years, the actual collection levels have exceeded this amount. Collections in this category peaked in 2000-2001 at \$31.6 million, dropping to \$26.3 million in 2001-2002. In 2002-2003, collections remained relatively strong through the first six months of the fiscal year, and even slightly exceeded prior year collection levels. However, in recent months, key indicators of the health of the real estate market such as the number of sales, and days on the market have indicated a softening and, indeed, tax receipts have started falling. The \$16.0 million annual collection level presumed in this forecast reflects what is believed to be a more sustainable level of housing resale activity and is based on the presumption that further downward adjustments will occur in the housing market.

2004-2008 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Capital Revenue Forecast (Cont'd.)

The remaining five economically sensitive capital revenue categories are directly linked to development activity. While a significant drop in construction activity was assumed in the development of the current CIP, the decline has been more severe and prolonged than anticipated. As a result, downward adjustments are necessary in the two largest construction-related taxes, the Building and Structure Construction Tax and the Construction Excise Tax, as well as the smaller Residential Construction Tax.

The Sanitary Sewer and Storm Drainage Connection Fee categories, both of which contribute to the funding for capital programs to maintain those systems, are actually expected to be higher over the five-year period from the levels included in the current Capital Improvement Program (CIP), as the actual declines in collections have not been as severe as originally anticipated when the current CIP was developed.

It should be noted, however, that while overall revenues are projected to decline further from the record-setting levels of the late 1990s that peaked in 2000-2001, this forecast still projects most of the revenues to exceed the collection levels experienced in the 1980s and early 1990s. Since these revenues are so sensitive to economic conditions, any significant change in the economy has a major impact on projected revenues. This impact has been evidenced both during the economic boom and the subsequent downturn. Staff will continually analyze the revenue collections in these categories and the underlying economic conditions to determine if further refinements to the revenue estimates are necessary.

Conclusion

This Budget Request and Forecast are being released in the midst of one of the worst local recessions in history. The local economy and the City's economically sensitive revenue collections are down significantly even from a very bad prior year, and look to remain at reduced levels for quite some time.


In this document our most current projections for the budgetary situation both next year and for the five-year period are laid out in great detail. We have also provided the elements of an overall strategy and set of guidelines that we believe to be appropriate for use in preparing the City Manager's Proposed Budgets. Most of those strategies have already been endorsed by the City Council as part of the Mayor's Budget Strategy unveiled last month. We look forward to discussing these recommendations with the City Council.

As we proceed to plan how to address one of the most exceptionally challenging fiscal situations experienced in the City's history, it is important to remember that the City's proven financial strategies have served well in the past, bringing the City through similar tough financial times in

Conclusion (Cont'd.)

sound fiscal health. We recommend sticking to the conservative fiscal policies approved by the City Council, past and present.

Through strong leadership by the Mayor and City Council, the City has and will continue to react with appropriate actions to endure the weak local economy, maintain our strong financial condition, and to prepare ourselves to move forward once the economy begins to grow. I am confident that our combined efforts will produce an appropriate plan that will accomplish those goals.


Del D. Borgsdorf
City Manager

*Five-Year Economic Forecast
and
Revenue Projections*

2004-2008

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides for City Council consideration a “base case” and two alternative case forecasts for the General Fund for the next five years. As with all forecasts, this one is based on a series of assumptions regarding the overall economic environment, now and in the future. These assumptions were arrived at after reviewing the projections of a variety of economists and economic forecasts, including the forecasting service to which the City’s consulting economist subscribes (UCLA’s Anderson Business Forecast). The forecast for the first year of the period, 2003-2004, will be updated as appropriate as part of the City Manager’s 2003-2004 Proposed Operating Budget, scheduled to be published on May 1, 2003.

This forecast has been built using two basic assumptions: (1) the local economy will not experience a significant economic rebound for at least two years, and (2) a recovery in the local economy and in the associated City revenues will lag a recovery in the national recovery. On an overall basis, as a consequence of these two presumptions and based on an analysis of the current year’s disappointing revenue performance, this forecast projects General Fund revenue collections to drop in the first year of the forecast and resume a slow level of growth in the remaining four years of the forecast period.

The following is a discussion of both the national and local economic outlooks utilized in developing the revenue estimates used in this forecast.

National Outlook

The beginning of the 2003 calendar year finds a U.S. economy that may be technically out of recession, but with many reasons to worry about whether it will sustain any momentum. The latest Gross Domestic Product (GDP) growth rate of approximately 2.4% would seem to reflect an economy moving in the right direction, but in reality is not a high enough growth level to support any significant job growth. This recovery is to date a jobless one. It needs to be noted as well, in fact, that many economists feel that much of the current growth is the result of one-time or non-sustainable events (e.g., current home mortgage refinancing trends and the extremely generous auto purchase incentives recently offered by Detroit’s auto makers). Neither of these conditions is expected to continue at 2002 levels in future years.

Cautionary signs related to the economy abound. Examples include the continued weakness in the equity markets, a January decline in the U.S. Leading Economic Index, and the sharp drop in the Conference Board and University of Michigan Consumer Confidence Indexes. For the Conference Board Index, this marked the third consecutive month of decline. The Conference Board’s director described the most recent results: “This month’s confidence readings paint a gloomy picture of current economic conditions, with no apparent rebound on the short-term horizon.”

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

National Outlook (Cont'd.)

Much of the uncertainty regarding prospects for a strong economic rebound can be directly tied to the geo-political situation: a seemingly eminent war with Iraq, confrontation with North Korea over its resumption of nuclear weapon development activity, and the ongoing war on terrorism. Both consumers and businesses are clearly increasingly reluctant to take any significant steps to commit to additional spending in light of the possible conflicts. This uncertainty has greatly compounded the economic stagnation that already existed, and contributed greatly to a lackluster Christmas spending season, the lack of any significant renewed business investment, and a severe spike in oil and energy prices.

The consensus among forecasters still seems to be that a bottoming out of a national recession occurred in 2002, and that a recovery with slow growth can be expected to continue in the near term. No major forecaster is currently forecasting a return to recessionary conditions any time in the near future (i.e., the dreaded "double-dip" recession). At the same time, however, it should also be noted that no major forecaster is predicting a strong growth scenario. Every major forecaster is conditioning their forecast with strong caveats about the uncertainty inherent in the above-mentioned international situation. This environment is, indeed, a difficult one in which to make confident financial predictions.

Our forecast presumes 2003 and 2004 outlooks that would result in continued but weak growth in the U.S. domestic economy. Barring major disruptions from world events, we do expect slowly increasing strength in business investment, an area of acute weakness from 2000 through 2002. By 2004 the U.S. economy is forecast to grow by 3.65%. A significant portion of this strength, if it occurs, is expected to come from fiscal stimulus applied prior to the next U.S. presidential election, but some of it should be attributable to general economic recovery. It is worth noting that, as always, a crucial factor in the presidential election will be the national and local economy. This will inevitably influence national economic policy. For example, although last year's UCLA Anderson School forecast (the one on which this forecast depends heavily) assumed a considerable amount of fiscal stimulus from Washington, D.C., the size of the stimulus assumed in the most recent forecast is up considerably from last year's forecast.

During most of the last two years, the consumer sector of the economy was almost solely responsible for keeping the U.S. economy in positive territory. For 2003 and 2004, consumption is forecast to continue at a reasonable pace, but is not expected to be as strong as in 2002. Lower monthly home payments, which resulted from the large number of residential refinances that occurred in 2002, can be expected to continue bolstering household balance sheets and enable further consumption expansion. However, the high level of unemployment and consumer debt levels, can be expected to increasingly hinder any consumption expansion. In addition, the very robust 2002 auto sales levels can be expected to slow substantially in 2003, since most of the 2002 sales were based on aggressive incentives by the auto industry, which are not expected to continue into 2003.

Increased spending by the federal government is expected to have a positive effect on the economy, as the Bush Administration prepares and/or conducts a war with Iraq, continues efforts

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

National Outlook (Cont'd.)

for the ongoing anti-terrorist campaign, and attempts to provide a stimulus to the economy in the form of tax cuts and unemployment relief. Offsetting much of the positive impact of the increase in federal spending, however, will be the impact of the expected severe cuts in spending by local and state governments, as they address the greatest fiscal challenge faced by state and local governments in decades. This will inevitably exert considerable downward pressure on economic growth in 2003-2004.

Two other economic factors are worth noting in the national outlook: interest rates and inflation. This forecast expects interest rates to rise slightly through most of the forecast period. The rise in rates will be the result of increasing demand for funds generated in both the private and public sectors, created by increasing federal government deficits. Inflation, on the other hand, is forecast to remain very low through the balance of the forecast period after a brief upturn in 2003.¹

California Outlook

Our forecast for the California economy is a more anemic version of the national forecast: economic performance somewhat stabilized with low growth levels, but weakened considerably by the sharp decline in the levels of growth experienced during the mid and late 1990s. According to a recent State Legislative Analysts' Office (LAO) report, the Governor's budget plan forecasts State economic growth to be 1.4% in 2002-2003 and to rise only slightly, to two percent in 2003-2004. The weakness in California's economy, led by the precipitous decline in the Silicon Valley's performance, has created the worst financial crisis for the State government experienced in 50 years. Current estimates place the State's budget problem between \$26-34 billion.

According to the LAO report, California's economy is currently characterized by differences among industries as well as differences among regions, as the latter has developed into "micro-economies" whose local economies are primarily driven by different industrial sectors. Again, on an overall basis, California's economy is stable, but weak. Job gains in nonbusiness services (e.g., retail trade, government, finance-related, etc.) were offset by losses in primarily nonresidential construction, business transportation, and manufacturing. Generally, consumer spending seemed to drive much of the State's growth. However, the growth in the consumer sector was offset by lower nonresidential fixed investment, including business spending related to equipment, software, and facilities. The latter two components are important indicators to the State since manufacturing and business services industries are primarily dependent upon business investment and foreign demand. Much of the consumer spending on "big ticket items" last year (e.g., homes, cars, and other durable goods) appeared to be driven by low interest rates and home refinancing. Given the continued loss of jobs, particularly in northern California,

¹ The expected temporary increase in inflation reflects in large part higher energy and gas prices resulting from a possible war with Iraq.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

State Outlook (Cont'd.)

how much longer consumer growth can be counted on to support the State economy remains unknown. The uncertainty related consumer performance is heightened by a reported sharp decline in California consumer confidence levels. A recent survey by the Public Policy Institute of California found the highest levels of pessimism about the economy and political leaders among State residents in 10 years. Just 28.0% of those surveyed said the State was headed in the right direction. At the same time last year, 56.0% said the State was on the right course. Any drop in consumer spending would, in turn, negatively impact meaningful business investment.

Deep job losses in the manufacturing sector along with a decrease in the average wage for technology-related positions contributed to producing an overall personal income decline. It is this decline in personal income, which has so dramatically impacted State revenue resources. Because of its inordinate dependence on income tax proceeds, the State's financial fortunes tend to rise and fall with personal income tax receipts. Thus, the bursting of the technology bubble and resulting severe loss of technology-related wealth and income from the stock market has devastated the State's financial picture.

Public spending tends to lag actual economic activity. So, the falloff in public spending, the inevitable result of falling tax revenues, is just now beginning to mirror the drop in business revenues. Problems at the State level also appear likely to trickle-down to local governments that are already facing their own major fiscal problems. As has been reported, for example, if the Governor's proposals were to be approved by the State Legislature, this City would face massive reductions in its Motor Vehicle In-Lieu Fee (MVLFF), additional cuts to its Public Library Foundation Funds, and the SB 90 Booking Fee, totaling an estimated \$57.2 million. Clearly, the State's economic condition and how it deals with the budget problem will seriously impact the City's financial condition.

Local Outlook

Our forecast for the Santa Clara County economy is more pessimistic than that provided a year ago. Current economic conditions in the County have not improved at all during that period and, in fact by most measures of economic health, the situation continues to deteriorate.

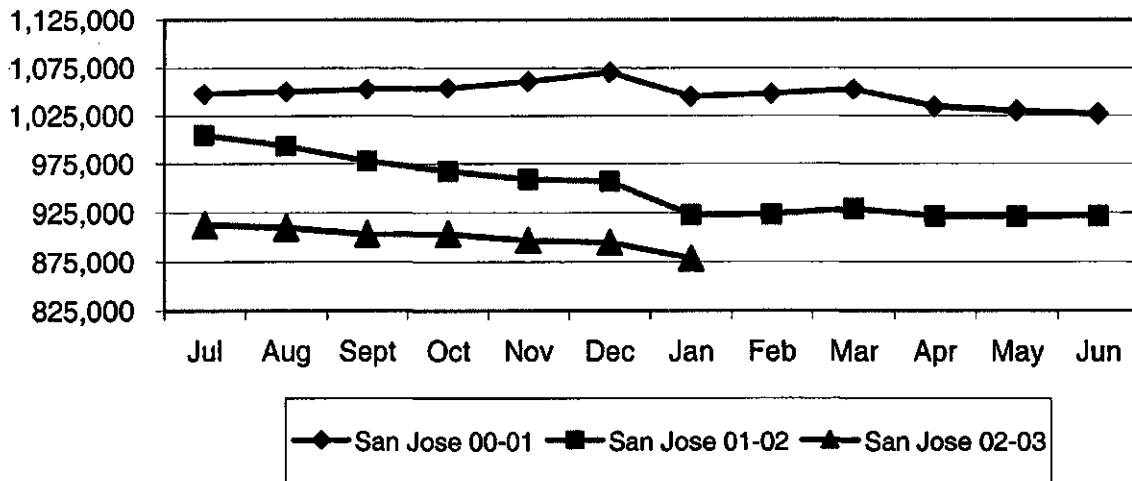
The most crucial indicator of economic health in our view is the number of jobs in the County. It was apparent in a report released by the State Employment Development Department that jobs are still on the decline in this region (see chart below). As of January, the total number of wage and salary jobs in the County was estimated at 878,700, down by 16,800 from the December 2002 adjusted number, down by 44,400 in the last year, and down by almost 18.0% from the 2001 peak of 1.07 million.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Local Outlook (Cont'd.)

San José Metropolitan Statistical Area
(Santa Clara County)
Total Wage and Salary Jobs Comparison²



Although last year's forecast for the current fiscal year predicted an overall job count decline, that decline was only anticipated to be about one percent. The actual decline has significantly exceeded that level. It was also anticipated that the technology manufacturing job decline would be less than four percent. Jobs in this sector to date are actually falling at a much steeper rate (down 10.9%). This still alarming rate of decline in technology jobs suggests that a bottoming of the local recession has not occurred, and is likely to be at least several quarters in the future.

The January County unemployment rate remains very high at 8.6%, up from the revised December rate of 8.3%. Santa Clara County currently is experiencing one of the highest levels of unemployment of any major urban area in the United States. At the peak of the Internet bubble in 2001, the unemployment rate was less than two percent. Business leaders report that conditions in the local technology industries have stabilized somewhat.

However, the job count statistics do not yet reflect that claim. While it is true that the County job counts are a "lagging" indicator (i.e., job counts will tend to increase or decrease only after actual business conditions have changed), the jobs counts information reflected continuing sharp job loses in the County's technology industries. A stable economic condition in Silicon Valley cannot be said to exist until we see a job count that stops falling and an unemployment rate that stops growing.

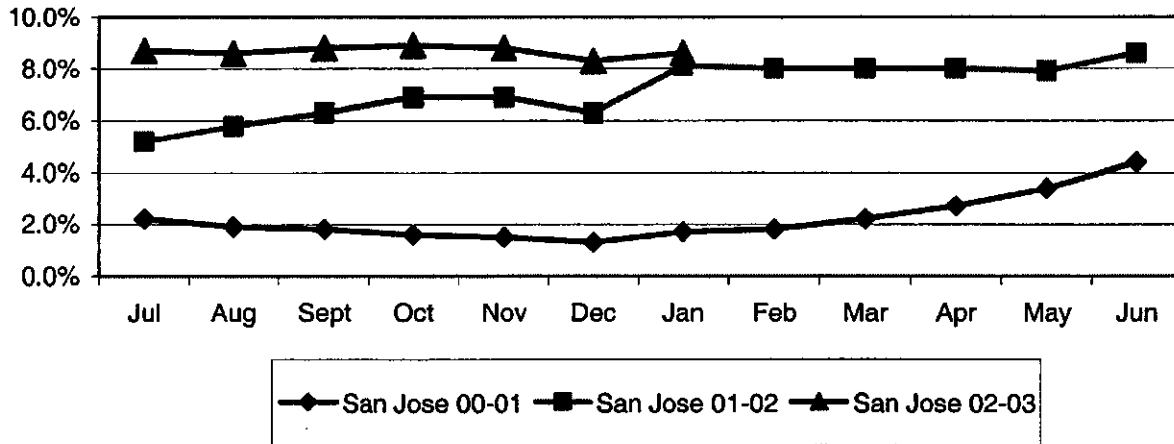
² Labor Force and Industry data contained in this chart differ from previous information due to the U.S. Department of Labor's annual revision process. In addition, this is the first release of official employment estimates by industry using the new North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Local Outlook (Cont'd.)

San José Metropolitan Statistical Area
(Santa Clara County)
Unemployment Rate Comparison³



There are two major factors that appear to be significantly hindering a return to economic growth in the technology industries. The first is price deflation. Almost all elements of the technology sector have suffered from significant product price drops. This has placed continuing downward pressure on company profits and employment. Price deflation is not a new phenomenon to the technology industry; prices of almost all technology products fall over time. Such deflation is not necessarily bad for the industry; falling prices encourage new applications of existing technologies and, thus, expand unit sales. As long as the rate of increase of unit sales exceeds the decline in prices, technology companies profit. However, currently, unit sales are still very soft while prices continue to decline, making profitability difficult. The second related factor is the current overcapacity in almost every aspect of the industry; resulting in increasing competition as companies invade each others profitable territories. We are in dire need of innovative and new “must-have” products with their associated high profit margins.

The local real estate market presents a mixed picture. The residential sector is still faring surprisingly well; very low interest rates have bolstered both the number of resales and increased home prices. The continued health of the real estate market is remarkable, given this area’s already extremely high home prices coupled with the high unemployment rate. Conversely, commercial real estate in Santa Clara County is worse off than it was a year ago, and showing no sign of any eminent improvement. Vacancy rates are approaching 30.0% for office buildings in the County and are among the highest in the country.

³ Labor Force and Industry data contained in this chart differ from previous information due to the U.S. Department of Labor’s annual revision process. In addition, this is the first release of official employment estimates by industry using the new North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system. Further, longitudinal data from the California State Employment Development Department prior to January 2002 is not strictly comparable to subsequent data due to a change in methodology.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Local Outlook (Cont'd.)

Our base case forecast for the near and intermediate future year period is one of stabilization for the local economy. While it is unclear as to whether the local technology sector has completely bottomed-out, we do expect that, barring some major negative development in the world situation, the worst of the declines have been experienced, and that sometime next year a resumption of some level of slow growth will begin. A number of factors support this scenario:

First, the world's businesses have postponed technology purchases for a number of years now and are overdue for equipment upgrades and replacements. Second, inventories of technology equipment are at their lowest levels. Any increase in spending by the world's businesses on technology should result in immediate increases in production and hiring. Finally, fiscal stimulus expected from the federal government should increase general U.S. economic activity, including the demand for technology equipment. Further, under current proposals, some direct stimulus would come to the technology sector in the form of much more rapid depreciation of business equipment for tax purposes. Decreasing the tax life of technology equipment should encourage increased business spending on technology equipment in the coming years.

While we believe a further sharp decline is unlikely in the technology industries, at this time a return to the high growth rates experienced during the 1995-2000 period is also not expected. Several reasons support this presumption:

First, no truly "hot" technology item seems to be circulating that would propel Silicon Valley's technology sector forward above and beyond the usual pace of replacements for existing technology. This lack of technological innovation means that profit and job growth will remain slow, translating into overall slow economic growth.

Second, price deflation of technology products will continue to be an issue in the foreseeable future. Silicon Valley contains too much technology capacity and faces strong competition in the world today, particularly from Asia. Even if the world's businesses resume replacing their technology with newer equipment, much of the replacements will be at lower prices. As an example, consider the personal computer. Today businesses can purchase vastly more powerful machines than they could two or three years ago while actually paying less for them. This price deflation means less revenue flowing to personal computer makers for the same number of machines sold. This same price/performance phenomenon holds true for almost all technology hardware and software components.

Third, as mentioned above, the public sector faces the likelihood of extreme cost cutting in the near to intermediate term. This area has been one bright spot for job growth in Silicon Valley over the last several years, as local, state and federal employment all expanded significantly. This expansion will end in 2003 and remain flat for the balance of the forecast horizon. Declines will occur in the state and local sectors as these sectors cope with dramatically reduced tax revenue flows and, consequent, budget shortfalls and deficits. However, federal employment

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Local Outlook (Cont'd.)

should remain relatively stable, offsetting somewhat the anticipated declines in state and local employment.

Fourth, the hospitality and travel industries should finally begin to recover from the deeply depressed levels experienced as the result of the September 11 terrorist attacks. However, we do believe the sluggish economy will hold future gains to relatively modest levels.

On the basis of the observations already described, the current forecast for the local economy is one that looks very much like the conditions that prevailed in Santa Clara County during the early 1990s. These early-1990 conditions were characterized by extremely slow growth in the local industrial sector. Further, local inflation remained low and the housing market was stagnant. This forecast presumes that by the beginning of 2003-2004, the employment declines will end and the County will finally begin to recover from the recession. That recovery, however, will be slow. County job growth is forecast to be only approximately one percent, rising to approximately 1.5% for the next several years. This growth rate is well below the general, long-run growth trends for Silicon Valley. The unemployment rate is forecast to decline significantly over the forecast horizon. It should be down to the five percent range by the end of the forecast period. However, it should be noted that the expected rate of decline is not solely because of any dramatic improvement in conditions, but also reflects the impact of the severity of the recession, with many of the longer-termed unemployed leaving the area.

A large area of uncertainty for the near-term outlook relates to the County's residential real estate market. Will this market continue to reflect price and activity gains going forward through 2003-2004? This forecast expects that the market will likely not continue to support such enormous gains for much longer. Local home prices and resale activity have been bolstered by the lowest long-term interest rates seen in well over 30 years. Long-term rates are forecast to climb in the coming quarters and this increase should be sufficient to keep home prices and sales from rising much further, if at all. Fortunately, rates are not expected to rise so fast or so high as to cause a decline in prices in the coming years.

The picture is much clearer for local non-residential real estate and much bleaker. Because of the very high vacancy rates and the weak employment situation, no significant building of commercial projects can be expected any time soon. Very low levels of commercial real estate construction will be a large drag on the local economy for a number of years to come.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Local Outlook: Longer Term

New, highly innovative product cycles such as the Internet expansion play a crucial role in the County's economy. While it is true that general business spending on technology products is important to the local economy, it is these innovation cycles that really propel the local economy into both its boom and bust trends. When and to what extent these product cycles occur is virtually impossible to predict. The County most certainly is at the end of one of them (the Internet) and still feeling the effects of its decline. For the purpose of this forecast, it is assumed that a new cycle begins late in the forecast horizon and is responsible for substantial growth in the area's businesses in the ending years of the forecasts.

Still even with this assumption in place, the out years of the forecast for the local economy indicate a much lower growth than typical of the 1980s and 1990s. This lower local growth largely generally reflects slow growth at the national level, but also reflects ongoing problems in the technology sector primarily driven by price deflation and increased competition. In the final year of the forecast, the number of jobs in the County is only growing by 1.8%, low by historical standards.

After rising for much of the intermediate term, interest rates will begin to fall slightly, thus encouraging increased home sales and prices in the out years. Non-residential real estate will remain a drag on the overall economic picture, although by the last year of the forecast, the very beginnings of non-residential construction will pick-up.

In summary, by the end of the forecast period, the County's economy should be back on solid ground, although it should take longer to regain this area's previous peak levels of employment and general economic activity.

Economic Drivers

The 2004-2008 forecast was built utilizing the following specific economic assumptions:

- Real gross national product will grow in 2004 to 3.60% and increase in each of the remaining years to 3.65% in 2005, 3.80% in 2006, and 3.70% in the last two years of the forecast period.
- The prime rate will remain at a relatively low level, averaging 7.36% over the forecast period.
- Mortgage rates will be lower over the period, averaging 6.48%, and ranging from 6.20% in 2004, 6.50% in 2005, 6.40% in 2006, 6.20% in 2007, and 7.10% in 2008.
- The national unemployment rate will decline to 5.85% in 2004, 5.50% in 2005, 5.30% in 2006, and 5.10% in both 2007 and 2008, averaging 5.37% over the period.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Economic Drivers (Cont'd.)

- National employment growth will rise to 1.21% in 2004, slightly decreasing over the period to 1.03% in 2008.
- Historically low national inflation rates will rise only slightly, with growth averaging 2.30% over the forecast period, with a high rate of 2.53% in 2004 and a low rate of 2.10% in both 2007 and 2008.
- Above national levels, local inflation will rise as well, but averaging only 2.40%, with a high rate of 2.63% in 2004 and a low rate of 2.18% both 2007 and 2008.
- San Jose's population growth levels will grow slowly over the period, averaging approximately 0.86% over the forecast period. Total population is expected to grow from approximately 933,000 residents in 2004 to 965,250 residents in the 2008.
- The County unemployment rate will remain higher than the national one, averaging 5.96% over the forecast period, with a high of 6.34% in 2004 and a low of 5.76% in 2008.
- Total County employment growth rates will average 1.43% over the forecast period, changing from 1.75% in 2004 to 1.45% in 2005, 1.38% in 2006, 1.30% in 2007, and 1.28% in 2008.

Pessimistic and Optimistic Scenarios

All forecasts are burdened with a large degree of uncertainty, which increases going further into the future. As a result, in addition to the base case, two alternate, but plausible, revenue forecast scenarios are also presented in this document: a "pessimistic" and an "optimistic" case. These alternatives were developed to display the range of possible outcomes over the next five years under varying economic conditions. The base case is, however, still considered the most likely outcome. The scenarios presented are based on specific sets of differing economic and political assumptions. The principal difference between the high and the low scenario relates to the potential for a war in Iraq, and the potential impacts such a war might produce on the economy.

It should be noted that alternative economic scenarios are not likely to be exactly symmetrical to the base forecast. This possible lack of symmetry is largely due to how the alternative scenarios are based on specific sets of alternative economic assumptions with no reason to believe that the different economic assumptions would ever be equally divergent from the base case. This potential absence of symmetry is particularly pronounced for this forecast since the pessimistic case is much lower than the base case while the optimistic case is only slightly higher than the base case.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Pessimistic and Optimistic Scenarios (Cont'd.)

Optimistic Case

Like the base case, the optimistic case is neutral in terms of the impact of an Iraq war. This case differs from the base case, however, in that it is one in which general economic conditions, particularly those that have a significant local impact, are more favorable than those assumed by the base case.

In the optimistic case, interest rates are lower, consumer confidence is higher and, therefore, general economic growth (as measured by the Gross Domestic Product) is higher than the base case. This scenario also assumes that information technology spending, a key driver for local economic growth, improves faster and more robustly than that assumed by the base case. These more favorable assumptions combine to lift the local economy; that in turn spurs increased growth in local revenues. Interest rates remain relatively low. Coupled with increased local employment, the housing market improves significantly over the base case. It worth noting that even in this optimistic case, while local growth is solid, it is not spectacular by historical standards. In our view, conditions in the U.S. economy in general and the local technology industry in particular will remain very challenging over the current forecast horizon.

Even under these more optimistic assumptions, it is difficult to envision a credible scenario where the technology sector experiences anything but tepid growth, particularly over the near term (next two to three years). Even if technology replacement spending increases, as assumed by this scenario, Silicon Valley does not truly thrive by providing replacement parts alone or simple technology upgrades. What primarily drives Silicon Valley is true technological innovation and that is what is currently absent in the near term outlook. Not until late in the forecast horizon does this optimistic case (as with the base case) allow for some new, and as of yet unspecified, technology to be developed and really begin to move the local economy forward. In addition, with the surplus in the local area's nonresidential real estate, it does not seem reasonable to assume any significant increase in this market in the foreseeable future, no matter how improved general macroeconomic conditions might be. This crucial sector of the economy will slow local expansion for years to come.

Pessimistic Case

The pessimistic scenario is one dominated by an assumed war in Iraq and a subsequent occupation of that country by American forces for the duration of the forecast horizon. This pessimistic case is a somewhat more negative scenario relative to other possible war scenarios. A less severe pessimistic case might be one where the U.S. launches a quick and successful strike against Iraq, but does not opt to occupy the country for any significant period of time after the strike. However, at the time of this writing, it seems that this less severe, "no occupation" scenario is currently considered less likely than the one in which the U.S. is committed to an extended presence in Iraq.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Pessimistic and Optimistic Scenarios (Cont'd.)

Pessimistic Case (Cont'd.)

In this pessimistic case, the war in Iraq and long-term occupation of that country produces a period of prolonged uncertainty in the psyche of the American public and American financial markets. The risk of terrorist attacks is heightened, and consumer confidence drops as does the stock market. General economic activity slows and the increased uncertainty causes businesses to curb additional spending on technology equipment. This case is also one of higher interest rates produced by a weaker dollar and extremely high federal deficits. The high interest rates adversely impact the local housing market causing home prices and resale activity to remain stubbornly low. In this pessimistic case, local revenues are much lower than the base case and they stay low for the entire forecast horizon. Only in the out years of the forecast do the revenues and local economy start to show any significant improvement.

Impact of Forecasted Economic Conditions on Revenue Collections

When forecasting the City's revenue growth, it is important to remember that only approximately half of the revenue categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are primarily driven by other factors. The portions of the City's revenues that are tied directly to the economy have experienced strong growth in the last few years prior to 2001-2002, particularly in the Sales Tax and Property Tax categories. However, this growth is not assumed to continue due in large part to the recession.

A number of revenue categories are not primarily driven by the economy. For example, the Utility Tax and Franchise Fee categories are typically more heavily impacted by utility rate changes than economic growth. Collections in the Fines, Forfeitures, and Penalties category remain relatively flat while collections from local, State, and federal agencies are primarily driven by the grant and reimbursement funding available from these agencies. In the cost-recovery fees and charges programs, revenue collections (significantly impacted by overall economic conditions) must be directly linked to costs so that the General Fund experiences no net gain or loss in times of an economic expansion or slowdown, respectively. Because these revenue sources do not necessarily track as closely or directly with the performance of the economy, the growth in these areas in recent years has held down the City's overall revenue growth. Conversely, in an economic slowdown, these categories can act as a buffer, easing the impact of drops in the economically sensitive categories.

The base case five-year revenue forecast for the period 2003-2004 through 2007-2008 is presented in Section Two of this report. In keeping with the forecast methodology used for the past several years, the first year of the revenue forecast (2003-2004) was prepared in a manner similar to the preparation of the base budget revenue estimates. Over 400 revenue sources were examined in detail to estimate the outcome in 2002-2003 and, building upon those projections, a

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Impact of Economic Conditions on Revenue Collections (Cont'd.)

forecast for 2003-2004 revenues was made. These revenue estimates will be examined and updated again during the development of the 2003-2004 Proposed Operating Budget.

As displayed in the Forecast, revenues (exclusive of beginning fund balance) are shown to increase from \$612.2 million in 2003-2004 to \$707.7 million in 2007-2008, for an average growth rate of 2.24% per year. This growth rate is slightly lower than that projected in the last Forecast presented in March 2002 (2.75%).

Understanding the basis for the revenue estimates included in this forecast requires discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2003-2004 base case.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue Estimates

Property Tax receipts of \$91.4 million are projected for the current year. This amount would be approximately 3.6% growth over the prior year, reflecting higher growth in the both the Secured and Unsecured Property Tax areas as well as SB 813 (property resales) collections.

Approximately 80.0% of revenues in this category come from Current Secured Property Taxes. For Current Secured Property Taxes, this forecast assumes a 2002-2003 growth rate of approximately 7.2% over the prior year, followed by a lower 2003-2004 growth rate of 3.5%. The growth rate for 2002-2003 is based on the latest information from the County of Santa Clara on the secured property tax levy and the amount of appeals that were filed with the County Assessor's Office in the fall. This growth expectation is now reflected in the current budget modified by changes approved by City Council during the Mid-Year Budget Review. The 2003-2004 Secured Property Tax levy will be based on the real estate activity in calendar year 2002. At this point, data on the actual tax levy for 2003-2004 is not available. Because the performance in the 2002 calendar year was not anticipated to be as strong in terms of property turnovers, a conservative growth rate of 3.5% is projected for 2003-2004. Without property turnovers or the addition of new homes, growth in this category is limited to the CPI growth or the 2.0% maximum annual increase allowable under Proposition 13. More current information on the growth in the tax role should be available for the development of the 2003-2004 Proposed Operating Budget, which will allow for further refinement of the growth estimate in this category.

It should be noted that the projected growth rate for 2003-2004 (3.5%), if achieved, would be lower than the levels achieved in 1996-1997 (3.9%), 1997-1998 (6.5%), 1998-1999 (11.1%), 1999-2000 (12.0%), 2000-2001 (9.1%), and 2001-2002 (8.3%). However, this growth rate would be higher than the growth level experienced in 1994-1995 (3.0%) and 1995-1996 (down 0.6%).

Current and Prior Unsecured 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) and is usually characterized by a time lag impacting actual collections. During the last decade, performance in this category has been extremely volatile, ranging from a decrease of 12.7% during the low point of the last recession in 1993-1994, to an increase of 15.0% in 1997-1998. This forecast assumes a slight drop (2.1%) in the current year. This level of growth would be lower than that experienced in 2001-2002 (26.6%), 1999-2000 (2.8%), 1998-1999 (8.3%), 1997-1998 (15.0%), and 1996-1997 (12.1%). Reflecting a continued economic slowdown, the 2003-2004 Unsecured Taxes are projected to decrease by approximately 7.2%. It should be noted that this forecast assumes that the County Assessor will not be taking any actions to significantly change the depreciation schedules used to value major business equipment items.

Current SB 813 Property Taxes are assessed when a property is sold and the higher valuation has not yet been placed on the annual secured tax roll. In 2002-2003, it is estimated that collections will be below the prior year level by approximately one-third, reaching \$3.8 million. This

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue Estimates (Cont'd.)

Property Tax (Cont'd.)

collection level is expected to fall further to \$3.4 million in 2003-2004. The drop-off next year is based on the assumption that there will be a significant decline in property turnovers from the high levels that have occurred in recent years. All other property taxes (Homeowners Property Tax Relief and Agricultural Tax Relief) are assumed to have little or no growth in 2003-2004, consistent with historical trends. Through the remaining years of the forecast, the growth rate averages 6.7%.

The projection for 2002-2003 year-end collections of Sales Taxes is a key factor in determining the Sales Tax forecast for 2003-2004 and each year thereafter. The forecast for the General Sales Tax revenue estimate assumes a decline of approximately 2.8% in 2002-2003 over the actual prior year collection level. The 2002-2003 estimate is built on the actual performance for the first quarter (July through September activity down 9.6%) and a presumption for flat collection levels for the remainder of the year. This assumption framed the budget modifications approved through the Mid-Year Budget Review. The 2003-2004 General Sales Tax estimate of \$128.9 million assumes growth of 2.0% over the 2002-2003 estimated collection level. This reflects our belief that we will begin to see a resumption of (slight) growth beginning next fiscal year.

Proposition 172 Sales Tax collections are expected to end the 2002-2003 year flat compared to the prior year. In the past, Santa Clara County has been outperforming the State in sales tax receipts and, thus, has received a growing portion of the Proposition 172 Sales Tax revenues. Due to the general decline in Silicon Valley's economic activity and the first quarter drop in General Sales Tax revenue, it is expected that the City's percentage of this allocation will only be approximately the same as last year with only 2.0% growth in 2003-2004.

Through the remaining years of the forecast in this category, the growth rate averages 5.7%. These rates range from a drop of less than one percent in 2003-2004 to a high of 8.07% in 2004-2005, based on growth when compared to a "down" year. These Sales Tax projections also include a special upward adjustment for expected impact of the completion of Santana Row.

The Departmental Charges and Other Licenses categories contain miscellaneous fees and charges imposed by various departments within the City. The most significant revenue sources are from the collection of construction and 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. When developing the forecast estimates for these categories, the revenues have typically been set at the base cost level in order to reflect the policy that fee schedules must be built to recover costs only. In cases where the revenues are projected to exceed costs, the impacted departments will need to develop budget proposals for incorporation into the Proposed Operating Budget to increase resources to meet the service demands or to reduce fees. On the other hand, if the projected revenues are not sufficient to cover the base

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue Estimates (Cont'd.)

Departmental Charges and Other Licenses (Cont'd.)

costs, which for 2003-2004 is projected to be the case for all of the construction and development-related fee revenues (Building, Fire, Public Works and Planning), departments will be submitting proposals to reduce costs and/or increase fees to bring projected revenues and expenditures back in line for a net-zero General Fund impact.

Departmental Charges also now includes revenue from the Solid Waste Enforcement Fee. This fee is expected to meet current year budgeted expectations and then decline by approximately 3.1% in 2003-2004 due to the impact of a prior year accrual.

All other Departmental Charges and Other License revenues are anticipated to decline slightly, reflecting activity adjustments for only a selected few departments. For the out years of the forecast, Departmental Charges and Other Licenses are expected to experience growth rates of approximately 3.2% and -2.4%, respectively, in 2004-2005, averaging 3.3% for Departmental Charges and 1.5% for Other Licenses for the remaining years.

The **Cardroom Business Tax** is also included in the Other Licenses category. In 2002-2003, the Adopted Budget estimate was broken down into two categories: ongoing funding (\$3.75 million); and one-time funding (\$3.75 million). This distinction was made to continue phasing out the ongoing reliance on this revenue source per City Council direction.

For 2003-2004, the ongoing forecast estimate of \$2.5 million reflects converting another \$1.25 to the one-time funding category. As was the case when the 2002-2003 budget was developed, any additional funding projected from this source above the level assumed in the forecast would be available to allocate to one-time needs. In the remaining years of the forecast, the ongoing revenue estimate for the Cardroom Business Tax is reduced by \$1.25 million per year, while the one-time estimate is increased by that amount. By the 2005-2006 year of the forecast, the entire tax would be phased-out as an ongoing source of revenue.

Business License Taxes are projected in two categories: General Business License Tax and Disposable Facility Tax. The 2002-2003 estimate for General Business License Tax proceeds assumes that collections will be slightly above the Adopted Budget estimate (\$11.45 million) by approximately \$100,000, reaching \$11.6 million. For 2003-2004, flat growth is projected for this category. In the Disposal Facility Tax (DFT) category, revenue collections in 2002-2003 are expected to fall below the Adopted Budget estimate by approximately \$451,000 to \$15.7 million, but a slight increase of 3.3% from the actual 2001-2002 level. For 2003-2004 DFT collections are expected to remain flat from the prior year. The implementation of a construction and demolition recycling program, diverting material from the landfill, has impacted collections in this category. In addition, the recession and continued aggressive diversion programs have also impacted this revenue source negatively.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue Estimates (Cont'd.)

The **Money and Property** category consists primarily of interest income. The 2003-2004 estimates in this forecast for earnings on investments of General Fund and several other funds' cash assume a historically low average interest rate of 2.7%, applied to an average cash balance of approximately \$210.0 million. This Forecast reflects a decrease to the average interest rate yield (down from 3.8% in 2002-2003) and a slight increase in the average cash balance (up from \$185.0 million), both used to develop the estimate in the 2002-2003 Adopted Budget. Interest transfers from capital and special funds have been adjusted to reflect the various impacts of expected activity and fund balance levels in 2003-2004. The forecast projects growth of 1.5% in the out years.

The growth in **Motor Vehicle In-Lieu** fees was extraordinarily strong in the last years of the decade of the 90s, with growth of 10.0% in 1997-1998, 9.5% in 1998-1999, 11.5% in 1999-2000, and 10.8% in 2000-2001. These growth rates reflected a surge in car sales throughout the State that was sustained for several years. However, 2001-2002 experienced only comparative growth of 2.9%, reflecting a slowing trend and general impacts of the recession. In 2003-2004, the forecast assumes that growth will continue to slow, and will experience modest growth of 2.0% over the 2002-2003 estimate. This lower growth rate is built on the assumption that the continued weak California economy will reduce the growth in new car sales from the heated pace experienced over the prior years. In the remaining four years of the forecast, stronger growth is projected ranging from a low of 4.5% in 2004-2005 to a high of 7.21% in 2007-2008. Of course, the estimate for Motor Vehicle In-Lieu revenue collections assumes that no changes are made at the State level impacting our share of this revenue source.

Federal Revenue and **Other State Revenue** categories consist primarily of grant revenues. The National Safe Schools-Healthy Students Initiative will complete its last year of funding in 2002-2003 and, thus, is not included in the forecast. However, since the application was renewed by the State for another three-year term, the San José LEARNS grant of approximately \$1.6 million is included. For 2003-2004, Public Library Foundation funding is currently estimated to be at a reduced level of \$382,000 and the Abandoned Vehicles Abatement Program funding from the State is estimated to be \$720,000. Other ongoing grants are projected to be received approximately at the current year level for 2003-2004 and are estimated to be relatively flat over the remaining years of the forecast, consistent with historical trends.

The estimate for **Gas Taxes** assumes that collections in 2002-2003 are expected to total \$17.8 million and remain flat in 2003-2004. In the out years of the forecast, growth of less than 1.0% annually is projected.

The **Transient Occupancy Tax** estimate for 2002-2003 reflects a decline of 1.75% from the prior year level, reflecting the stagnant economy. In 2003-2004, a modest increase of 3.0% is anticipated. In the remaining years of the forecast, average annual growth of 6.7% is anticipated based, in part, on increased hotel activity over the forecast period.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue Estimates (Cont'd.)

Utility Taxes are imposed on electricity, gas, water and telephone usage. Collections in 2002-2003 are anticipated to end the year approximately 1.0% below the 2001-2002 actual level. This level reflects lower performance related to Electricity and Telephone Utility Taxes offset by stronger Gas and Water Utility Taxes. With the approval of changes made during the Mid-Year Budget Review, this category is currently anticipated to meet the modified budget expectations. For the Electricity and Gas Utility Taxes, no growth is expected for 2003-2004 over the current year estimate. For the Water Utility Tax area, growth of 3.0% is anticipated based on an expected rate increase. For the Telephone Utility Tax, a slight decline of 1.0% is assumed, reflecting a continuation of current trends.

In the current year, **Franchise Fee** collections are expected to decline by 8.2% over the 2001-2002 actual level. This drop from the prior year is partially due to lower Franchise Fees related to Gas and Commercial Solid Waste (CSW), offset by an expected increase in Cable Television and City Generated Tow Franchise Fees. In the CSW Franchise Fee category, collections are anticipated to decline from \$10.0 million in 2001-2002 to \$8.9 million in 2002-2003, and then increase to \$9.5 million in 2003-2004, primarily reflecting the phased-in shift of AB 939-related fees approved by the City Council in the 2002-2003 Adopted Operating Budget. This CSW also reflects the sustained trend in reduced solid waste volume levels, as diversion program impacts become more significant.

In 2003-2004, the projection for collections in the Electricity and Gas Franchise Fee categories is based on activity from calendar year 2003. For the Electricity and Gas Franchise Fee, growth of 2.0% and flat, respectively, is projected in 2003-2004 based on a slight increase in consumption for Electricity and a stabilization of activity related to Gas. No additional rate increases are assumed at this point. Cable Franchise fees are conservatively estimated to be flat in 2003-2004 as well. (The City is still in negotiations with the cable television provider.) No further rate increases or changes in consumption are currently assumed in the Cable Franchise Fee category. Nitrogen Gas Pipeline and Water Franchise Fees are expected to remain flat. City Generated Tow Franchise Fees for 2003-2004 are expected to dip to \$1.1 million from the current year estimated level of \$1.5 million, but flat from the 2001-2002 actual collection of \$1.1 million. This City Generated Tow Franchise Fee performance is primarily due to one-time revenue received in the current year that is not expected in 2003-2004.

In the out years of the forecast, revenues are anticipated to increase a yearly average of less than 1.0% annually. This relatively flat growth assumption reflects the continuing decline in the Commercial Solid Waste Franchise fees and the stabilization of the gas and electricity rates.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue Estimates (Cont'd.)

The 2002-2003 estimates for the **Fines, Forfeitures and Penalties** category presumes virtually flat growth from the 2001-2002 actual collection level. It is assumed that collections in 2003-2004 will be 3.8% below the 2002-2003 year-end projections, reaching \$11.0 million. This decline is primarily driven by less revenue from Parking Fines due to special, additional parking enforcement that was administered during 2002-2003.

As with the prior forecasts, the scheduled collection for the Garden City penalty payment (\$582,900) is not included in this forecast. While three full penalty payments are due from Garden City, it is not known when or if these payments will be made due to Garden City's continued involvement in bankruptcy proceedings. The scheduled payments have not been received for the last four years. A low rate of growth (approximately 1.2% annually) in this category is anticipated in the latter years of the forecast.

The largest portion of the **Revenue from Local Agencies** category consists of Redevelopment Agency Convention Center lease (pass-through) payments. The debt service amounts have been predetermined. Agency reimbursements for City service costs estimated for 2003-2004 are based on the assumption that ongoing support will remain consistent with current levels and that no State action will impact this reimbursement-related revenue source. Redevelopment Agency reimbursements for past capital expenditures (which enable the City to fund the San José Best Program - \$3.0 million) have also been included in the forecast, again presuming no disruption from State budget actions.

For 2002-2003, Central Fire District payments are expected to at least meet the budgeted amount of \$4.07 million, which is approximately 3.1% over the prior year level. Property taxes fund the Central Fire District activities, and those payments for the County areas covered by the San José Fire Department are passed on to the City. Based on information from the County related to this particular revenue source, a 5.0% growth projected for 2003-2004 to reflect the anticipated increase in Secured Property Tax revenues. Enterprise Fund In-Lieu payments, representing revenue from the Water Pollution Control Plant and Municipal Water System in lieu of taxes, are expected to increase by 1.6% in 2003-2004. In 2003-2004, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed to grow by 4.0% to the \$1.8 million level based on the annual adjustments approved under the existing contract.

In 2003-2004, an overall decline of 4.4% over the 2002-2003 year-end estimate is expected in the Revenue from Local Agencies category. This growth rate is significantly lower than the out years due to the absence of one-time grants expected to be received and conclude in 2002-2003, including the Santa Clara County Community Based Aftercare Program grant of \$672,000. Overall, the growth rates following 2003-2004 are less than 2.0%.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue Estimates (Cont'd.)

The **Other Revenue** category consists of miscellaneous revenues received from a variety of sources, including proceeds from the Sale of Surplus Property, cost reimbursements for the Investment Program, Arena Rental, Suite, Parking, and Naming revenues, and utility company reimbursements for Fiber Optic Infrastructure Inspection costs. Revenue estimates assume continuation of current year activity levels with revisions, where appropriate for 2003-2004 costs or agreements.

Proceeds from the Sale of Surplus Property category has been set at \$100,000 to assume that, at a minimum, the costs of the Real Estate Division related to the sales process will be recovered. Any additional sales proceeds known to be available will be included as one-time revenue estimates in the Proposed Budget. Collections from Miscellaneous Revenues have been adjusted downward to reflect the most recent activity levels. Overall, average growth rates are projected to be 1.5-2.6% over the forecast period.

The **Overhead Reimbursements** and **Reimbursements for Services** categories for 2003-2004 reflect the majority of changes in overhead rates that will occur. In the remaining years of the forecast, an overall average increase of approximately 3.0% is assumed annually for both Overhead Reimbursements and Reimbursements for Services, reflecting the anticipated cost of living adjustments plus a small factor for anticipated "salary creep".

The **Transfers** category estimate for 2003-2004 primarily reflects a presumption for no significant changes from the prior transfer level. One transfer from the Vehicle Maintenance and Operations Fund was adjusted downward to reflect the anticipated amount, resulting from the audit report related to vehicle replacement. A cost of living increase in the reimbursement for Airport Crash Fire Rescue and Airport Police Consolidation costs is assumed for 2003-2004 and the remaining four years of the forecast. The remaining transfers have been reflected at current year levels, with slight adjustments for costs or payment schedules as necessary.

The forecast estimate for available **Beginning Fund Balance** in 2003-2004 of \$40.7 million is based on the following assumptions:

- A Contingency Reserve balance of at least \$22.8 million will remain uncommitted by year-end; and
- A total of \$17.9 million will be achieved from a combination of expenditure savings; additional revenue; \$1.0 million from the liquidation of prior-year carryover encumbrances; and \$1.9 million from development-related savings that will be used to bridge the gap between expenditures and cost-recovery levels.

The future year beginning fund balance estimates assume the continuation of the 2003-2004 level for the unrestricted portion of the balance. The carried over Contingency Reserve portion is adjusted upward each year to reflect the amounts necessary to comply with the Council policy that the Contingency Reserve be maintained at least at the 3.0% of expenditures level.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Expenditure Estimates

Personal Services Base

As has been the practice in the last several forecasts, the first year (2003-2004) projection for personal services costs was calculated at a detailed level. An extract of payroll system information as of September 2002 was used as the starting point. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, accurate salary step status, as well as any position reclassifications. In addition, 2002-2003 ongoing position additions and reductions were annualized, and projections for benefit costs in the coming year were made. Funding for projected bargaining unit agreements is carried in a separate earmarked Salary and Benefit Reserve.

The resulting 2003-2004 personal services preliminary estimate, as displayed in Section Two of this report, represents growth of approximately 3.9% from the 2002-2003 Adopted Budget level. The growth of approximately \$18.9 million results from the combined impact of a number of factors: salary and benefit growth from negotiated agreements to be implemented in the current year (2002-2003), those not yet distributed in the Adopted Operating Budget (International Brotherhood of Electrical Workers), and the third year costs of nine of twelve bargaining groups.

It also should be noted that the level of growth shown for departmental personal services costs in the forecast actually understates the total personal services growth projected for 2003-2004 because costs for three of the twelve employee bargaining units with open contracts are not included in the personal services total. The three groups not included here are the Police Officers Association (POA), the International Association of Firefighters (IAFF) and the International Union of Operating Engineers. In addition, a portion of the negotiated increases for all but one of the non-sworn bargaining groups has not been specifically allocated. The projected costs for those bargaining unit agreements are carried separately in the Salary and Benefit Reserve.

In January 2003, an increase of approximately 20.0% for the City's lowest priced health plan resulted in additional expenses to the City of approximately \$2.5 million in the General Fund. In the prior forecast, an increase of only 15.0% was assumed in 2002-2003.

It should be noted that due to the mechanism used to represent the desired outcome in fee programs, personal services expenditures in this forecast are understated by approximately \$4.4 million. The \$4.4 million represents the shortfall that would exist in the development-related fee programs after the implementation of planned fee increases and elimination of designated fee reserves in the Public Works, Fire, as well as Planning, Building and Code Enforcement Departments. These fee programs are intended by the City Council to recover 100% of the cost of development review and inspection. While individual fees have been added for new services and some fees were reduced or eliminated, annual general fee increases have not always taken place. The tremendous development activity seen in recent years has generated enough revenue

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Expenditure Estimates (Cont'd.)

Personal Services Base (Cont'd.)

to delay fee increases. Cost-recovery levels in the Public Works, Planning, and Building programs have dropped to as low as 82.0% in 2001-2002. In order to begin to address cost-recovery levels, in 2001-2002, some fee increases in Planning and Building were approved. Also, all four programs relied upon the use of Service Obligation Reserves that were set aside to cushion the impact on services if a general downturn in development activity, where revenue would decline before the workload diminishes, should occur. In 2003-2004, in three of the four programs, Service Obligation Reserves were used in the prior year. Thus, the programs are unable to sustain projected expenditures. Each of the fee programs will be required to develop strategies that will address this shortfall of \$4.4 million in the 2003-2004 Proposed Operating Budget.

In years two and four, the retirement rates for both the Police/Fire and Federated Retirement plans were adjusted to reflect the projected impact of the economy upon the retirement portfolios. In 2004-2005, the retirement rate adjustments are projected to increase expenditures by approximately \$13.2 million. Retirement costs are based on employer contribution rates that are applied to the base salaries. Therefore, changes in either the salary level or the employer contribution rate will impact the funding level for this benefit.

As with past forecasts, personal services costs in years two through five of the forecast are typically projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from all combined elements. For this forecast, the out years were projected to inflate at a composite rate of approximately 6.3%. This projected rate of growth is up from the 5.3% presumed in the March 2002 forecast. This primarily reflects the impact of the economy upon the two retirement portfolios as described above.

Non-Personal/Equipment Base

Non-personal/equipment expenditures in the first year of the forecast were also calculated at a detailed level. The process includes adjusting each department's current year budget to eliminate one-time allocations, annualizing all partial-year additions or reductions approved for 2002-2003, and including projected adjustments for specific large non-personal/equipment allocations (e.g., utilities, leases, contracted services and Police Department vehicle replacement) as described later in greater detail. The resulting 2003-2004 estimates represent a decrease of \$11.28 million from the current year level. This reflects the impact of deleting one-time additions and rebudgeted items included in the 2002-2003 Adopted Budget.

Departmental gas and electricity funding was increased in the forecast by \$600,000 to reflect approved gas and electric rates, and projected consumption changes from expanded City facilities. Other specific adjustments included in the 2003-2004 non-personal/equipment base

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Expenditure Estimates (Cont'd.)

Non-Personal/Equipment Base (Cont'd.)

include increases to the amounts for vehicle maintenance and operating costs (\$722,000) and contractually required cost of living increases to major contracts. Current fuel prices are at historic highs in response to current market conditions. This forecast assumes a stabilization of the rates with a modest increase. For the out-years of the forecast, a growth rate of 2.0% was assumed from the 2003-2004 non-personal/equipment base level in each of the four years. This projection is unchanged from that assumed in recent forecasts.

Other Expenditures

The **City-Wide Expenses** program in the first year of the forecast (2003-2004) represents a reduction of \$11.88 million from the 2002-2003 level. This large reduction primarily reflects the combined impact of deleting rebudgets (\$14.5 million) and other one-time items (\$0.5 million) budgeted in 2002-2003. These reductions are offset by the inclusion of an increase of \$5.55 million to Workers' Compensation Claims payments. The Claims payments in this forecast range from \$19.5 million in 2003-2004 to \$23.5 million in 2007-2008. Payment costs are expected to be up significantly in all five years from the March 2002 forecast level. This reflects the extreme spike in costs experienced in the last 12 months. Although the number of claims has decreased, substantial increases in the cost per claim for greater than anticipated medical costs have been realized.

Police Automated Information System – This project, approved by City Council in October 1997, is nearing completion. In the March 2002 forecast, the project included only financing costs. The last scheduled payment for the system is in 2002-2003. The staffing and software/maintenance costs are included in departments' personal services and non-personal/equipment line item (Police and Information Technology) that manage the system.

In 2002-2003, contractually required cost of living increases to office space leases are carried at the required level in the non-personal/equipment category. In 2003-2004, **Lease Payments** have been removed from non-personal/equipment and are shown as a separate item. This change is due to projected increases in funding at a level greater than the 2.0% growth necessary in the out years of the forecast. In 2002-2003, a total of \$7.6 million was budgeted in the General Fund. In 2003-2004, \$8.3 million is needed to provide space for City services. The costs range in the forecast from approximately \$8.566 million in 2004-2005 to approximately \$10.033 million in 2007-2008. This is down slightly from prior forecasts to reflect the high vacancy rates that have resulted in reduced costs for office space. The forecast does not include projections for the new Civic Center. Debt service costs are now known, but further analysis is needed to project accurately the specific lease savings by year that will occur.

The **Convention and Cultural Affairs Fund Transfer** estimate of \$2.597 million was assumed in each year of the five-year period. This is a change from the previous forecast, which allowed

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Expenditure Estimates (Cont'd.)

Other Expenditures (Cont'd.)

the transfer to increase by \$300,000 annually to provide an improved level of infrastructure maintenance.

The **Other Transfers** category includes the transfer to the Integrated Waste Management Fund for Low Income Rate Assistance (\$450,000) and the revenue-offset payments for the Camden Lifetime Activities Center debt service (\$219,000 in 2003-2004).

Communications Center Debt Service includes funding for debt service as required under terms of financing used for construction of the Communications Center. In 2003-2004, \$2.369 million has been included.

The General Fund **Capital Projects** category includes \$662,000 for the Congestion Management program. Also, included in this category, is the continuation of allocations for Arena Repairs, unanticipated maintenance of City facilities, and fuel tanks and methane monitoring, control and replacement.

As was the case in the March 2002 forecast, continued funding for the **Replacement of Fire Apparatus** is carried in this Forecast. Costs include lease and bond payments for Fire apparatus according to these agreements as well as an annual amount of \$941,000 to fund the Fire Vehicle Replacement Policy approved in 1997-1998 as part of the Public Safety Augmentation Plan.

Fire Apparatus Lease and Fire Truck/Engines Bond - Ongoing allocations are included under terms of the lease agreement approved in the 1996-1997 Adopted Budget and a bond issue approved as part of the 1997-1998 Adopted Budget, which combined would be used to acquire replacements for 15 fire engines, three aerial ladder trucks and three brush patrol units. The annual bond payment ranges from \$273,000 in 2006-2007 to \$827,000 in 2003-2004.

A **Sidewalk Repair Program Allocation** of \$2.38 million per year is included to provide ongoing funding for the repair of deteriorating sidewalks for owner-occupied residences. This allocation reflects the conversion in 1999-2000 from an assistance program for residents (one-third support by the City) for the repair of sidewalks to a program that is funded 100% by the City.

As in past years, the **Equipment** category includes a general equipment reserve of \$200,000 for subsequent allocation in the Proposed Budget. In addition, \$500,000 was again assumed annually for computer equipment and automation projects for subsequent allocation in the Proposed Budget.

The 2003-2004 Forecast **Salary and Benefit Reserve** includes projections for required funding for salary and benefit increases for the bargaining units open during 2003-2004. For 2003-2004, three of the twelve contracts with bargaining units will become open that year. It is important to

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Expenditure Estimates (Cont'd.)

Other Expenditures (Cont'd.)

note that two of the three bargaining units that are open in 2003-2004 involve the largest costs of any bargaining units in the City – the POA and the IAFF. In addition, a portion of the negotiated increases for almost all of the bargaining groups has not been specifically allocated. The projected costs for those remaining bargaining unit agreements have been included. In the out years of the forecast, the personal services line item includes the estimated impact of prior year negotiated increases and is inflated at a rate considered appropriate to cover likely further negotiated growth. (See earlier Personal Services Base discussion for additional information on forecasted amounts for this expenditure category.)

The **Earmarked Reserves** category includes continuation of the current allocation for ongoing e-Government (\$223,000) and Geographic Information System Improvements (\$128,000). All other currently budgeted Earmarked Reserves are assumed either to be spent during 2002-2003 or available for rebudget for these purposes in 2003-2004.

A **Vehicle Replacement/General Fleet** allocation of \$2.5 million per year is included in years three, four, and five to fund a vehicle replacement schedule recommended by the General Services Department. In the prior forecast, funding in the amount of \$2.5 million in all five years was included. After completion of a review in 2002-2003 of the general fleet and the size of the Vehicle Maintenance and Operations Fund's fund balance, the annual transfer from the General Fund was suspended for three years. General fleet vehicles will be replaced utilizing a portion of the previously identified fund balance.

In 2003-2004 **Vehicle Replacement/Police Fleet** funding is carried at the required level in the departmental budget (\$4.287 million). This estimate has been reduced from prior forecast levels to reflect findings in the recent audit performed by the City Auditor. Due to the large variation in funding levels necessary to fund the replacement of Police vehicles over the five-year period, additional costs ranging from \$4.323 million in 2005-2006 to a reduced need of \$2.269 million in 2003-2004 are shown as a separate line item. This ongoing allocation will ensure that replacement schedules for the marked and unmarked fleet are met.

To implement the Council policy approved as part of the October 2001-2002 Annual Report action, a reserve of \$10.91 million (one-time) was included and is available for allocation during 2003-2004 for one-time purposes. This reserve was set aside to fund a portion of the shortfall that was projected for 2003-2004 in the most recent forecast. In addition, the Reserve for Economic Uncertainty of \$15.8 million that was established in 2000-2001 for unforeseen economic circumstances remains unspent and available. Also included in the forecast, as described above, is a reserve of \$5.0 million available from the phase-out of Cardroom revenue from the ongoing budget. The cumulative total of these reserves is \$31.7 million.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Contingency Reserve

In this forecast, the 2003-2004 Contingency Reserve has been estimated at the level presumed to remain at the end of the current year (\$24 million). This level would be above the 3% Council policy level and would cover the 3% reserve requirements associated with rebudgets that may be approved in the Adopted Budget. Only if the Contingency Reserve ended the current year below that level would additional resources be required to increase the Reserve to the policy level in 2003-2004. In the last four years of the Forecast, the Contingency Reserve is held at the 3% policy level.

Additions to the Base

Projected required or potential additions to the base expenditure level were grouped into two categories: committed and extended. The Committed Additions category contains expenditures to which the City is committed and has no discretion, such as the costs related to maintaining capital projects previously approved by City Council. Typically, the forecast base case, considered most closely by the City Council, includes ongoing program costs plus committed additions.

In the past, the Committed Additions category included operating and maintenance costs for capital projects. To reflect the current fiscal situation, the presumption has been changed for this forecast. In the Committed Addition category this year we include only maintenance costs. Costs for augmented operations are now carried in the Extended Additions category.

The aforementioned Extended Additions category is also provided for review by the City Council. Included in this category are expenditures for additional operating costs related to capital projects and furnishings for the three bond project programs (Library, Parks and Public Safety). A detailed description of all additions and deletions to the base can be found in Section 3.

Committed Additions

The following committed additions are included in the 2004-2008 Forecast:

The **Main Library (Joint)** (\$630,000) is scheduled to open in August 2003. The new King Library is a collaborative effort between the City and San Jose State University. Costs for operations were negotiated and operating agreements executed. These additional resources reflect the additional increment necessary to maintain this new facility.

Communications Equipment Replacement and Upgrades (\$204,000 in 2004-2005) represents the gap in funding that exists in the Construction and Conveyance Tax Fund – Communications Program for scheduled replacement of communication equipment.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Additions to the Base (Cont'd.)

Committed Additions (Cont'd.)

Increased costs for street lighting and maintenance of scheduled **Street Improvements** (\$126,000 in 2003-2004) are also shown as a Committed Addition.

The approved bond measures from the November elections of 2000 and March 2002 will result in new and expanded library, community, police and fire facilities and will require additional **Maintenance** funding (\$2,149,000 in 2004-2005). Additional operating (programming) expenditures were removed and are now included in the Extended Additions category.

New Parks and Recreation Facilities (\$348,000 in 2003-2004) are included at the levels necessary to support the additional costs of maintaining new park facilities that were included in the City's latest Five-Year Capital Improvement Program and those under agreements that are being developed by other agencies. The following are some examples of the facilities requiring maintenance funds in 2003-2004: Pala Alum Rock Youth Center (\$104,000), Northside Community Center (\$100,000), Cahill Park (\$53,000) and Bernal Park (\$30,000). Additional operating (programming) expenditures were removed and are now included as in the Extended Additions category.

Extended Additions

This category includes operating costs for **New Parks and Recreation Facilities, Measure O (Library), Measure P (Parks), and Measure O (Public Safety). Furniture, Fixtures & Equipment** for the three bond measures is also included in the Extended Additions category. Bond proceeds cannot be used to purchase the required furnishings.

Operating Margin

Base case expenditures, including committed additions, increase from \$725.5 million in 2003-2004 to \$887.6 million in 2007-2008, for an average growth rate of approximately 5.2%. General Fund sources, on the other hand, total \$652.9 million in 2003-2004, and grows to \$754.5 million in 2007-2008, an average growth rate of only 3.7%.

Compared to the last forecast, produced in March 2002, expected growth rates in the out years of the forecast for expenditures have changed significantly, increasing from 4.34% to 5.43% for the comparable period of 2004-2005 through 2006-2007. Expectations for overall growth rates for revenue collections during the comparable three-year period on the other hand have remained relatively unchanged from those shown last March, decreasing slightly from 3.79% to 3.68%.

The Base Case with Committed Additions Forecast shows a shortfall in the first year (2003-2004) of \$72.6 million. This compares with the last projection for that year (from the March 2002 Five-Year Forecast) of a \$11.7 million shortfall increment in 2003-2004. The incremental

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

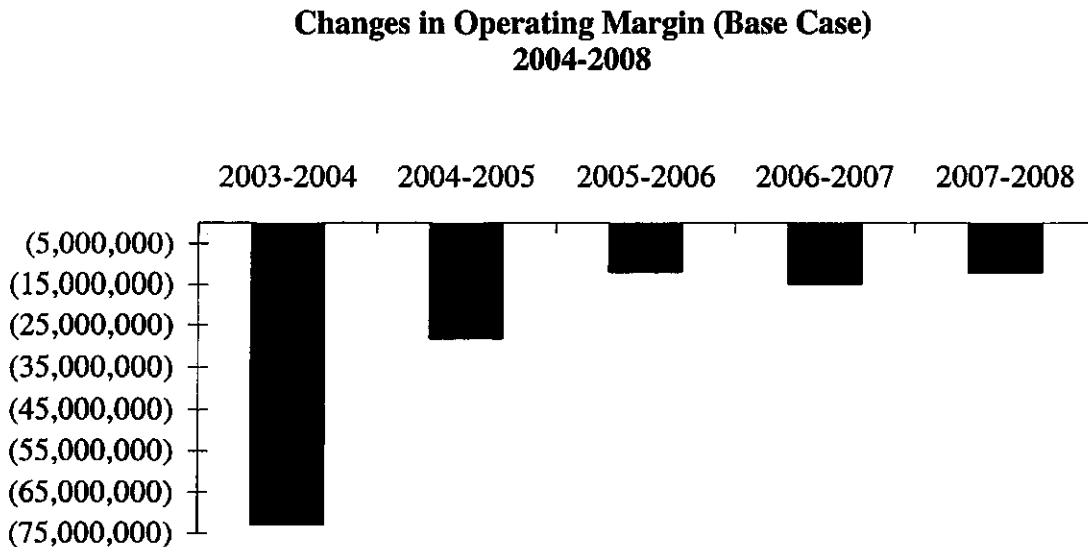
Operating Margin (Cont'd.)

shortfall (assuming each preceding deficit is solved completely with ongoing solutions in the year it appears) for each of the four out years of the forecast is shown below, along with a comparison with the increments projected for those years in the March 2002 forecast. In addition, some one-time funds are available for use in each year.

(\$ in millions)	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
March 2003					
Incremental Surplus/Shortfall	(\$72.65)	(\$26.64)	(\$10.52)	(\$12.63)	(\$10.69)
March 2002					
Incremental Surplus/Shortfall	(\$11.73)	(\$8.49)	(\$6.97)	(\$3.33)	N/A

The return of shortfall projections into the foreseeable future reflects the fact that revenue growth will lag behind the growth in expenditures.

The following graph is presented to illustrate the incremental changes in the base case forecast for operating margins over the five-year period:



*Five-Year Economic Forecast
and
Revenue Projections*

2004-2008

Section 2

Base General Fund Forecast

2004-2008 Forecast
FIVE-YEAR FORECAST DRIVERS

BASE CASE

	2004	2005	2006	2007	2008
<u>National Assumptions</u>					
Real Gross Domestic Product (% Change)	3.60%	3.65%	3.80%	3.70%	3.70%
Prime Rate	6.68%	7.50%	7.50%	7.40%	7.70%
Mortgage Rate	6.20%	6.50%	6.40%	6.20%	7.10%
US Unemployment Rate	5.85%	5.50%	5.30%	5.10%	5.10%
Total US Employment Rate (% Change)	1.21%	1.03%	1.01%	1.01%	1.03%
US Car Sales (% Change)	(1.96%)	11.00%	3.60%	0.00%	0.00%
OPEC Oil Price (% Change)	(8.32%)	2.73%	8.94%	2.34%	3.44%
US Consumer Price Index (CPI)	2.53%	2.50%	2.30%	2.10%	2.10%
<u>Local Assumptions</u>					
San José Population	933,000	942,750	950,250	957,750	965,250
San José Population (% Change)	0.89%	1.05%	0.80%	0.79%	0.78%
County Unemployment Rate	6.34%	6.06%	5.90%	5.75%	5.76%
Total County Employment Rate (% Change)	1.75%	1.45%	1.38%	1.30%	1.28%
Number of Hotel Rooms	10,093	10,343	10,593	10,843	11,093
County Consumer Price Index (CPI)	2.63%	2.60%	2.39%	2.18%	2.18%

BASE CASE

March 2003 Forecast

REVENUE SUMMARY

	ADOPTED	FORECAST				
	2002-2003	2004	2005	2006	2007	2008
PROPERTY TAX	86,278,000	92,431,000	97,284,000	102,984,000	109,833,000	119,366,000
		7.13%	5.25%	5.86%	6.65%	8.68%
SALES TAX	148,848,538	133,771,000	144,568,000	151,984,000	160,982,000	167,131,000
		(10.13%)	8.07%	5.13%	5.92%	3.82%
DEPARTMENTAL CHARGES	20,528,881	21,955,000	22,659,000	23,533,000	24,270,000	25,003,000
		6.95%	3.21%	3.86%	3.13%	3.02%
BUSINESS LICENSE TAX	28,150,000	27,366,000	27,432,000	27,498,000	27,558,000	27,619,000
		(2.79%)	0.24%	0.24%	0.22%	0.22%
MONEY & PROPERTY	13,094,500	9,757,000	9,903,000	10,051,000	10,202,000	10,355,000
		(25.49%)	1.50%	1.49%	1.50%	1.50%
OTHER LICENSES	34,309,320	29,506,000	28,797,000	28,748,000	29,498,000	30,141,000
		(14.00%)	(2.40%)	(0.17%)	2.61%	2.18%
MOTOR VEHICLE IN LIEU	52,500,000	53,550,000	55,960,000	58,735,000	62,389,000	66,887,000
		2.00%	4.50%	4.96%	6.22%	7.21%
FEDERAL REVENUE	1,776,489	347,000	347,000	347,000	347,000	347,000
		(80.47%)	0.00%	0.00%	0.00%	0.00%
OTHER STATE REVENUE	5,704,087	5,162,000	5,291,000	5,413,000	5,526,000	5,642,000
		(9.50%)	2.50%	2.31%	2.09%	2.10%
GAS TAX	17,800,000	17,800,000	17,820,000	17,723,000	17,727,000	17,700,000
		0.00%	0.11%	(0.54%)	0.02%	(0.15%)
TRANSIENT OCCUPANCY TAX	8,400,000	6,901,000	7,410,000	7,913,000	8,375,000	8,959,000
		(17.85%)	7.38%	6.79%	5.84%	6.97%
UTILITY TAX	70,673,000	66,194,000	68,491,000	70,566,000	70,016,000	70,751,000
		(6.34%)	3.47%	3.03%	(0.78%)	1.05%
FRANCHISE FEES	33,857,000	32,086,000	32,631,000	33,095,000	32,648,000	32,658,000
		(5.23%)	1.70%	1.42%	(1.35%)	0.03%
FINES, FORFEITURES & PENALTIES	11,075,500	11,035,000	11,170,000	11,304,000	11,439,000	11,577,000
		(0.37%)	1.22%	1.20%	1.19%	1.21%
REVENUE FROM LOCAL AGENCIES	39,271,731	41,232,000	41,879,000	42,543,000	43,226,000	43,926,000
		4.99%	1.57%	1.59%	1.61%	1.62%
OTHER REVENUE	14,495,183	12,205,000	12,387,000	12,580,000	12,782,000	13,118,000
		(15.80%)	1.49%	1.55%	1.81%	2.63%
TOTAL GENERAL FUND REVENUE	586,762,229	561,298,000	584,029,000	605,017,000	626,818,000	651,180,000
		(4.34%)	4.05%	3.59%	3.60%	3.89%

March 2003 Forecast

REVENUE SUMMARY

ADOPTED FORECAST

	2002-2003	2004	2005	2006	2007	2008
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	29,709,480	31,884,000	32,841,000	33,826,000	34,841,000	35,886,000
TRANSFERS	18,076,159	18,545,000	19,008,000	19,369,000	19,741,000	20,125,000
REIMBURSEMENTS FOR SERVICES	435,000	470,000	484,000	499,000	514,000	529,000
TOTAL TRANSFERS & REIMBURSEMENTS	48,220,639	50,899,000	52,333,000	53,694,000	55,096,000	56,540,000
		5.55%	2.82%	2.60%	2.61%	2.62%
AVAILABLE BEGINNING BALANCE	162,194,925	40,691,000	43,609,000	44,596,000	45,671,000	46,765,000
GRAND TOTAL SOURCES	797,177,793	652,888,000	679,971,000	703,307,000	727,585,000	754,485,000
		(18.10%)	4.15%	3.43%	3.45%	3.70%
		612,197,000	636,362,000	658,711,000	681,914,000	707,720,000

March 2003 Forecast

EXPENDITURE SUMMARY	ADOPTED FORECAST					
	2002-2003	2004	2005	2006	2007	2008
TOTAL PERSONAL SERVICES	484,912,421	503,786,000	557,328,000	582,492,000	615,733,000	643,241,000
		3.89%	10.63%	4.52%	5.71%	4.47%
TOTAL NON-PERSONAL/EQUIPMENT	91,214,959	79,938,486	81,537,000	83,168,000	84,831,000	86,528,000
		(12.36%)	2.00%	2.00%	2.00%	2.00%
OTHER EXPENDITURES						
CITY-WIDE EXPENSES	92,251,877	80,375,000	81,375,000	82,375,000	83,375,000	84,375,000
POLICE AUTOMATED INFORMATION SYSTEM	<i>Incl in City-wide</i>	0	0	0	0	0
LEASE PAYMENTS	<i>Included in N/P</i>	8,257,514	8,565,825	9,052,531	9,529,828	10,033,545
CONVENTION AND CULT AFFAIRS FD TRANSFER	2,596,533	2,596,533	2,596,533	2,596,533	2,596,533	2,596,533
OTHER TRANSFERS	1,034,581	811,181	5,217,467	4,154,467	4,450,467	4,458,467
COMMUNICATIONS CENTER DEBT SERVICE	2,376,180	2,369,400	2,416,000	2,408,000	2,414,000	2,413,000
CAPITAL PROJECTS	37,121,304	5,412,000	5,699,000	5,747,000	5,689,000	5,303,000
EQUIPMENT (INCLUDING COMPUTER)	0	700,000	700,000	700,000	700,000	700,000
SALARY AND BENEFIT RESERVE	12,315,000	15,914,000	<i>Included in P/S</i>	<i>Included in P/S</i>	<i>Included in P/S</i>	<i>Included in P/S</i>
EARMARKED RESERVES	48,805,763	351,260	351,260	351,260	351,260	351,260
VEHICLE REPLACEMENT/GENERAL FLEET	0	0	0	2,500,000	2,500,000	2,500,000
VEHICLE REPLACEMENT/POLICE FLEET	<i>Included in N/P</i>	<i>Included in N/P</i>	2,054,000	(117,000)	(730,000)	328,000
SUB-TOTAL OTHER EXPENDITURES	196,501,238	116,786,888	747,840,085	775,427,791	811,440,088	842,827,805
		(40.57%)	540.35%	3.69%	4.64%	3.87%
CONTINGENCY RESERVE	24,549,175	24,045,000	25,609,000	26,596,000	27,671,000	28,765,000
TOTAL USE W/O ADDS	797,177,793	724,556,374	773,449,085	802,023,791	839,111,088	871,592,805
		(9.11%)	6.75%	3.69%	4.62%	3.87%

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OPERATING MARGIN

BASE CASE WITHOUT ADDS	ADOPTED FORECAST					
	2002-2003	2004	2005	2006	2007	2008
GRAND TOTAL REVENUE	797,177,793	652,888,000	679,971,000	703,307,000	727,585,000	754,485,000
GROWTH RATE		(18.10%)	4.15%	3.43%	3.45%	3.70%
TOTAL BASE EXPENDITURES (w/o ADDS)	797,177,793	724,556,374	773,449,085	802,023,791	839,111,088	871,592,805
GROWTH RATE		(9.11%)	6.75%	3.69%	4.62%	3.87%
OPERATING MARGIN CHANGE		(71,668,374)	(21,809,711)	(5,238,706)	(12,809,297)	(5,581,717)
<i>From Prior Year</i>						

March 2003 Forecast

ADOPTED FORECAST

EXPENDITURE SUMMARY

	<u>2002-2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
COMMITTED ADDITIONS:						
Communications Equipment Replacement & Upgrades		-	204,000	3,440,000	-	2,128,000
Street Improvements		126,000	266,000	264,000	360,000	378,000
New Parks and Recreation Facilities Maintenance		224,000	348,000	384,000	396,000	410,000
Communications Hill Fire Station			2,182,000	1,885,000	1,979,000	2,078,000
Main Library (Joint)		630,000	658,000	704,000	724,000	745,000
Measure O (Library) Maintenance			73,000	168,000	269,000	328,000
Measure P (Parks) Maintenance			1,671,000	1,888,000	2,209,000	2,679,000
Measure O (Public Safety) Maintenance			405,000	2,359,000	4,980,000	7,276,000
TOTAL COMMITTED ADDS	0	980,000	5,807,000	11,092,000	10,917,000	16,022,000
TOTAL BASE USES w / ADDS	797,177,793	725,536,374	779,256,085	813,115,791	850,028,088	887,614,805
		(8.99%)	7.40%	4.35%	4.54%	4.42%

OPERATING MARGIN

ADOPTED FORECAST

BASE WITH COMMITTED ADDS	<u>2002-2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
GRAND TOTAL REVENUE	797,177,793	652,888,000	679,971,000	703,307,000	727,585,000	754,485,000
GROWTH RATE		(18.10%)	4.15%	3.43%	3.45%	3.70%
TOTAL BASE EXPENDITURES w / ADDS	797,177,793	725,536,374	779,256,085	813,115,791	850,028,088	887,614,805
GROWTH RATE		(8.99%)	7.40%	4.35%	4.54%	4.42%

BASE WITH COMMITTED ADDS	<u>2002-2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
OPERATING MARGIN CHANGE		(72,648,374)	(26,636,711)	(10,523,706)	(12,634,297)	(10,686,717)
<i>From Prior Year</i>						

ONE-TIME FUNDING AVAILABLE	<u>2002-2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<i>Shortfall Reserve Established in 2002-2003</i>		10,910,288				
<i>Economic Uncertainty</i>		15,810,000				
<i>Cardroom Revenue</i>		5,000,000	6,250,000	7,500,000	8,750,000	10,000,000
TOTAL ONE-TIME FUNDING		31,720,288	6,250,000	7,500,000	8,750,000	10,000,000

March 2003 Forecast

ADOPTED FORECAST

EXPENDITURE SUMMARY

EXTENDED ADDITIONS:

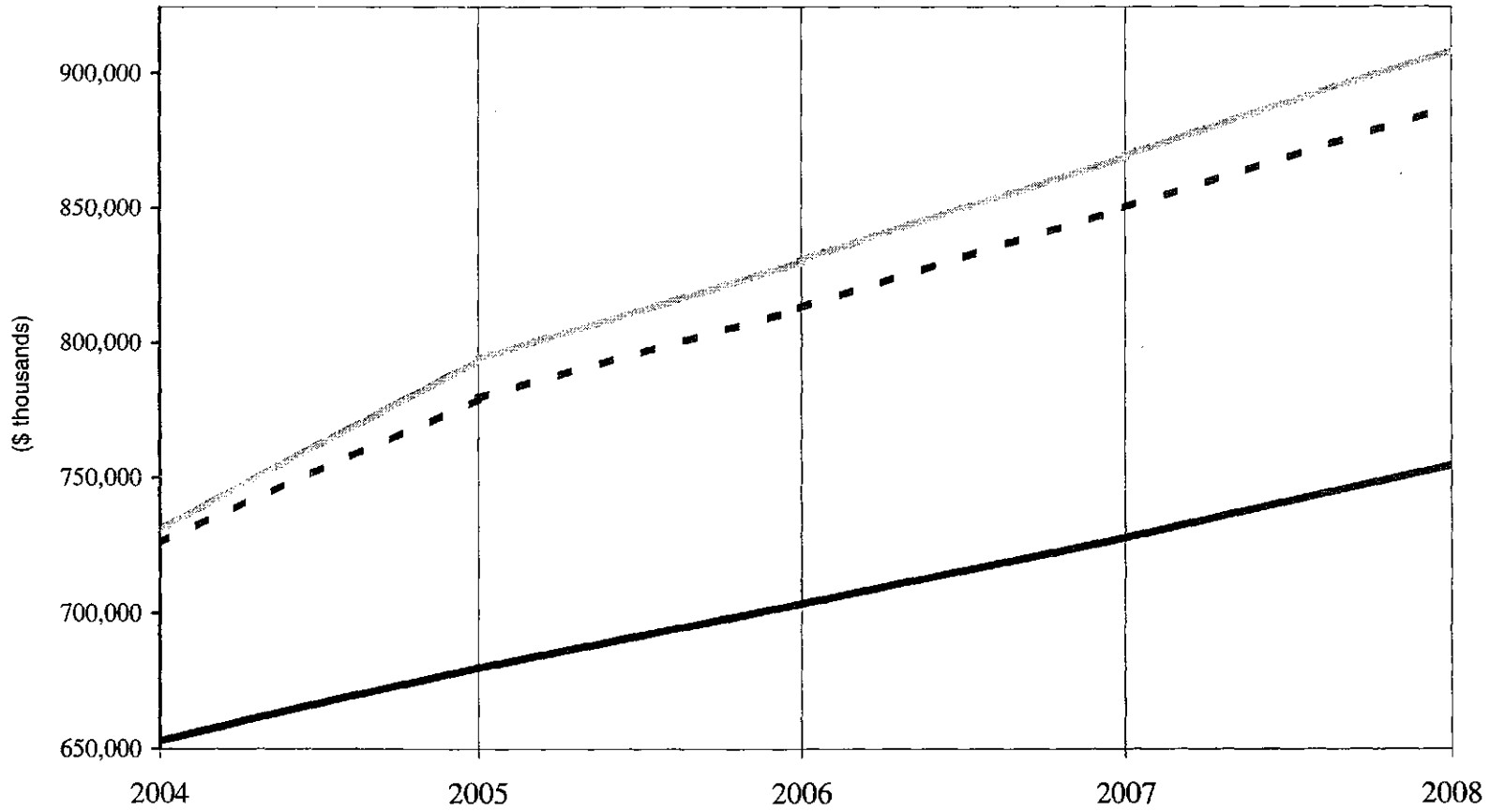
	2002-2003	2004	2005	2006	2007	2008
New Parks and Recreation Facilities Operations		1,066,000	1,833,000	2,012,000	2,060,000	2,243,000
Measure O (Library) Operations				538,000	1,772,000	2,100,000
Measure P (Parks) Operations			953,000	1,331,000	2,395,000	2,732,000
Measure O (Public Safety) Operations			3,327,000	5,439,000	8,699,000	9,584,000
Furniture, Fixtures & Equipment-Library Measure O Projects	3,078,000	1,460,000	3,909,000	686,000	2,325,000	
Furniture, Fixtures & Equipment-Parks Measure P Projects	399,000	2,495,000	2,803,000	1,092,000	2,042,000	
Furniture, Fixtures & Equipment-Pub Safety Measure Projects	68,000	4,406,000	1,139,000	2,505,000	120,000	
TOTAL EXTENDED ADDS/DELETES	0	4,611,000	14,474,000	17,171,000	19,209,000	21,146,000
GRAND TOTAL USES	797,177,793	730,147,374	793,730,085	830,286,791	869,237,088	908,760,805
		(8.41%)	8.71%	4.61%	4.69%	4.55%

OPERATING MARGIN

ADOPTED FORECAST

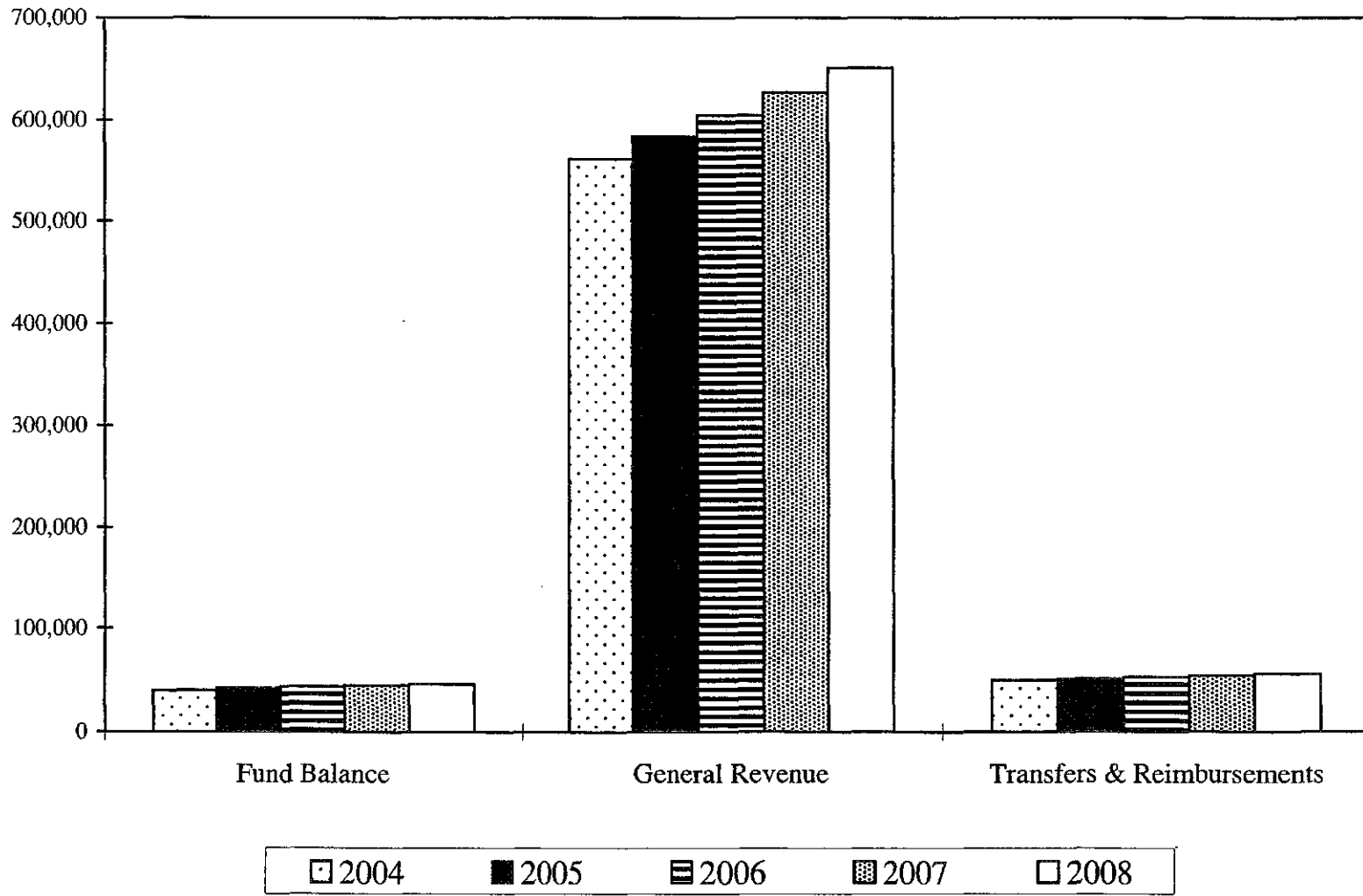
BASE CASE WITH EXTENDED ADDITIONS	2002-2003	2004	2005	2006	2007	2008
GRAND TOTAL REVENUE	797,177,793	652,888,000	679,971,000	703,307,000	727,585,000	754,485,000
GROWTH RATE		(18.10%)	4.15%	3.43%	3.45%	3.70%
GRAND TOTAL EXPENDITURES / ALL ADDS	797,177,793	730,147,374	793,730,085	830,286,791	869,237,088	908,760,805
GROWTH RATE		(8.41%)	8.71%	4.61%	4.69%	4.55%
OPERATING MARGIN CHANGE		(77,259,374)	(36,499,711)	(13,220,706)	(14,672,297)	(12,623,717)
<i>From Prior Year</i>						

General Fund PROJECTED REVENUES AND EXPENDITURES

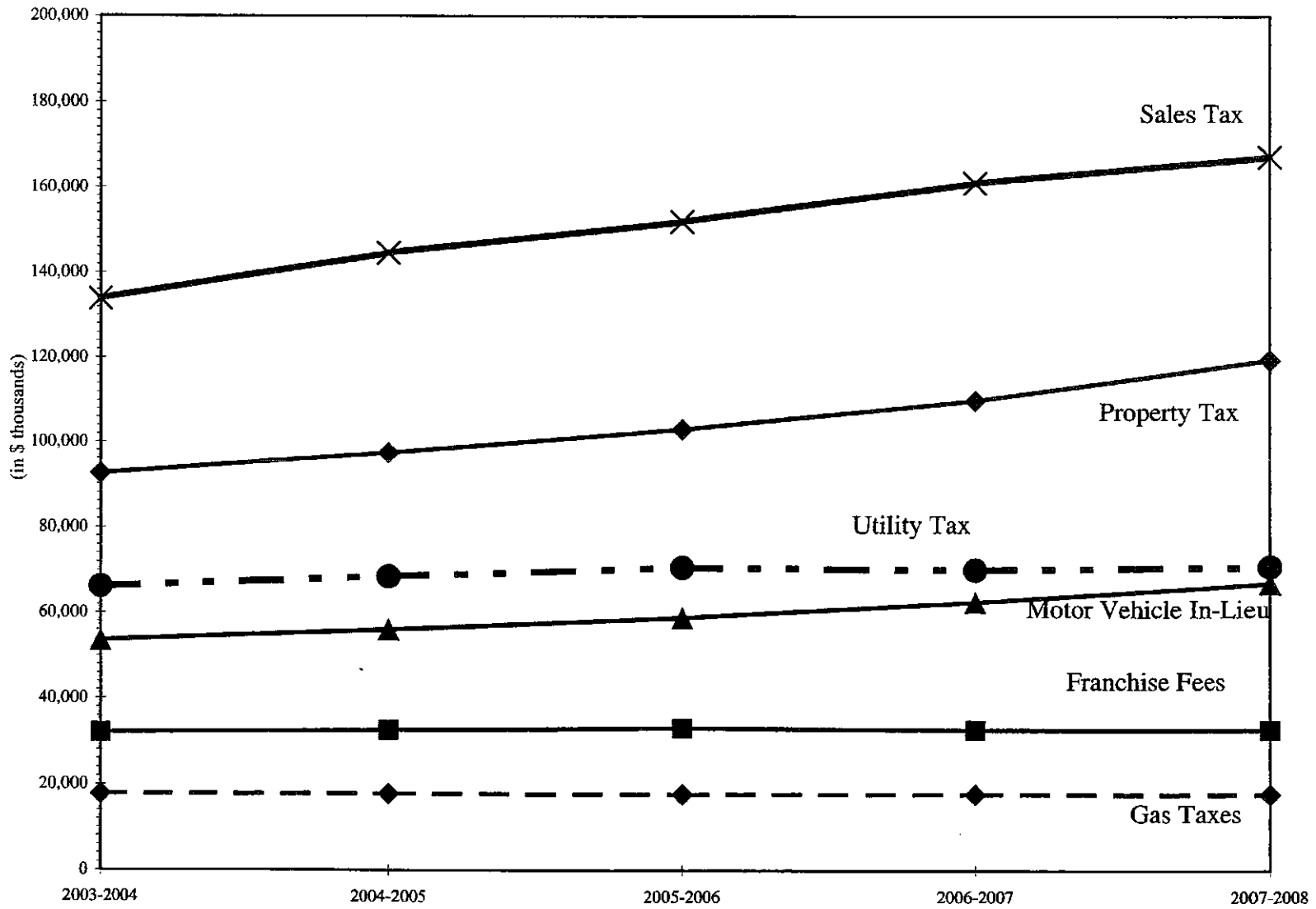


— BASE CASE REVENUES - - - COMMITTED EXPENDITURES EXTENDED EXPENDITURES

**General Fund
FIVE YEAR SOURCE OF FUNDS COMPARISON
(in \$000's)**



General Fund FIVE-YEAR PROJECTION OF KEY REVENUES



*Five-Year Economic Forecast
and
Revenue Projections*

2004-2008

Section 3

Additions and Deletions to the Base

ADDITIONS AND DELETIONS TO THE BASE

For Council consideration, potential future year program expenditure additions are considered in the forecast are grouped into two categories - **committed** and **extended**.

Committed additions/deletions involve expense changes which are deemed unavoidable. The most prominent items included in this category are maintenance expenses previously identified within the five year capital improvement program to support funded capital projects. This includes such expenses as maintenance of new street improvements, parks and the maintenance of new community and public safety facilities. The estimate amounts included in this category have been submitted by the various departments involved, but have not yet been analyzed by the Budget Office. Further refinements of the estimates will be performed prior to bringing them forward for consideration by the Council.

Extended additions/deletions are projected expenses which may flow from general Council direction, but where the annual amount of funding is reviewed each year and approved, or not, in light of available funding. The extended additions category for this forecast includes additional operating costs for New Parks and Recreation Facilities and Measures O (Library), P (Parks and Recreation) and O (Public Safety) projects and Furnishings for the three bond project programs.

For all categories of additions, assumptions regarding inflation of these costs have been made.

COMMITTED ADDITIONS AND DELETIONS

Communications Equipment Replacement and Upgrades - This addition provides funding to replace communication equipment and necessary upgrades. Currently this equipment is funded by the Construction and Conveyance Tax Fund – Communications. Below are listed the fiscal years when there is insufficient revenues in that fund to support the scheduled replacements and General Fund monies would be needed to complete the required equipment upgrades.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
	204,000	3,440,000		2,128,000	5,772,000

COMMITTED ADDITIONS AND DELETIONS (CONT'D.)

Street Improvements - This category represents the additional costs to maintain new traffic signals, landscaping, and street lighting included in the City's Five Year Capital Improvement Program.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
126,000	266,000	264,000	360,000	378,000	1,394,000

New Parks and Recreation Facilities Maintenance - This category reflects projected additional costs of maintaining new parks and recreation facilities included in the City's Five Year Improvement Program and those that will be developed by other agencies under specified agreements. The cost estimates have been provided by the departments involved, and have yet to be analyzed by the Budget Office.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
224,000	348,000	384,000	396,000	410,000	1,762,000

Communications Hill Fire Station - This allocation reflects the projected additional maintenance and operations costs of the facility now tentatively scheduled to open in 2004-2005.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
	2,182,000	1,885,000	1,979,000	2,078,000	8,124,000

Main Library (Joint) - This allocation reflects the projected additional maintenance costs of the facility tentatively scheduled to open in 2003-2004.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
630,000	658,000	704,000	724,000	745,000	3,461,000



COMMITTED ADDITIONS AND DELETIONS (CONT'D.)

Measure O (Library) Maintenance - This reflects the projected additional maintenance costs of new and expanded branch libraries that were approved in the November 2000 election.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
	73,000	168,000	269,000	328,000	838,000

Measure P (Parks) Maintenance - This reflects the projected additional maintenance costs of new and expanded public community facilities that were approved in the November 2000 election.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
	1,671,000	1,888,000	2,209,000	2,679,000	8,447,000

Measure O (Public Safety) Maintenance and Operations - This reflects the projected additional maintenance costs of new and expanded police and fire facilities that were approved in the March 2002 election. In addition, the costs for the new fire companies have been included.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
	405,000	2,359,000	4,980,000	7,276,000	15,020,000

EXTENDED ADDITIONS AND DELETIONS

New Parks and Recreation Facilities Operations - This category reflects projected additional costs of operating (programming) new parks and recreation facilities included in the City's Five Year Improvement Program and those that will be developed by other agencies under specified agreements. The cost estimates have been provided by the departments involved, and have yet to be analyzed by the Budget Office.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
1,066,000	1,833,000	2,012,000	2,060,000	2,243,000	9,214,000

EXTENDED ADDITIONS AND DELETIONS (CONT'D.)

Measures O (Library), P (Parks) and O (Public Safety) Operations - This reflects the projected additional maintenance costs of new and expanded branch libraries, public community and public safety facilities that were approved by the voters in two elections.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
	4,280,000	7,308,000	12,866,000	14,416,000	38,870,000

Measures O, P and O Furnishings, Fixtures and Equipment - This addition reflects the furnishings, fixtures and equipment for Measures O (Library), P (Parks) and O (Public Safety) funded facilities. The projects are funded by bond proceeds but the funding of one-time equipment remains unfunded. Below are listed the fiscal years when resources are needed to complete the implementation of these facilities.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>5 Year Total</u>
3,545,000	8,361,000	7,851,000	4,283,000	4,487,000	28,527,000



*Five-Year Economic Forecast
and
Revenue Projections*

2004-2008

PROJECTED FIVE-YEAR REVENUES
2004-2008
MARCH 2003

OPTIMISTIC CASE					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Gross Domestic Product (% Change)	3.80%	3.70%	4.00%	3.80%	3.65%
Total US Employment Rate (% Change)	1.30%	1.53%	1.62%	1.60%	1.52%
Total County Employment Rate (% Change)	1.62%	1.70%	1.72%	1.80%	1.90%
County Unemployment Rate	6.13%	6.02%	5.83%	5.65%	5.66%
Total Revenue (\$)	698,147,000	726,968,000	756,390,000	786,282,000	819,891,000
Growth Rate		4.13%	4.05%	3.95%	4.27%

BASE CASE					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Gross Domestic Product (% Change)	3.60%	3.65%	3.80%	3.70%	3.70%
Total US Employment Rate (% Change)	1.21%	1.03%	1.01%	1.01%	1.03%
Total County Employment Rate (% Change)	1.75%	1.45%	1.38%	1.30%	1.28%
County Unemployment Rate	6.34%	6.06%	5.90%	5.75%	5.76%
Total Revenue (\$)	652,888,000	679,971,000	703,307,000	727,585,000	754,485,000
Growth Rate		4.15%	3.43%	3.45%	3.70%

PESSIMISTIC CASE					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Gross Domestic Product (% Change)	1.00%	2.10%	2.50%	2.50%	2.20%
Total US Employment Rate (% Change)	1.00%	1.02%	1.03%	1.03%	1.04%
Total County Employment Rate (% Change)	(1.52%)	(0.98%)	1.00%	1.01%	1.04%
County Unemployment Rate	7.05%	7.51%	7.63%	7.34%	7.21%
Total Revenue (\$)	634,027,000	652,311,000	679,306,000	700,678,000	726,693,000
Growth Rate		2.88%	4.14%	3.15%	3.71%

PROJECTED FIVE-YEAR OPERATING MARGINS
2004-2008
MARCH 2003

EXPENDITURE CASES					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
EXPENDITURES - BASE	725,536,000	779,256,000	813,116,000	850,028,000	887,615,000
EXPENDITURES - EXTENDED	730,147,000	793,730,000	830,287,000	869,237,000	908,761,000

OPTIMISTIC REVENUE CASE					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
TOTAL REVENUES (\$)	698,147,000	726,968,000	756,390,000	786,282,000	819,891,000
GROWTH RATE		4.13%	4.05%	3.95%	4.27%
OPERATING MARGIN - BASE	(27,389,000)	(24,899,000)	(4,438,000)	(7,020,000)	(3,978,000)
OPERATING MARGIN - EXTENDED	(32,000,000)	(34,762,000)	(7,135,000)	(9,058,000)	(5,915,000)

BASE REVENUE CASE					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
TOTAL REVENUES (\$)	652,888,000	679,971,000	703,307,000	727,585,000	754,485,000
GROWTH RATE		4.15%	3.43%	3.45%	3.70%
OPERATING MARGIN - BASE	(72,648,000)	(26,637,000)	(10,524,000)	(12,634,000)	(10,687,000)
OPERATING MARGIN - EXTENDED	(77,259,000)	(36,500,000)	(13,221,000)	(14,672,000)	(12,624,000)

PESSIMISTIC REVENUE CASE					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
TOTAL REVENUES (\$)	634,027,000	652,311,000	679,306,000	700,678,000	726,693,000
GROWTH RATE		2.88%	4.14%	3.15%	3.71%
OPERATING MARGIN - BASE	(91,509,000)	(35,436,000)	(6,865,000)	(15,540,000)	(11,572,000)
OPERATING MARGIN - EXTENDED	(96,120,000)	(45,299,000)	(9,562,000)	(17,578,000)	(13,509,000)

*Five-Year Economic Forecast
and
Revenue Projections*

2004-2008

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

The major revenues that support the City of San José's capital programs, outside of bond proceeds, grants and transfers between funds, are a number of taxes levied on construction and property resale (conveyance) activity. These taxes and fees include:

- Construction and Conveyance Tax
- Building and Structure Construction Tax
- Construction Excise Tax
- Residential Construction Tax
- Sanitary Sewer Connection Fee
- Storm Drainage Connection Fee

This forecast includes five-year projections for all six of these revenue sources.

As discussed in the Construction Activity Projections provided by the Planning, Building and Code Enforcement Department, the current economic downturn has caused a sharp drop in construction activity in San José that is expected to continue in the near term. This decline started in fiscal year 2001-2002 when the total value of building permits dropped approximately 40% from a record-setting high of \$1.7 billion in fiscal year 2000-2001 to a six-year low of \$1.0 billion. In 2002-2003, the total value of building permits is projected to decline an additional 25% to \$750 million. For the forecast period, construction activity is expected to stabilize, with some modest recovery anticipated for residential development.

While a significant drop in construction activity was assumed in the development of the last forecast, the decline has been more severe and prolonged than anticipated. As a result, downward adjustments are recommended in the two largest construction-related taxes, the Building and Structure Construction Tax and the Construction Excise Tax, as well as the smaller Residential Construction Tax. The Sanitary Sewer and Storm Drainage Connection Fee categories are actually projected to increase slightly over the 5-year period from the levels included in the 2003-2007 Capital Improvement Program (CIP) as the actual declines in collections in these categories have not been as severe as originally anticipated when the current CIP was developed. The estimates for the Construction and Conveyance Taxes, which are derived almost entirely from the Conveyance (property transfers) portion of the tax, remain at the same levels as projected in the last forecast. When comparing the four common years of this forecast and the 2003-2007 CIP (2003-2004 through 2006-2007), this forecast is somewhat more pessimistic, particularly in the early years of the forecast. On an overall basis, this 5-year forecast assumes lower overall revenue collections of \$8.8 million from the 2003-2007 CIP, an overall drop of 4%. Revenues are basically projected to decline during this period to levels last experienced in the mid-1990's.

It should be noted that the current CIP did anticipate a significant drop-off from the extremely high activity levels experienced during the late 1990's through 2000-2001 and the revenue estimates were adjusted downward accordingly. This conservative posture has enabled the City to withstand the tremendous fall in revenues with less dramatic impacts on the various components of the five-year plan than otherwise would be required.

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES (CONT'D.)

The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this forecast with 2003-2007 Adopted CIP. A summary of the totals is shown below.

Forecast Comparison Summary

(\$ Thousands)

	2003-2007 CIP	2004-2008 Forecast	Difference	Change
Construction and Conveyance Tax	80,000	80,000	-	- %
Building and Structure Construction Tax	47,632	43,659	(3,973)	(8) %
Construction Excise Tax	64,256	58,950	(5,306)	(8) %
Residential Construction Tax	785	428	(357)	(45) %
Sanitary Sewer Connection Fee	3,664	4,331	667	18 %
Storm Drainage Connection Fee	1,698	1,818	120	7 %
TOTAL	198,035	189,186	(8,849)	(4) %

CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax, the revenue projections for the taxes and fees listed above are derived from activity estimates provided to the Budget Office by the Planning, Building and Code Enforcement Department. Each year the department provides projections of activity for each of the three types of development (residential, commercial, and industrial) from which the revenues are derived. A more complete discussion of these estimates is provided in a technical report prepared by that Department entitled "Development Activity Highlights and Five-Year Forecast (2003-2008)", which is attached as an appendix to this document.

A summary of the Planning, Building and Code Enforcement Department construction activity projections and the corresponding revenue estimates are provided below. Due to the highly volatile nature of the construction and real estate markets, the reliability of the estimates can be expected to decline over the period of the forecast. As a result, for the final two years, the Planning, Building and Code Enforcement Department has held its projections constant. The Department intends these to be interpreted as "ball park" estimates of the most likely state of the local economy given current information. As new information becomes available, the estimates will be refined. The Budget Office actively monitors changes in development activity and reports this information to the City Council through Monthly Financial Reports.

CAPITAL REVENUE FORECAST

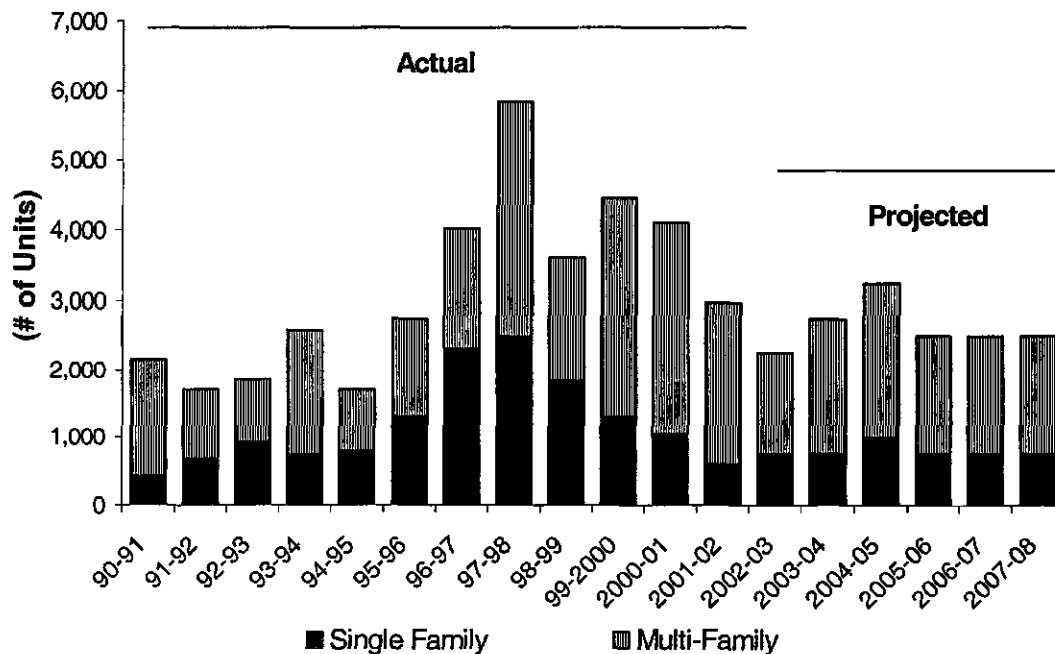
CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

A. Residential Construction Activity

A significant portion of development-related revenue in San José has traditionally been generated by residential construction. In 2001-2002, the number of building permits issued for new dwelling units dipped to a six-year low at 2,978 units, a drop of 27% from 2000-2001. In 2002-2003, the issuance of permits is expected to reach a new low of 2,250 new units. Over the five years of this forecast, the Planning, Building and Code Enforcement Department is predicting slower growth when compared to previous forecasts in the total number of units constructed. Residential construction activity is expected to generate 13,500 units over the 5-year period, an average of 2,700 units per year. This represents a slight improvement from the current year estimate but a significant decline from the actual levels experienced in recent years, which reached a high of 5,842 units in 1997-1998.

A total of 9,500 multi-family units are expected over the next five years, down from 11,000 projected in the 2003-2007 Forecast and 11,750 projected in the 2002-2006 Forecast. In this forecast, 4,000 single-family dwellings are anticipated. This figure is slightly higher than the 2003-2007 Forecast of 3,500 units but is significantly lower the 4,500 units projected in the 2002-2006 Forecast and 5,500 units in the 2001-2005 Forecast. The chart below shows the number of units, by housing type, anticipated in San José through the 2007-2008 fiscal year.

Residential Construction Activity



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

B. Commercial Construction Activity

Total commercial valuation for new projects and alterations is anticipated to drop to approximately \$300 million in 2002-2003. This is less than half of the record setting level of \$696 million experienced in 2000-2001 that resulted primarily from several high-rise office and hotel projects in the Downtown area, and down significantly from the 2001-2002 level of \$473 million. The 2002-2003 construction valuation estimate reflects the worsening market conditions in the office segment, including rising vacancy rates, slow demand, and declining rents.

Commercial construction valuation is expected to stabilize over the next several years with anticipated valuations of \$300 million in 2003-2004, \$400 million in 2004-2005 and 2005-2006, and \$350 million for the final two years of the forecast (see the chart in section D below). The total commercial valuation projected in this forecast is \$1.8 billion, which is comparable to the previous five-year forecast total of \$1.75 billion.

C. Industrial Construction Activity

Industrial construction activity experienced a dramatic decline in 2001-2002, with total permit valuation of only \$101 million, a drop of almost 80% from the actual permit valuation of \$482 million in 2000-2001. The Planning staff has forecasted continued weakness in industrial construction activity during 2002-2003, with permit valuation projected to once again reach just \$100 million. Industrial construction valuation is anticipated to increase from the extremely low levels experienced over the past two years to \$175 million in 2003-2004, \$200 million in 2004-2005, and then to \$300 million in the last three years of the forecast. The total industrial valuation over the forecast is estimated at \$1.28 billion and is consistent with the prior year forecast estimate.

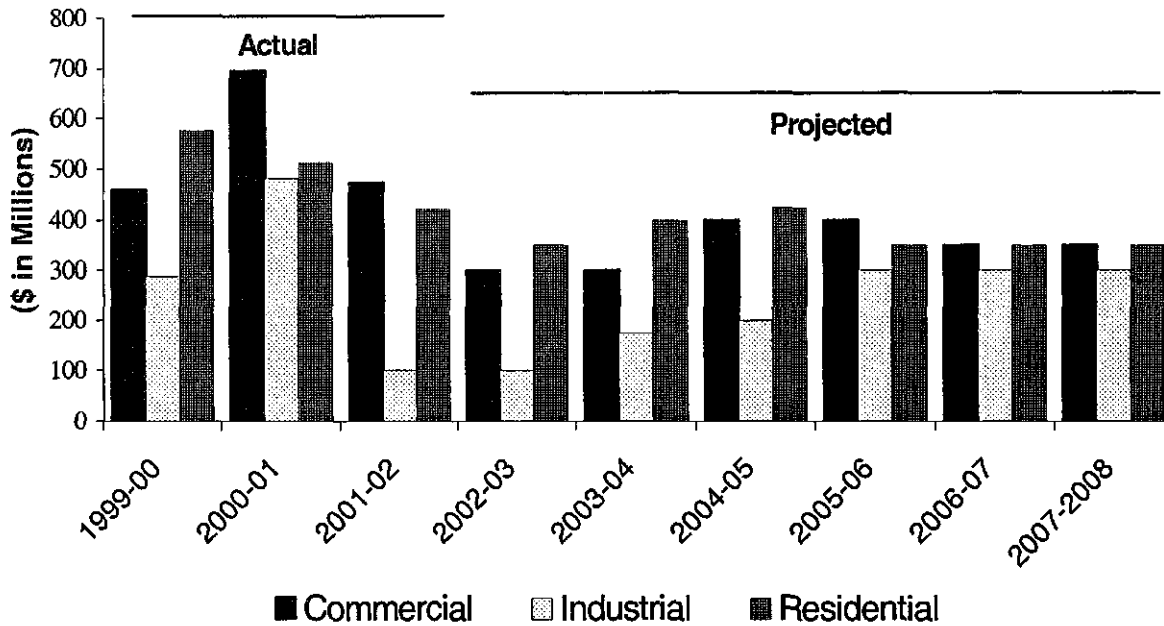
According to the Planning, Building and Code Enforcement Department, activity levels for industrial construction are expected to remain relatively low for some time to come. With vacancy rates on the rise for nine straight quarters and a current vacancy rate of 22% for Silicon Valley's research and development market, the economic conditions are not conducive to a short-term recovery in this sector.

The following graph illustrates the level of projected construction activity by type (not including exemptions).

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

Projected Construction Valuation, by Type



MAJOR DEVELOPMENT ACTIVITY DATA

As part of the Development Activity Highlights and Five-Year Forecast (2003-2008) document prepared by the Planning, Building and Code Enforcement Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on the major projects (residential projects greater than 100 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet) and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but yet commenced, and pending approval). In addition, individual maps are provided for each of the 15 planning areas in the City that show the projects in all status categories submitted since January 1, 1999. These maps can be used in conjunction with the activity data to help analyze the rate, type and location of major development activity in San José.

CONSTRUCTION AND CONVEYANCE TAX

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least twenty dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight

CAPITAL REVENUE FORECAST

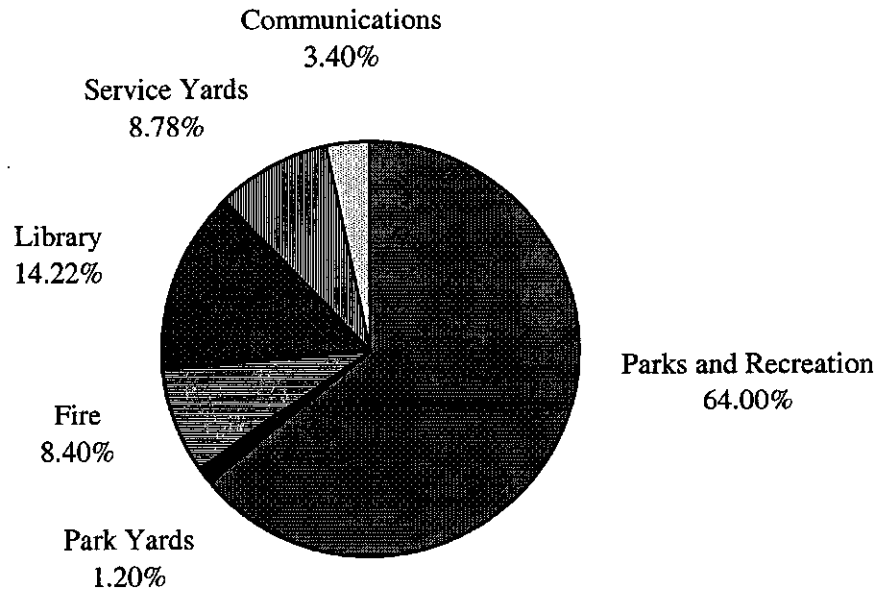
CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

cents per square foot of floor area constructed. The Construction Tax accounts for approximately 3% of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds one hundred dollars. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 97% of the total Construction and Conveyance Taxes collected.

Construction and Conveyance Tax receipts are allocated using the following distribution to capital programs.

Construction and Conveyance Tax Distribution



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

Consistent with the Construction and Conveyance Tax Task Force recommendations adopted by the City Council in June 1989, the Parks' portion of the estimated revenues, less non-construction costs and transfers to the General Fund, is allocated for all years of the forecast using a two to one ratio, with two-thirds of the proceeds going to neighborhood/district projects and one-third to city-wide projects. Per the current City Council policy, twenty percent of funds for neighborhood/ district projects is set aside and equally allocated to meet special needs.

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

The balance of the funds is then distributed based on a formula using the following criteria:

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

The five-year projection for Construction and Conveyance Tax revenue totals \$80 million, which is consistent with the projections included in the 2003-2007 CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

- **Prior Year Collection Trends**

It is clear from a review of the history of this tax that Construction and Conveyance Tax revenues are impacted by the ups and downs of the economic climate in San José. In the late 1980's collections in this area were extremely strong, peaking at \$18 million in 1988-1989. In the first half of the 1990's, however, revenue fell precipitously with collections ranging from approximately \$9 million to \$11 million annually, reflecting the economic slowdown experienced at that time. In the latter half of the 1990's, healthy annual increases were recognized in this revenue category with growth from \$13.4 million in 1995-96 to a peak of \$31.6 million in 2000-2001. This tremendous rate in growth was indicative of the economic gains during the period, reflected by the increases in the stock market, the low unemployment rates, and the gains in personal income and wealth during that period. As economic conditions began to worsen, tax receipts in this area fell with a 17% decline in 2001-2002 to \$26.3 million. This drop-off, however, has not been as severe as the declines in other economic sectors. The question remains, however, regarding the extent of further declines that will be realized during this economic downturn.

- **2002-2003**

Real estate sales for all types of residences in San José through January of this fiscal year totaled 5,536, which was actually up 3% from 5,357 sales for the same period last year. This slight growth, however, was the combined result of strong sales during the first four months of the fiscal year followed by flat or declining sales in the most recent three months. In January 2003, for example, the number of sales dropped 24% from the January 2002 level.

The average number of days that a house remains on the market is usually a good indicator of the strength of the real estate market. An increase in the number of days is almost always a sign of a weakening market. This figure has steadily increased during the fiscal year from 40

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

- **2002-2003 (Cont'd.)**

in July 2002 to 81 in January 2003. Although the January 2003 real estate days on market figure of 81 was consistent with the January 2002 figure of 80, it was a significant increase from 27 days in January 2001.

While it is beginning to take longer to sell a home and the number of overall transactions is also falling, the median single-family home price is surprisingly holding relatively steady. In January 2003, the median single-family home price in San José was \$499,950, up approximately 2% from \$489,000 in January 2002. It is questionable how much longer the average price can remain unaffected by the weakening market conditions.

While the overall Construction and Conveyance Tax receipts have been strong relatively through January, collections began to drop off from the prior year levels. Through December, year-to-date receipts totaled \$9.9 million, up almost 16% from the \$8.6 million received over the same period last year. In the month of January 2003, however, receipts of \$2.4 million represented a drop of 16% from the January 2002 level and represented the first time this fiscal year that receipts fell below the prior year level. The February Conveyance Tax collection results have now been received and also reflect a decline from the prior year (approximately 8%). With the recent declines in the number of real estate sales and the associated tax receipts, this forecast assumes that collections will reach only the budgeted level \$16 million in 2002-2003. This very conservative posture allows for a continued slowdown in this area and sets the revenue estimate at the lowest level that should be attainable this year.

- **2004-2008**

The 2004-2008 Construction and Conveyance Tax revenue forecast is built on the assumption that collections will remain flat at \$16 million annually for each year of the five-year forecast. These estimates are based on the theory that further downward corrections will occur in the housing market. This forecasted collection level reflects what is believed to be a more sustainable level of housing resale activity, which is still higher than the level experienced in the early 1990's.

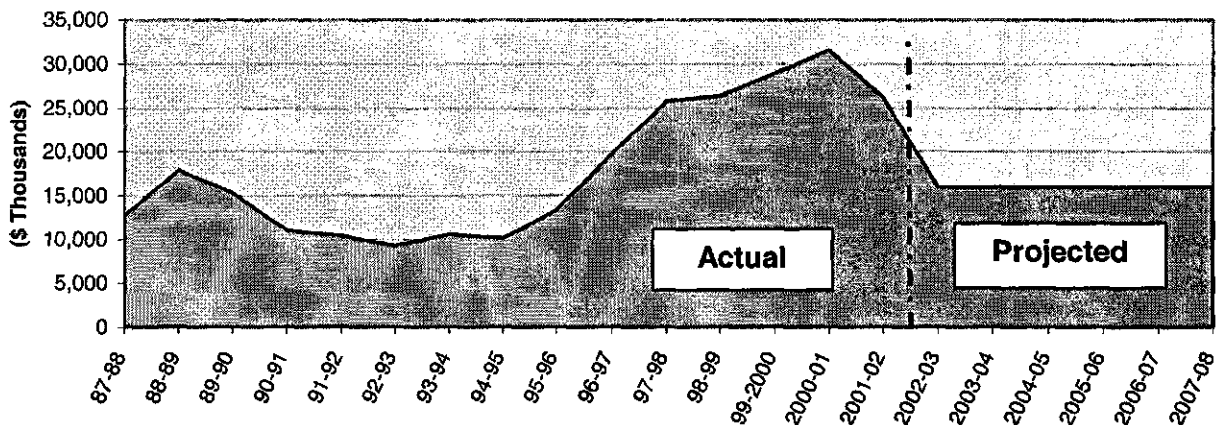
CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

• 2004-2008 (Cont'd.)

The following graph illustrates the actual and projected revenues for the combined Construction and Conveyance Tax revenues:

Construction and Conveyance Tax Revenues



BUILDING AND STRUCTURE CONSTRUCTION TAX

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

- 1) Residential - $1\frac{3}{4}\%$ of 88% of the Building Official's valuation.
- 2) Commercial - $1\frac{1}{2}\%$ of the Building Official's valuation.
- 3) Industrial - 1% of the Building Official's valuation.

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

There is a substantial need for funding to develop the City's major street network. In recent years, the strength of Building and Structure Construction Tax revenues helped address a backlog of arterial and collector projects. The current economic downturn, however, has severely impacted collections in this area and will dramatically reduce the projects that will be able to be completed.

CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX (CONT'D.)

Based on the construction activity forecasts supplied by the Planning, Building and Code Enforcement Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals \$43.7 million, with annual proceeds ranging from \$7.3 million to \$9.2 million. The 5-year revenue figure represents a drop of approximately \$4.0 million (8%) from the estimate included in the 2003-2007 Adopted CIP. Because collections had already begun to fall when the 2003-2007 CIP was developed, the tax receipt estimates were adjusted downwards significantly in the current CIP. However, the decline in collections has been more severe and prolonged than anticipated, resulting in additional downward adjustments to the revenue estimates. This forecast brings the annual revenue estimates down to levels last experienced in 1995-96 and 1996-97. To bring context to this drop in actual collections, the 2003-2004 revenue estimate of \$7.3 million is less than half the actual receipts in 2000-2001 of \$17.4 million.

A comparison of the five-year forecast with actual collections in previous years is shown in the chart in the following section.

CONSTRUCTION EXCISE TAX

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

The current rates are:

- 1) Residential - 2 ³/₄% of 88% of the Building Official's valuation.
- 2) Commercial - 3% of the Building Official's valuation.

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

This tax is considered a general fund that can be used for any purpose. The proceeds are generally used for a variety of essential Traffic Capital programs that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, the sidewalk repair grant program, street lighting improvements and most strategic planning programs, which improve the City's ability to obtain state and federal grants.

Based upon the construction projections provided by the Planning, Building and Code Enforcement Department, Construction Excise Tax collections are projected to total \$58.95 million over the five-year forecast period. This collection level represents a decrease of \$5.3

CAPITAL REVENUE FORECAST

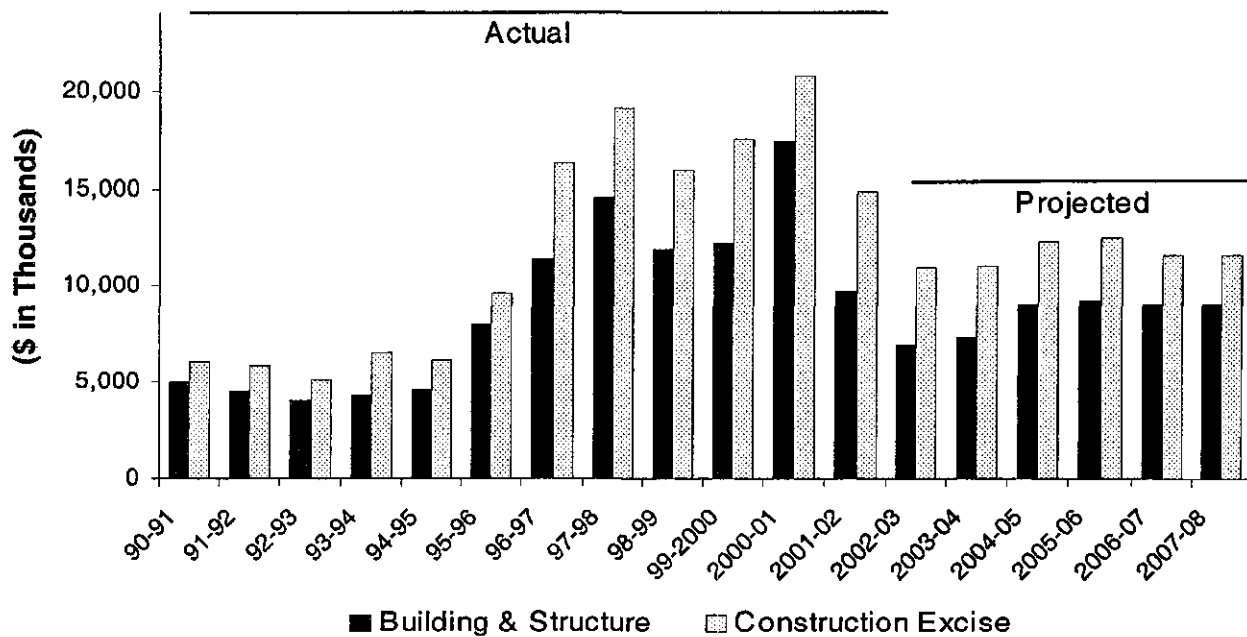
CONSTRUCTION EXCISE TAX (CONT'D.)

million (8%) from the 2003-2007 Adopted CIP. As discussed previously, the prolonged economic downturn has severely impacted construction activity that is the basis for this tax category.

While the 2004-2008 revenue estimates for the Construction Excise Tax reflect only a moderate decline from the estimates included in the 2003-2007 CIP, collections in this category have fallen significantly from the actual collection levels experienced in recent years. For instance, the estimated receipts of \$11.0 million for the 2003-2004 fiscal year reflects a drop of 47% from the peak of \$20.7 million in fiscal year 2000-2001. Fortunately, the 2003-2007 CIP was built on the assumption that receipts would fall significantly from the extremely high levels experienced over the past few years, so the revenue projections and the number of projects affected have not been significantly impacted.

The following graph compares the actual and projected revenues for both the Building and Structure Construction and the Construction Excise Taxes, by year:

Major Construction-Related Tax Revenues



RESIDENTIAL CONSTRUCTION TAX

The Residential Construction Tax is imposed upon the construction of residential dwelling units and mobile home lots in the City. The rates are imposed on each dwelling unit and differ according to the number of units located in the building. Rates vary from \$90 for each dwelling unit in a multiple dwelling of at least twenty units to \$180 for a single-family residence.

CAPITAL REVENUE FORECAST

RESIDENTIAL CONSTRUCTION TAX (CONT'D.)

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

Based upon construction estimates by the Planning, Building and Code Enforcement Department and the actual collection pattern for this tax, only \$0.4 million in revenue is expected over the five-year period of this forecast. This is a decrease of \$0.36 million (45%) from the previous five-year forecast and reflects the significant drop in new residential construction. This fall-off in activity is reflected this year by the 28% drop in collections through the first six months of 2002-2003, when compared to the same period last year and an 89% drop from the 2000-2001 level.

SANITARY SEWER CONNECTION FEE

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

The 2004-2008 projection for this fee is \$4.3 million, which is an 18% increase from the 2003-2007 CIP estimate of \$3.7 million. It should be noted, however, that the revenue estimate in the 2003-2007 CIP was reduced 43% from the 2002-2006 CIP estimate of \$6.5 million based on the significant declines in actual collections realized at that time. While the drop-off in receipts has not been as severe as anticipated when the last forecast was prepared, collections are not expected to experience major growth over the forecast period. In addition to being affected by the general decline in development activity, this category is impacted by a drop in the amount of projects involving undeveloped parcels for which these fees are assessed. Property that is being redeveloped typically is not subject to the fee.

STORM DRAINAGE CONNECTION FEE

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

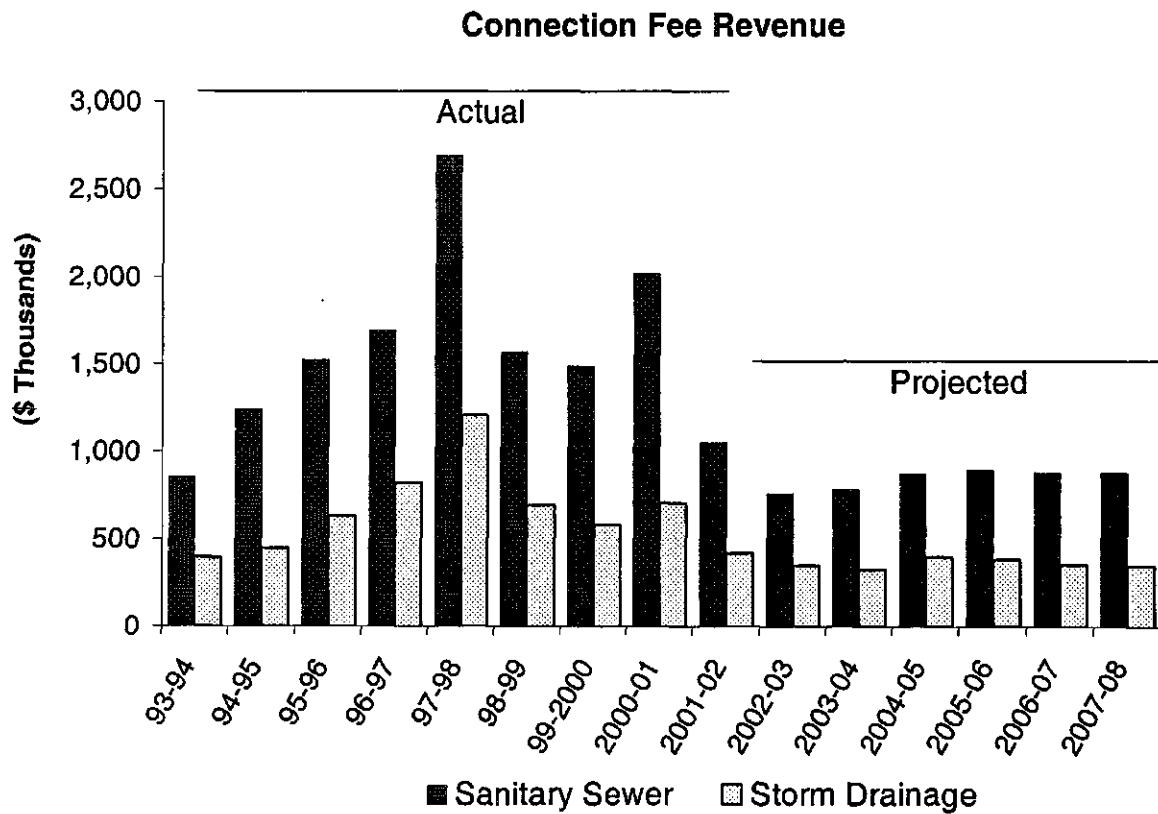
The five-year forecast for Storm Drainage Connection Fees is \$1.8 million. This is a 7% increase from the 2003-2007 CIP amount of \$1.7 million. Similar to the forecast for the Sanitary Sewer Connection Fee, however, the revenue estimate in the 2003-2007 CIP was reduced 23% from the

CAPITAL REVENUE FORECAST

STORM DRAINAGE CONNECTION FEE (CONT'D.)

2002-2006 CIP estimate of \$2.2 million based on the sizeable declines in actual collections realized at that time. While the drop-off in receipts has not been as severe as anticipated when the last CIP was prepared, collections are not expected to rebound to any large extent over the forecast period. The general economic downturn and the impact of in-fill developments, which are not subject to this fee, continue to affect fee collections.

The graph on the following page illustrates the revenue trend for Sanitary Sewer and Storm Drainage Connection Fees for the forecast period.



Construction-Related Revenue

2004 - 2008

(in \$ thousands)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	5 Yr Total
Construction and Conveyance Tax							
2003-2007 ADOPTED CIP	16,000	16,000	16,000	16,000	16,000		80,000
2004-2008 FORECAST	16,000	16,000	16,000	16,000	16,000	16,000	80,000
Difference	-	-	-	-	-	-	-
Building and Structure Construction Tax							
2003-2007 ADOPTED CIP	8,874	10,295	10,183	9,140	9,140		47,632
2004-2008 FORECAST	6,924	7,273	9,068	9,210	9,054	9,054	43,659
Difference	(1,950)	(3,022)	(1,115)	70	(86)		(3,973)
Construction Excise Tax							
2003-2007 ADOPTED CIP	13,660	13,791	13,113	11,846	11,846		64,256
2004-2008 FORECAST	10,900	11,000	12,273	12,485	11,596	11,596	58,950
Difference	(2,760)	(2,791)	(840)	639	(250)		(5,306)
Residential Construction Tax							
2003-2007 ADOPTED CIP	153	171	161	150	150		785
2004-2008 FORECAST	80	91	97	80	80	80	428
Difference	(73)	(80)	(64)	(70)	(70)		(357)
Sanitary Sewer Connection Fee							
2003-2007 ADOPTED CIP	703	734	700	739	788		3,664
2004-2008 FORECAST	764	791	875	897	884	884	4,331
Difference	61	57	175	158	96		667
Storm Drainage Connection Fee							
2003-2007 ADOPTED CIP	351	367	350	316	314		1,698
2004-2008 FORECAST	351	327	399	385	355	352	1,818
Difference	-	(40)	49	69	41		120
TOTAL							
2003-2007 ADOPTED CIP	39,741	41,358	40,507	38,191	38,238		198,035
2004-2008 FORECAST	35,019	35,482	38,712	39,057	37,969	37,966	189,186
Difference	(4,722)	(5,876)	(1,795)	866	(269)		(8,849)

*Five-Year Economic Forecast
and
Revenue Projections*

2004-2008

Appendix A

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

**Development Activity Highlights
and Five-Year Forecast (2003-2008)**



Prepared by:

**City of San Jose
Department of Planning, Building and Code Enforcement
February 2003**

Development Activity Highlights and Five-Year Forecast (2003-2008)

For more information, please contact:

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San Jose, CA 95110
(408) 277-4576**

*This report and other information can be found
on the Department's web site:*

<http://www.ci.san-jose.ca.us/planning/sjplan>

Development Activity Highlights and Five-Year Forecast (2003-2008)

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Development Activity Highlights and Five-Year Forecast (2003-2008)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2003-2008)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves several functions. First, the report assists the Office of the City Manager in estimating future construction-related tax revenues that generate funds for the City's Capital Improvement Program. Second, the report provides City policymakers and staff with key data for periodic assessment of the rate, type, and location of development activity in San Jose. Lastly, the report is a tool for distributing information on major development projects to members of the general public.

II. SUMMARY

The current economic downturn has caused a sharp drop in construction activity in San Jose that is expected to continue in the near term. While last year the total value of building permits declined approximately 40%, from a record-setting high of \$1.7 billion in fiscal year 2000/01 to a six-year low of \$1.0 billion in fiscal year 2001/02, permit valuation is expected to fall another 25% to \$0.75 billion in fiscal year 2002/03. Thereafter, construction activity is expected to stabilize, with some modest recovery anticipated for residential development. The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2003-2008).

Residential Development

- *Residential construction activity in San Jose dipped to a six-year low in fiscal year 2001/02, as building permits were issued for 2,978 new dwelling units. This was a 27% decline from fiscal year 2000/01 but slightly surpassed the staff forecast (2,500 units). Multi-family construction remained strong, accounting for over three-quarters of the total unit count—the highest such ratio in a decade. However, single-family housing fell to only 600 new units, a ten-year low and a drop of approximately 50%-75% from the level of single-family activity just a few years ago.*
- *Planning staff is forecasting that new residential construction activity will experience a "bottoming out" during fiscal year 2002/03, with the issuance of permits for 2,250 new dwelling units. On the other hand, residential alterations (i.e., improvements to existing structures) are expected to remain strong, as evidenced by record setting permit activity in three of the last six months. This*

strength can be attributed to the remarkable resilience of the housing sector amid a backdrop of widespread economic difficulty. Overall, the near-term outlook for residential construction is quite good, with San Jose even having recently been dubbed the "hottest spot for multi-family development in California."¹

- Residential construction activity is expected to stabilize at roughly 2,750 units per year over the forecast period, which is well below those levels witnessed over the last five years. However, an ongoing shortage of housing in Santa Clara County and the lowest interest rates in a generation should help stimulate continued interest in residential construction. Further, the City is committed and on-target in its goal to deliver a total of 6,000 units of affordable housing by June 2004 and increase the housing supply in the Greater Downtown specifically, which efforts are incorporated into this forecast. Future development will primarily consist of higher density "smart growth" housing in strategic infill locations, such as Specific Plan areas, sites along existing or planned transit routes, and the Downtown area.

Commercial Development

- Commercial construction activity in San Jose registered \$473 million in permit valuation during fiscal year 2001/02, a 35% drop from the prior fiscal year that slightly exceeded the staff forecast (\$425 million). This valuation figure still represents a relatively high level of activity, approximating levels that existed prior to a dramatic, record-setting "spike" that occurred in fiscal year 2000/01. New construction primarily consisted of a handful of major hotel, office, and retail projects in or near the Downtown, including the San Jose Marriott Hotel, Adobe Systems campus expansion, Santana Row, and the Valley Fair Shopping Center.
- Planning staff is forecasting that commercial construction activity will remain on its recent straight-line downward trend, falling another 35% to a five-year low of \$300 million in total permit valuation during fiscal year 2002/03. This decline can be attributed to worsening market conditions in the office segment, including rising vacancy, slow demand, and declining rents. Not surprisingly, then, the slowdown is most evident in the new construction component of the forecast, which assumes the value of building permits issued in the first quarter (\$83 million) will amount to almost half of the valuation for the entire fiscal year.
- Commercial construction activity is expected to stabilize over the next several years. The retail sector, in particular, has demonstrated promise in its ability to weather the current economic storm. Large-scale examples of this include the recent groundbreaking for major renovation and expansion of Oakridge

Shopping Center along with a similar proposal now in the pipeline to transform Eastridge Mall. As well, the Greater Downtown Development Strategy seeks to recruit key "anchor" retail tenants and facilitate continued investment in uses and facilities (e.g., Convention Center expansion) that would be supportive of additional retail development in the Downtown area.

Industrial Development

- *Industrial construction activity in San Jose came to a virtual standstill during fiscal year 2001/02, registering just \$101 million in total permit valuation—an 80% decline from fiscal year 2000/01. This activity level fell short of the staff forecast (\$200 million), setting new record lows below even the slowest years of the last economic recession in the early 1990's.*
- *Planning staff is forecasting continued weakness in industrial construction activity during fiscal year 2002/03, with total permit valuation once again reaching just \$100 million. Economic conditions remain quite bleak, with nine straight quarters of increased vacancy in Silicon Valley's coveted research and development market, which now stands at 22% vacancy. Due to continued business failures, downsizing, and measures by companies to make more efficient use of space, "no reduction in available space is expected until some time late next year." ² On a positive note, the City's recently-adopted Special Tenant Improvements Incentive Program is designed to help expedite occupancy of this vacant industrial space.*
- *Activity levels for industrial construction will likely remain very slow for some time to come. Last year's announcements by Cisco Systems of its intent to halt, scale back, or abandon sizeable local expansion plans have alone caused a major rethinking on the possible timing of any new industrial construction projects in the City of San Jose. At some point, however, growth prospects will undoubtedly emerge within specific sectors of the high-tech industry that fuel demand and ultimately help lead the way to economic recovery.*

¹RealFacts, "Developers know the way to San Jose", September 2002.

²Commercial Property Services, RealNews, Third Quarter 2002.

III. FIVE-YEAR FORECAST (2003-2008)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction is expected to continue its recent decline during fiscal year 2002/03 and then stabilize at roughly \$1 billion per year in construction valuation over the forecast period.

Table 1
Construction Valuation: FY 97/98 to FY 07/08

Fiscal Year	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
	<u>Actual Valuation¹ (in millions)</u>					<u>Projected Valuation (in millions)</u>					
<u>New Construction</u>											
Residential	\$733	\$520	\$533	\$422	\$320	\$225	\$275	\$325	\$250	\$250	\$250
Commercial	\$207	\$237	\$296	\$484	\$340	\$200	\$200	\$250	\$250	\$200	\$200
Industrial	\$370	\$333	\$115	\$236	\$28	\$25	\$75	\$100	\$150	\$150	\$150
Subtotal	\$1310	\$1090	\$944	\$1141	\$688	\$450	\$550	\$675	\$850	\$600	\$600
<u>Alterations</u>											
Residential	\$87	\$94	\$102	\$117	\$101	\$125	\$125	\$100	\$100	\$100	\$100
Commercial	\$105	\$145	\$210	\$247	\$133	\$100	\$100	\$150	\$150	\$150	\$150
Industrial	\$164	\$94	\$202	\$271	\$73	\$75	\$100	\$100	\$150	\$150	\$150
Subtotal	\$356	\$334	\$514	\$635	\$306	\$300	\$325	\$350	\$400	\$400	\$400
GRAND TOTAL	-\$1666	\$1423	\$1458	\$1776	\$994	\$750	\$875	\$1025	\$1050	\$1000	\$1000
<u>Tax Exemptions</u>											
Residential	*	*	*	*	*	\$(50)	\$(50)	\$(50)	\$(50)	\$(50)	\$(50)
Commercial	*	*	*	*	*	\$(75)	\$(75)	\$(75)	\$(75)	\$(75)	\$(75)
Industrial	*	*	*	*	*	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)
Net Total (Taxable)						\$600	\$725	\$875	\$900	\$850	\$850

*Note: Data on actual tax exemptions was not available at the time of this report.

¹Valuation figures adjusted to 2002 dollars, per Bureau of Labor Statistics Consumer Price Index (CPI), San Jose-San Francisco-Oakland, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 97/98 to FY 07/08

Fiscal Year	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
	<u>Actual¹</u>					<u>Projected</u>					
<u>Residential (Units)</u>											
Single-Family	2,493	1,838	1,302	1,053	604	750	750	1,000	750	750	750
Multi-Family	3,349	1,783	3,169	3,053	2,374	1,500	2,000	2,250	1,750	1,750	1,750
TOTAL	5,842	3,621	4,471	4,106	2,978	2,250	2,750	3,250	2,500	2,500	2,500
<u>Non-Residential (sq.ft. in thousands)</u>											
Commercial	1,750	2,250	3,000	3,750	2,250	1,500	1,750	2,000	2,000	1,750	1,750
Industrial	4,250	3,500	1,500	3,000	250	500	750	1,000	1,500	1,500	1,500
TOTAL	6,000	5,750	4,500	6,750	2,500	2,000	2,500	3,000	3,500	3,250	3,250

¹NOTE: Data on residential units are based on the Building Division's *Permit Fee Activity Report*.

Data on non-residential square footage are estimated, based on construction valuation in the Building Division's *Permit Fee Activity Report*.

IV. CONSTRUCTION TAXES AND EXEMPTIONS

The City of San Jose imposes a series of construction-related taxes that are generally used to finance the construction and improvement of facilities and infrastructure systems for which the demand for capacity cannot be attributed to a particular development. These taxes are over and above cost-recovery fees charged for processing and reviewing applications for development approvals and permits. The largest construction-related tax revenue sources are described below.

Building and Structure Construction Tax

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

Construction Excise Tax

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

Residential Construction Tax

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

Exemptions

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

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

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

Planning staff estimates that \$150 million in construction valuation will be exempted each year over the forecast period, or approximately 15-20% of total valuation during this time (see Table 1 on page 4).

V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected an enormous quantity of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. These data focus on recent "major" projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 100 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet. This data collection effort has identified nearly 19,000 dwelling units and 44 million square feet of non-residential space submitted for Planning approval since January 1, 1999.

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

**Major Residential Development Activity
Projects of 100+ Dwelling Units, Submitted Since 1/1/99**

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

PDA99-025-01	12/22/99	Cypress/Oaks at North Park Apts ¹	097-07-003	SE/c N. 1st & Baypointe	North	MF	605	AC	2/11/00
PDA00-033-01	8/24/00	The Pines at North Park Apts ²	097-07-003	E/s N. 1st, 1000' nly River Oaks	North	MF	478	AC	7/14/00
PD99-007	2/4/99	Palma Sorrento Apts	689-19-018	SW/c Cottle & Hwy 85	Edenvale	MF	274	JR	4/16/99
PD99-039	7/8/99	Monte Vista Apts ³	484-44-003	W/s Capitol Ave., 1000' nly Capitol Expwy	Alum Rock	MF	262	SBW	10/28/99
PD00-054	7/18/00	The Sequoia at North Park Apts	097-07-003	E/s N. 1st, 1000' nly River Oaks	North	MF	261	EL	11/30/00
PD99-076	11/18/99	Avalon at Cahill Park Apts	261-33-043	S/s The Alameda, bet Bush & Wilson	Central	MF	218	AD	3/3/00
PD99-027	5/10/99	Villa Torre Apts	472-14-044	SW/c Martha & Sixth	Central	MF	191	AD	3/3/00
PD99-042	7/8/99	Pageantry/Arbor Park Apts	254-17-021	W/s N. King, 200' nly Mabury	Alum Rock	SF/MF	165	LH	10/29/99
CP99-032	7/1/99	Belmont Village Assisted Living	277-39-010	E/s Winchester, 250' nly Tisch	West Valley	MF	137	TT	11/17/99
PD00-040	4/27/00	Willow Glen Senior Apts ⁴	434-30-001	Both sides Willow Glen, w/s Hwy 87	South	MF	133	RE	6/16/00
PD00-043	5/19/00	El Parador Senior Apts	412-24-011	W/s S. Bascom, 535' nly Union	Willow Glen	MF	125	RE	7/28/00
PD99-023	5/5/99	BridgePoint Senior Apts	676-55-058	NW/c San Felipe & Yerba Buena	Evergreen	MF	119	JAC	6/29/99
PD00-030	4/10/00	Legacy at Museum Park	259-47-001	N/s W. San Carlos, 1000' wly Hwy 87	Central	SF/MF	117	AD	9/8/00
PD99-024	5/11/99	Vineyard Park Condos	659-57-002	NE/c Allesandro & Silverland	Evergreen	MF	107	JAC	11/22/99
PD99-061	9/3/99	Santana Row (Parcel 4)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	MF	100	JR	6/30/00
PD00-014	2/2/00	Santana Row (Parcel 3)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	MF	98	JR	6/30/00

Total

3,390

Projects Under Construction

PD00-023	2/23/00	Santa Palmia Apts	689-20-008	SW/c Cottle & Hwy 85	Edenvale	MF	598	JR	6/30/00
PD02-014	3/8/02	Ranch on Silver Creek ⁵	676-01-001	E/s Hwy 101, 1000' nly Hellyer	Evrgm/Ednvl	SF	538	JB	7/24/02
PD96-002	1/4/96	The Woods, Phase 5B	462-45-010	SE/c Capitol & Snell	Edenvale	MF	475	MC	8/30/96
RPD00-003	Dec-00	College Park	259-20-049	Ely Hwy 87, bet. Ryland & Basset	Central	SF/MF	433	RDV.	5/2/01
PD01-126	12/20/01	Bella Villagio	462-20-003	NE/c Capitol & Vistapark	South	SF/MF	357	DM	4/5/02
PD97-082	10/15/97	The Classics Townhomes	659-02-007	Both sides Aborn, 850' ely Ruby	Evergreen	SF	330	JAC	2/22/99
PD01-118	11/9/01	Avignon Apts	230-29-056	N/s Sonora bet. N. 1st & Hwy 87	North	MF	315	EL	5/17/02
PD01-082	7/26/01	Tully Gardens ⁶	477-23-023	NE/s Monterey, 600' nly Tully	South	MF	305	BS	8/31/01
PD00-017	2/9/00	Santana Row (Parcel 7)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	SF/MF	246	JR	6/30/00
PD01-030	3/8/01	Oak Circle Senior/Teacher Apts	477-54-038	NW/c Lucretia & Vintage	South	MF	200	BS	5/16/01
PD98-086	12/21/98	Clker Apts	458-11-013	SE/c Winfield & Chynoweth	Edenvale	MF	182	RE	2/26/99
PD99-044	7/12/99	Ryland SilverRidge	676-02-014	S/s Yerba Buena, 1200' ely Hwy 101	Evergreen	SF	179	JAC	12/22/99
PD01-105	10/11/01	Mariani Square Townhomes	249-36-032	SW/c Jackson & N. 9th	Central	SF	166	JD	3/8/02
PD01-076	7/13/01	White Road Apts	599-01-058	E/s White, 450' nly McKee	Alum Rock	MF	157	SBW	11/29/01

A-7

**Major Residential Development Activity
Projects of 100+ Dwelling Units, Submitted Since 1/1/99**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD01-068	6/5/01	Tuscany Hills (Phase 1 & 2) ⁷	455-10-005	N/s Hillsdale, opp term Vista Park	South	MF	144	JAC	8/29/01
H01-013	2/21/01	Madison/Kenwood Estates ⁸	660-22-009	SE/c San Felipe & Delta	Evergreen	SF	140	R	8/20/01
PD98-017	3/23/98	The Legends	659-10-003	N/s Aborn, 1000' e/sly Ruby	Evergreen	SF	136	ME	7/1/99
RPD99-001	Jul-99	Park Townsend Condos	259-33-047	SW/c W. Julian & N. 1st	Central	MF	98	RDV.	6/29/00
PD01-023	2/8/01	El Paseo Apts	307-12-014	SE/c Campbell & Hamilton	West Valley	MF	98	DM	5/25/01
PD01-061	5/16/01	Georgetown Townhomes	261-36-012	SE/c W. San Fernando & Sunol	Central	SF	94	BB	7/27/01
Total							5,191		

Approved Projects (Construction Not Yet Commenced)

PDC01-023	2/14/01	Santana Row	277-33-004	SE/c Winchester & Stevens Creek	West Valley	SF/MF	757	BB	6/19/01
PDC97-027	4/4/97	North Park Apts	097-07-003	E/s N. 1st bet River Oaks & Baypointe	North	MF	677	AC	12/9/98
PD00-084	10/25/00	North Park Apts (Parcels E & F)	097-07-003	W/s Zanker, 700' sly Tasman	North	MF	537	EL	9/14/01
PDC99-083	10/15/99	KB Home (Communications Hill)	455-10-033	E/s Hwy 87, 1000' nly Hillsdale	South	MF	476	JAC	3/27/01
PDC98-027	3/20/98	Plant 51 Housing	261-33-038	S/s The Alameda opp. Stockton	Central	SF/MF	460	AD	2/1/00
PD01-013	1/24/01	Fruitdale Station	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	SF/MF	442	AA	8/31/01
PDC02-042	5/2/02	Dairy Hill	455-28-012	S/s Curtner, opp Stone	South	SF	425	DM	10/1/02
PDC00-086	9/12/00	Taylor Towers	259-05-024	NW/c N. 1st & Taylor	Central	MF	400	AD	5/7/02
RCP02-012	9/16/02	Block 3 Mixed Use	467-22-133	S/s San Fernando bet 1st & 2nd	Central	MF	335	RDV.	11/20/02
PD02-036	5/22/02	Midtown Plaza Townhomes	264-08-021	SE/c Meridian & Auzerais	Central	SF	257	SP	7/24/02
PDC01-038	3/5/01	Cinnabar Commons	261-03-051	W/s Stockton, bet Lenzen & Cinnabar	Central	MF	245	BB	8/20/02
PD02-029	5/7/02	Winchester Apts	299-27-063	W/s Winchester, opp Magliocco	West Valley	MF	194	DM	7/11/02
PD01-072	6/26/01	Brickyard Place Apts	472-15-025	E/s S. 3rd, 150' nly Keyes	Central	MF	176	JD	7/3/02
PD02-002	1/3/02	Pollard Plaza Apts	477-16-084	E/s McLaughlin, 140' sly Story	South	MF	130	AA	5/24/02
PDC01-100	11/13/01	City Heights Condos	259-32-026	NW/c San Pedro & St. James	Central	MF	124	JD	9/17/02
RCP02-013	9/16/02	Fountain Alley Mixed Use	467-22-121	W/s S. 2nd, 150' sly Santa Clara	Central	MF	120	RDV.	11/20/02
PDC02-029	4/4/02	Tierra Encantada Apts	481-19-134	SE/c Alum Rock & McCreery	Alum Rock	MF	105	SBW	6/18/02
PDC98-089	11/25/98	Almaden Road Apts	434-26-012	W/s Almaden, 850' sly Alma	Central	MF	100	NL	4/6/99
PD01-048	4/9/01	Taylor Mixed Use	249-37-006	SE/c E. Taylor & N. 7th	Central	MF	95	AD	6/29/01
Total							6,055		

Projects Pending City Approval

PDC02-066	8/9/02	Goble Lane Housing	497-07-030	SE/c Monterey & Fehren	South	SF/MF	830	DM	---
PDC02-040	4/30/02	County Fairgrounds Housing	497-38-001	S/s Tully, 750' wly Senter	South	SF/MF	561	AA	---

**Major Residential Development Activity
Projects of 100+ Dwelling Units, Submitted Since 1/1/99**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD01-050	4/10/01	North Park Apts (Parcel C)	097-07-003	W/s Zanker, 2000' sly Tasman	North	MF	442	EL	---
PDC02-046	5/14/02	Delmas Housing	259-38-036	NW/c San Fernando & Delmas	Central	MF	325	AD	---
PDC02-053	6/10/02	Hacienda Gardens	442-44-018	W/s Meridian, both sides Foxworthy	Willow Glen	SF	299	ME	---
PDC02-072	9/9/02	Tarnien Place Condos	434-13-015	NW/c W. Alma & Hwy 87	Central	MF	276	AA	---
PD02-068	9/4/02	Evans Lane Apts	455-20-063	Term Almaden & Hwy 87	South	MF	239	AA	---
PD01-010	1/19/01	Almaden Road Apts (Phase 1)	434-26-012	W/s Almaden, 850' sly Alma	Central	MF	225	AA	---
PDC01-098	10/26/01	Metcalf Road Housing	678-01-016	Nly side Metcalf, eby Hwy 101	Edenvale	SF	213	JR	---
PD02-030	5/8/02	Tuscany Hills (Phase 3) ⁹	455-09-049	N/s Hillsdale, opp term Vista Park	South	MF	180	DM	---
PD02-075	10/11/02	Summerwind Apts	497-23-013	SW/c Lewis & Wall	South	MF	176	AA	---
PDC02-033	4/10/02	Branham Lane Apts	684-46-104	NE/c Branham & Monterey	Edenvale	MF	175	JR	---
PDC02-032	4/10/02	Cherryview Senior Apts	569-02-053	SE/c Cherryview & Russo	Cambrian/Pioneer	MF	150	TE	---

Total

4,091

GRAND TOTAL

18,727

Footnotes: (1) Includes PDA99-028-01 (244 units) and PDA99-029-02 (234 units); (2) Includes PD00-034 (233 units); (3) Includes PD00-032 (49 units); (4) Includes PD00-041 (58 units);

(5) Includes PD02-051 (47 units); (6) Includes PD01-083 (152 units); (7) Includes PD00-090 (17 units); (8) Includes H01-010 (40 units); (9) Includes PD02-021 (90 units)

File Number Prefixes: PDC= Planned Development Rezoning; PD= Planned Development Permit; H= Site Development Permit; CP= Conditional Use Permit

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/99**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
HA97-012-01	1/4/99	Valley Fair Shopping Center	274-43-041	N/s Stevens Creek, bet Hwy 17 & Winchester	West Valley	438,000		PN	2/26/99
RH99-006	Mar-99	488 Almaden Blvd	264-28-139	NE/c Almaden & Balbach	Central	380,000		RDV.	7/5/00
H99-076	9/28/99	Sun Microsystems	097-45-040	NW/c N. 1st & Component	North	248,000		AC	12/22/99
H00-032	5/3/00	Nortel Networks	706-09-067	NW/c Via Del Oro & San Ignacio	Edenvale	187,000		JR	11/3/00
H01-054	7/25/01	Target Stores	307-11-008	NE/c Saratoga & Campbell	West Valley	166,000		DM	11/20/01
H01-069	9/26/01	Target Stores	592-19-006	E/s N. Capitol, 260' nly McKee	Alum Rock	155,000		EL	12/5/01
H00-060	7/25/00	Altera	097-09-025	NE/c N. 1st & Innovation	North	150,000		JN	1/23/01
H00-065	8/17/00	Valley Oak Tech. Campus	706-09-067	NW/c Via Del Oro & San Ignacio	Edenvale	145,000		JR	11/3/00
PD00-016	2/4/00	Expo Design Center/Best Buy	569-02-053	NW/c Almaden & Hwy 85	Cambrian/Pioneer	140,000		ME	11/14/00
H00-022	4/5/00	The Home Depot	419-05-057	NE/c Camden & Leigh	Willow Glen	139,000		TE	11/14/00
HA98-028-01	3/17/99	Public Storage	477-22-032	S/s Tully, 250' ely Monterey	South	136,000		BS	10/27/98
PD99-020	4/21/99	A-1 Self Storage	414-32-001	E/s S. Bascom, 500' sly Camden	Cambrian/Pioneer	126,000		RE	6/25/99
H99-032	5/12/99	Business Objects	097-56-008	E/s Orchard, 600' wly N. 1st	North	126,000		AC	7/19/99
H00-091	10/23/00	Cypress Semiconductor (Bldg 6)	097-53-019	NEly term Champion	North	111,000		EL	1/11/01
H99-073	9/20/99	Aspect Communications	237-03-058	E/s Ridder Park, 350' sly Fox	Berryessa	109,000		AC	2/17/00
PD99-065	9/17/99	Extended Stay America	706-10-032	Nly side San Ignacio, 360' wly Great Oaks	Edenvale	108,000	219	JR	3/14/00
HA84-185-01	11/24/99	Century Plaza Office Center	277-39-011	NE/c S. Winchester & Tisch	West Valley	97,000		TT	3/31/00
H99-042	6/2/99	Storage USA	237-07-019	W/s Oakland, 200' sly Charles	Berryessa	81,000		AC	8/30/99
PD99-059	8/27/99	Extended Stay America	015-34-028	NW/c Hwy 237 & Gold	Alviso	71,000	100	AC	12/17/99
PD99-008	2/5/99	A-1 Self Storage	462-43-018	S/s Capitol, 275' wly Snell	Edenvale	69,000		RE	5/3/99
RH99-004	Jan-99	AboveNet (The Pavilion)	467-22-131	E/s S. 1st, 160' sly San Fernando	Central	66,000		RDV.	FY 98/99
CPA98-015-01	10/28/99	Moorpark Hotel	381-44-036	N/s Moorpark, 160' wly Saratoga	West Valley	63,000	80	LH	1/25/00
PD99-052	8/9/99	Evergreen MarketPlace	660-21-019	NE/c San Felipe & Yerba Buena	Evergreen	62,000		JAC	12/22/99
PD99-049	8/5/99	Canyon Creek Plaza	678-69-008	W/s Silver Creek Vly., opp. Beaumont Canyon	Evergreen	60,000		JAC	11/8/99
RH99-008	Apr-99	MCI WorldCom	259-10-003	E/s Stockton, 200' nly Lenzen	Central	60,000		RDV.	FY 99/00
PD99-068	10/4/99	Santana Row (Parcel 6)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	55,000		JR	6/30/00
H99-018	3/24/99	Harker School (Bucknall Campus)	403-59-001	SW/c San Tomas Aquino & Bucknall	West Valley	53,000		LH	6/18/99
PD99-073	10/13/99	Santana Row (Parcel 8)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	51,000		JR	6/30/00
H99-080	10/12/99	Valley Credit Union	264-10-069	SE/c Lincoln & Savaker	Central	50,000		BB	10/13/00
HA99-050-01	2/11/00	Bob Lewis Volkswagen	459-04-004	N/s Capitol, 700' ely Old Almaden	South	49,000		JAC	9/7/00
PD01-006	1/12/01	Courtesy Chevrolet	303-28-032	SW/c Stevens Creek & San Tomas	West Valley	44,000		DM	2/22/01
PD00-018	2/9/00	Skyport Plaza (Retail)	230-29-056	W/s N. 1st bet Skyport & Sonora	North	43,000		AC	5/5/00
PD00-014	2/2/00	Santana Row (Parcel 3)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	42,000		JR	6/30/00
H00-012	2/24/00	WJ Communications	097-33-040	NE/c River Oaks & Research	North	42,000		JN	7/12/00

Projects Completed

A-10

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/99**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
PD01-033	3/15/01	Santana Row (Parcel 1)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	40,000		BB	5/16/01
H99-016	3/12/99	Commonwealth Credit Union	678-14-011	S/s Silver Creek Valley, sly term. Hellyer	Edenvale	36,000		JR	8/16/99
PD99-061	9/3/99	Santana Row (Parcel 4)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	34,000		JR	6/30/00
RSP01-005	Jun-01	Notre Dame High School	472-26-073	NW/c S. 3rd & E. Reed	Central	34,000		RDV.	FY 01/02
H00-019	3/21/00	Target Stores	419-05-028	NW/c Hillsdale & Ross	Willow Glen	32,000		TE	8/18/00
Total						4,098,000	399		

Projects Under Construction

PD01-089	8/9/01	Oakridge Shopping Center	458-13-017	N/s Blossom Hill bet Santa Teresa & Winfield	Edenvale	395,000		SNZ	12/10/01
RCP99-004	Apr-99	San Jose Marriott Hotel	264-29-100	SW/c W. San Carlos & S. Market	Central	292,000	506	RDV.	10/13/99
RH01-001	Jan-01	Adobe Systems III	259-44-079	W/s Almaden, 150' Nly Park	Central	269,000		RDV.	6/6/01
PD01-024	2/8/01	Santana Row (Hotel Valencia)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	234,000	214	BB	3/27/01
PD98-066	9/30/98	Evergreen Village Center	659-56-002	NW/c Ruby & Cortona	Evergreen	168,000		ME	11/14/00
H00-005	1/26/00	Echelon ¹	264-08-050	SE/c Meridian & Harmon	Central	151,000		BB	6/2/00
PD00-085	11/6/00	Santana Row (Parcel 13)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	141,000		JR	2/2/01
H98-084	9/18/98	Edenpark (Phase I)	678-08-005	SW/c Piercy at eastbound Piercy	Edenvale	129,000		JR	9/25/00
PD96-065	9/5/96	Sikh Temple	659-22-008	NE/c Murillo & Chaboya	Evergreen	94,000		ME	10/29/97
PD00-017	2/9/00	Santana Row (Parcel 7)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	88,000		JR	6/30/00
H00-037	5/22/00	West Valley Shopping Center	381-37-009	NW/c Prospect & Saratoga	West Valley	81,000		DM	12/22/00
PD01-055	4/30/01	SJ City College Tech Center	282-43-005	SE/c S. Bascom & Moorpark	Willow Glen	80,000		AA	5/17/02
PD00-080	10/12/00	Hayes Mansion (Phase 3)	685-04-027	W/s Edenvale, 1200' nly Chynoweth	Edenvale	79,000	79	AA	12/19/00
CPA01-105-01	7/25/02	Beshoff MotorCars	491-02-057	NE/c Capitol & Tully	Alum Rock	74,000		JB	9/25/02
PD98-075	11/19/98	Church of the Nazarene	659-22-003	NE/s fut. Murillo, 100' sly Chaboya	Evergreen	74,000		JAC	6/28/00
PD01-052	4/17/01	Samaritan Medical Center	421-37-010	NE/c Bascom & Samaritan	Cambrian/Pioneer	71,000		TE	6/21/02
H00-103	11/14/00	Stevens Creek Honda	296-38-011	SE/c Stevens Creek & Richfield	West Valley	58,000		DM	8/24/01
PDA84-121-03	6/12/00	Guadalupe Mines Office	575-02-018	W/s Guadalupe Mines, 2000' sly Camden	Almaden	45,000		SNZ	2/16/01
H00-054	7/10/00	Archbishop Mitty High School	381-21-021	SE/c Lawrence & Mitty	West Valley	29,000		DM	1/5/01
CP01-047	6/6/01	Valley Christian Elem. School	284-22-020	E/s Leigh, 450' nly Hamilton	Willow Glen	29,000		AA	11/14/01
CP98-009	1/28/98	Comfort Inn	249-10-052	W/s 13th, 120' sly Hedding	Central	25,000	45	AD	3/24/99
Total						2,606,000	844		

II-A

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/99**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
PD00-025	2/25/00	America Center (Legacy)	015-35-030	NW/c Hwy 237 & Gold	Alviso	990,000	175	AC	8/18/00
RH00-005	May-00	Plaza at Almaden	264-28-167	W/s Almaden bet San Carlos & Woz	Central	860,000		RDV.	6/4/01
PDC99-060	7/8/99	Skyport Plaza	230-29-056	W/s N. 1st bet Skyport & Sonora	North	944,000	400	AC	3/21/00
RH99-009	May-99	8 East San Fernando	467-22-126	S/s San Fernando bet S. 1st & S. 2nd	Central	342,000		RDV.	3/30/01
PDC00-109	10/30/00	Silver Creek Valley Place	678-07-002	SE/c Silver Creek Valley & Hwy 101	Edenvale	288,000	204	JR	10/30/01
PDC01-068	7/2/01	Fruitdale Station	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	250,000		AA	3/19/02
RCPA00-12-01	Feb-01	Marriott Courtyard	259-39-111	SE/c W. Santa Clara & Hwy 87	Central	159,000	254	RDV.	3/28/01
PDC01-046	3/23/01	First United Methodist Church	467-19-073	NE/c E. Santa Clara & N. 5th	Central	142,000		JD	4/2/02
PDC01-023	2/14/01	Santana Row	277-33-004	SE/c Winchester & Stevens Creek	West Valley	119,000	190	BB	6/19/01
PD99-057	8/26/99	San Carlos Inn	264-20-123	SE/c W. San Carlos & Bird	Central	95,000	82	AD	10/18/99
PD01-059	5/4/01	Capitol Self Storage	462-18-007	NW/c Capitol & Monterey	South	93,000		BS	3/22/02
PD99-051	8/9/99	Blossom Hill Mini-Storage	694-03-020	Sly Blossom Hill, 400' wly Winfield	Edenvale	75,000		RE	6/23/00
H01-075	12/4/01	Trimble Technology Center	237-18-008	SW/c Trimble & Kruse	North	70,000		EL	2/27/02
PD01-096	8/31/01	National Hispanic University	601-37-026	N/s Story, 1150' Ely S. White	Alum Rock	66,000		SBW	10/11/02
CP02-048	8/2/02	Harker School (Main Campus)	303-25-001	NW/c Saratoga & Hwy 280	West Valley	58,000		DM	10/9/02
PD01-048	4/9/01	Taylor Mixed Use	249-37-006	SE/c E. Taylor & N. 7th	Central	58,000		AD	6/29/01
PDC99-086	11/8/99	Murillo Church/School	652-08-009	NE/s Murillo, opp. Groesbeck Hill	Evergreen	56,000		JAC	5/2/00
CP98-062	12/22/98	Crossroads Bible Church	282-44-005	S/s Moorpark, both sides Menker	Willow Glen	49,000		AC	11/14/00
PD02-063	8/26/02	Santana Row (Parcel 1C)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	48,000		SP	11/15/02
CP99-012	3/18/99	Wingate Inn	477-01-082	SE/c Keyes & S. 2nd	Central	48,000	80	AD	12/8/99
RCP98-013	Oct-98	San Jose Inn	472-26-070	SW/c S. 2nd & Reed	Central	45,000	56	RDV.	4/25/00
PDC98-071	9/18/98	San Jose Water Co.	282-13-001	SW/c Bascom & Eisenhower	Willow Glen	43,000		CH	3/6/01
CP00-053	7/26/00	Monterey Road Motel	434-24-049	SW/c Monterey & Cottage Grove	Central	43,000	55	BS	6/13/01
PD02-003	1/15/02	Church of the Crossroads	676-02-018	SE/c Yerba Buena & Dove Hill	Evergreen	36,000		JB	4/19/02
H99-011	2/18/99	Alameda Inn	230-18-033	S/s The Alameda, 80' wly Idaho	West Valley	35,000	57	AC	7/27/99
H00-114	12/6/00	Hudson Co. Office	279-09-049	SE/c S. Winchester & Neal	West Valley	34,000		BB	5/4/01
H00-048	6/30/00	Oakland Road Office	237-03-044	W/s Oakland, 410' nly Brokaw	Berryessa	31,000		EL	12/1/00
PD02-062	8/26/02	Santana Row (Parcel 9)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	28,000		BB	11/22/02
PD01-014	1/24/01	Holiday Inn Silicon Valley (annex)	678-05-052	NW/c Silicon Valley & Rue Ferrari	Edenvale	27,000	57	JR	7/27/01
PD01-079	7/17/01	Alviso Youth Foundation	015-34-059	W/s Gold term El Dorado	Alviso	25,000		CG	3/29/02

Total

5,157,000 1,610

A-12

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/99**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
Projects Pending City Approval									
PDC02-046	5/14/02	Delmas Office	259-38-131	NE/c San Fernando & Delmas	Central	1,009,000		AD	---
CP02-047	8/1/02	Eastridge Shopping Center	491-04-006	SW/c Tully & Capitol	Evergreen	307,000		JB	---
PD01-067	6/4/01	Residence Inn at Skyport Plaza	230-29-085	SW/c N. 1st & Skyport	North	236,000	300	EL	---
PDC02-086	10/29/02	Lowe's Home Improvement	706-06-015	NW/c Poughkeepsie & Boulder	Edenvale	223,000		JR	---
PDC02-053	6/10/02	Hacienda Gardens	442-44-018	W/s Meridian, both sides Foxworthy	Willow Glen	179,000		ME	---
PD02-055	7/31/02	Samaritan Women/Children Center	421-36-009	NW/c Samaritan Dr & PI	Cambrian/Pioneer	84,000		TE	---
PDC00-091	9/18/00	KNTV/WB20 Broadcast Facility	261-35-014	NW/c Park & Montgomery	Central	73,000		SP	---
RCP02-012	9/16/02	Block 3 Mixed Use	467-22-133	S/s San Fernando bet 1st & 2nd	Central	68,000		RDV.	---
CP02-026	5/10/02	Friendly Ford	459-04-003	N/s Capitol, 200' e/ly Old Almaden	South	65,000		DM	---
PDC02-080	10/10/02	Century Centre Office	230-29-093	NW/c N. 1st & Century Centre	North	60,000		CG	---
PD02-034	5/21/02	Fairfield Inn & Suites (annex)	230-29-041	SW/c N. 1st & Hwy 101	North	54,000	91	EL	---
PD02-020	4/4/02	Coleman Hotel	259-01-078	SW/c W. Hedding & Coleman	Central	38,000	72	JD	---
PD02-074	10/8/02	Santana Row (Parcel 1B)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	34,000		BB	---
RCP02-013	9/16/02	Fountain Alley Mixed Use	467-22-121	W/s S. 2nd, 150' s/ly Santa Clara	Central	33,000		RDV.	---
H01-008	1/31/01	Stevens Creek Volkswagen	296-38-008	SE/c Stevens Creek & Palace	West Valley	31,000		DM	---
PDC01-082	8/1/01	Saint John Vianney Parish	601-09-013	W/s Alum Rock bet Maro & Marian	Alum Rock	27,000		JN	---
CP02-045	7/30/02	Holiday Inn Express (annex)	497-38-004	E/s Monterey, 650' n/ly Umbarger	South	26,000	50	AA	---
PD02-053	7/24/02	Smythe European	296-38-012	SW/c Stevens Creek & Palace	West Valley	25,000		DM	---
Total						2,572,000	513		
GRAND TOTAL						14,433,000	3,366		

Footnotes: (1) Includes CP00-067 (76,000 sq.ft.)

File Number Prefixes: H= Site Development Permit; CP= Conditional Use Permit; PDC= Planned Development Rezoning; PD= Planned Development Permit

A-13

Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/99

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
<u>Projects Completed</u>								
PD00-018	2/9/00	Skyport Plaza (Phase 1)	230-29-056	W/s N. 1st bet Skyport & Sonora	North	555,000	AC	5/5/00
H99-040	6/1/99	Celestica ¹	678-16-008	W/s Hellyer, 1000' nly Branham East	Edenvale	470,000	JR	5/12/00
H99-092	11/19/99	Ciena	678-16-005	SW/c Hellyer & Silver Creek Valley	Edenvale	439,000	JR	9/25/00
H99-049	6/17/99	Monterey Business Center	455-04-011	SW/c Monterey & Stauffer	South	430,000	BS	9/24/99
PD00-027	3/2/00	Cisco Systems (Site 6, Phase 1A)	015-39-006	E/s N. 1st bet Nortech & Hwy 237	Alviso	376,000	AC	6/19/00
HA97-066-01	1/21/00	Rock Business Park ²	237-15-178	W/s O'Toole, 250' sly Rock	Berryessa	278,000	AC	3/17/00
H00-030	5/2/00	ACT Manufacturing ³	678-16-011	E/s Hellyer opp. Branham East	Edenvale	197,000	JR	10/25/00
H99-044	6/10/99	Tyco Electronics	678-16-011	E/s Hellyer, 1000' nly Branham East	Edenvale	160,000	JR	10/4/99
H99-059	7/14/99	IKOS Systems	706-09-061	SW/c Great Oaks & San Ignacio	Edenvale	106,000	JR	11/22/99
H99-088	11/9/99	Sunrise Telecom	678-06-008	W/s Enzo, wly term. Rue Ferrari	Edenvale	92,000	JR	3/31/00
PD01-062	5/18/01	Berryessa Industrial Center	241-08-001	N/s Berryessa, 50' ely Mabury	Berryessa	86,000	JN	8/17/01
H99-045	6/11/99	Jetstream Communications	678-14-081	E/s Hellyer, opposite Branham East	Edenvale	77,000	JR	10/4/99
Total						3,266,000		
<u>Projects Under Construction</u>								
H00-034	5/12/00	Piercy Business Park	678-07-013	S/s Piercy, 1200' sely Silver Creek Valley	Edenvale	666,000	JR	9/26/00
Total						666,000		
<u>Approved Projects (Construction Not Yet Commenced)</u>								
PDC00-048	6/7/00	U.S. Dataport	015-31-054	NE/c Hwy 237 & Zanker	Alviso	2,200,000	AC	4/3/01
PD01-085	7/30/01	Coyote Campus (Phase G)	708-27-003	NW/c Santa Teresa & Bailey	Coyote	1,800,000	JR	9/20/01
HA96-089-04	7/27/00	Palm Inc.	097-03-059	S/s Hwy 237 bet N. 1st & Headquarters	North	1,598,000	JN	10/18/00
PD02-024	4/12/02	Equinix	706-03-014	NW/c Monterey & Hwy 85	Edenvale	1,495,000	JR	6/28/02
PDC99-057	6/30/99	Highlands Corp. Centre (Phase 2)	660-19-005	E/s Murillo, 300' nly Villa Vista	Evergreen	1,473,000	JAC	12/7/99
PD00-051	6/28/00	Coyote Campus (Phase A)	708-27-003	NE/c Santa Teresa & Bailey	Coyote	1,283,000	JR	11/17/00
PD00-027	3/2/00	Cisco Systems (Site 6, Phase 1B)	015-39-006	Both sides N. First bet Hwy 237 & Grand	Alviso	1,224,000	AC	6/19/00
PDC98-035	5/11/98	IDS Industrial Park (Phase 2)	660-33-005	SE/c Yerba Buena & Fowler	Evergreen	1,224,000	JAC	6/1/99
PD01-094	8/28/01	Coyote Campus (Phase B)	708-27-003	NE/c Santa Teresa & Bailey	Coyote	918,000	JR	10/26/01
PD02-018	3/28/02	BEA Systems	097-45-045	SW/c N. 1st & Component	North	860,000	EL	7/12/02
H00-107	11/21/00	Synopsys	706-02-028	NE/c Santa Teresa & Great Oaks	Edenvale	754,000	JR	3/16/01
PDC99-054	6/22/99	Cisco Systems (Site 6, Phase 2)	015-39-006	Both sides N. First bet Hwy 237 & Grand	Alviso	700,000	AC	6/6/00
PD01-106	10/24/01	Coyote Campus (Phase D)	708-27-003	NE/c Santa Teresa & Bailey	Coyote	594,000	JR	12/21/01
PD01-090	8/10/01	BEA Systems	097-25-068	SW/c N. 1st & Component	North	562,000	EL	12/21/01

A-14

**Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/99**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
PD01-107	10/24/01	Coyote Campus (Phase H)	708-27-003	NE/c Santa Teresa & Bailey	Coyote	540,000	JR	12/21/01
HA00-083-01	9/19/01	Foxconn Intl	678-08-018	S/s Piercy, 1000' wly Tennant	Edenvale	503,000	JR	11/16/01
PD01-113	11/1/01	Coyote Campus (Phase E)	708-27-003	NE/c Santa Teresa & Bailey	Coyote	486,000	JR	12/21/01
PD01-112	11/1/01	Coyote Campus (Phase C)	708-27-003	NE/c Santa Teresa & Bailey	Coyote	378,000	JR	12/21/01
PD01-115	11/1/01	Coyote Campus (Phase F)	708-27-003	NE/c Santa Teresa & Bailey	Coyote	378,000	JR	12/21/01
HA96-064-01	5/18/01	Novell (Phase II)	097-60-009	SE/c Guadalupe & O'Nel	North	330,000	EL	12/12/01
PD00-100	12/22/00	IDS Industrial Park (Phase 1)	660-33-005	SE/c Yerba Buena & Fowler	Evergreen	310,000	JB	3/8/02
H00-063	8/3/00	Creekside Plaza Industrial Park	237-05-050	SE/c Hwy 880 and Brokaw	Berryessa	265,000	JN	6/5/01
H00-111	11/28/00	Piercy/Hellyer Business Park	678-08-003	SW/c Piercy & English	Edenvale	170,000	JR	4/17/01
H00-026	4/21/00	Edenpark (Phase II)	678-08-015	SW/s Piercy, 2000' nwly Tennant	Edenvale	160,000	JR	3/12/01
PD01-015	1/26/01	Edenvale Business Park	678-14-042	Bet. Piercy & Silver Creek Valley	Edenvale	156,000	JR	4/18/01
H00-047	6/28/00	Piercy Industrial (English Property)	678-08-025	S/s Piercy, 3100' sely Silver Creek Valley	Edenvale	130,000	JR	10/17/00
H01-002	1/12/01	Piercy Industrial (Mellow Property)	678-08-024	E/s Piercy, 450' wly English	Edenvale	126,000	JR	8/31/01
H01-005	1/26/01	Silver Creek Valley Corp. Center	678-93-009	N/s Piercy, sly Hellyer	Edenvale	125,000	JR	4/25/01
H01-001	1/8/01	Silver Creek Valley Business Park	678-14-045	E/s Silver Creek Valley	Edenvale	122,000	JR	8/10/01
H00-116	12/7/00	Edenpark (Phase III)	678-08-006	SW/s Piercy, 3000' nwly Tennant	Edenvale	120,000	JR	3/5/01
PD01-077	7/13/01	Xilinx	421-07-025	NW/c Union & Hwy 85	Cambrian/Pioneer	120,000	TE	8/17/01
H00-101	11/8/00	Pepper Lane-Ferrari Office	678-05-012	NW/s Enzo, 1000' nly Rue Ferrari	Edenvale	90,000	JR	4/6/01
H01-065	9/17/01	Stone Avenue Industrial	455-23-108	E/s Stone, 650' nly Cimino	South	79,000	AC	6/14/02
Total						21,273,000		
<u>Projects Pending City Approval</u>								
PDC98-104	12/18/98	FMC/Mozart	230-22-006	NW/c Coleman & Newhall	North	1,802,000	AC	---
PDC99-098	12/22/99	Berg & Berg (Evergreen)	659-02-007	NE/c Fowler & Altia	Evergreen	1,238,000	JB	---
PD01-009	1/18/01	Highlands Corp. Centre (Phase 1)	660-19-005	E/s Murillo, 300' nly Villa Vista	Evergreen	296,000	JB	---
H01-071	10/16/01	Fox Properties Industrial	237-03-070	W/s Oakland, 400' sly Brokaw	Berryessa	275,000	CG	---
H00-042	5/31/00	MPS-LLC Corporate Campus	244-16-029	SE/c Qume & Fortune	Berryessa	162,000	JN	---
H00-100	11/8/00	Tully Road Data Center	477-22-032	S/s Tully, 250' ely Monterey	South	78,000	SP	---
Total						3,851,000		
GRAND TOTAL						29,056,000		

A-15

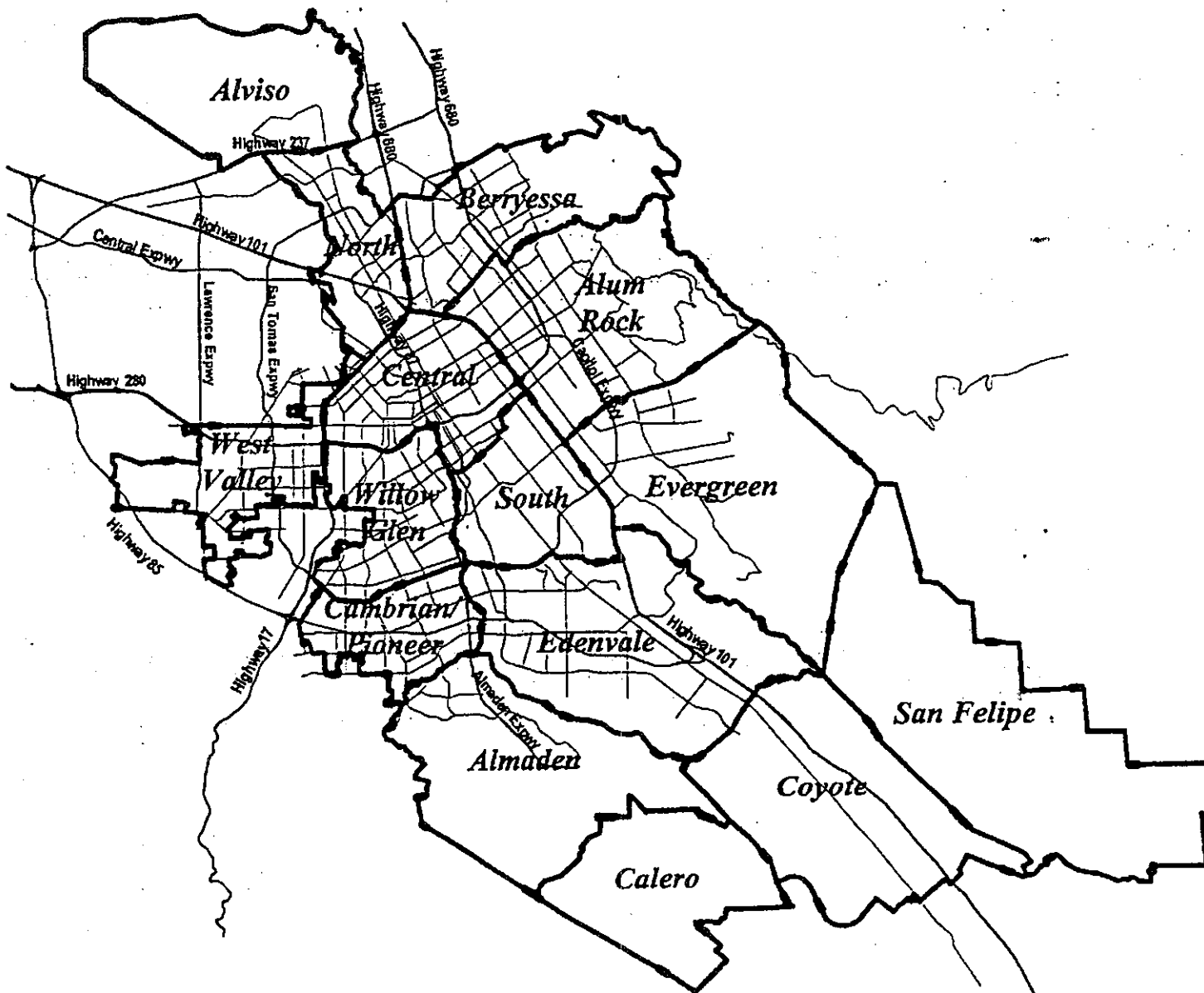
Footnotes: (1) Includes H99-041 (65,000 sq.ft.); (2) Includes H98-038 (44,000 sq.ft.); (3) Includes H95-093 (118,000 sq.ft.)

File Number Prefixes: H= Site Development Permit; CP= Conditional Use Permit; PDC= Planned Development Rezoning; PD= Planned Development Permit

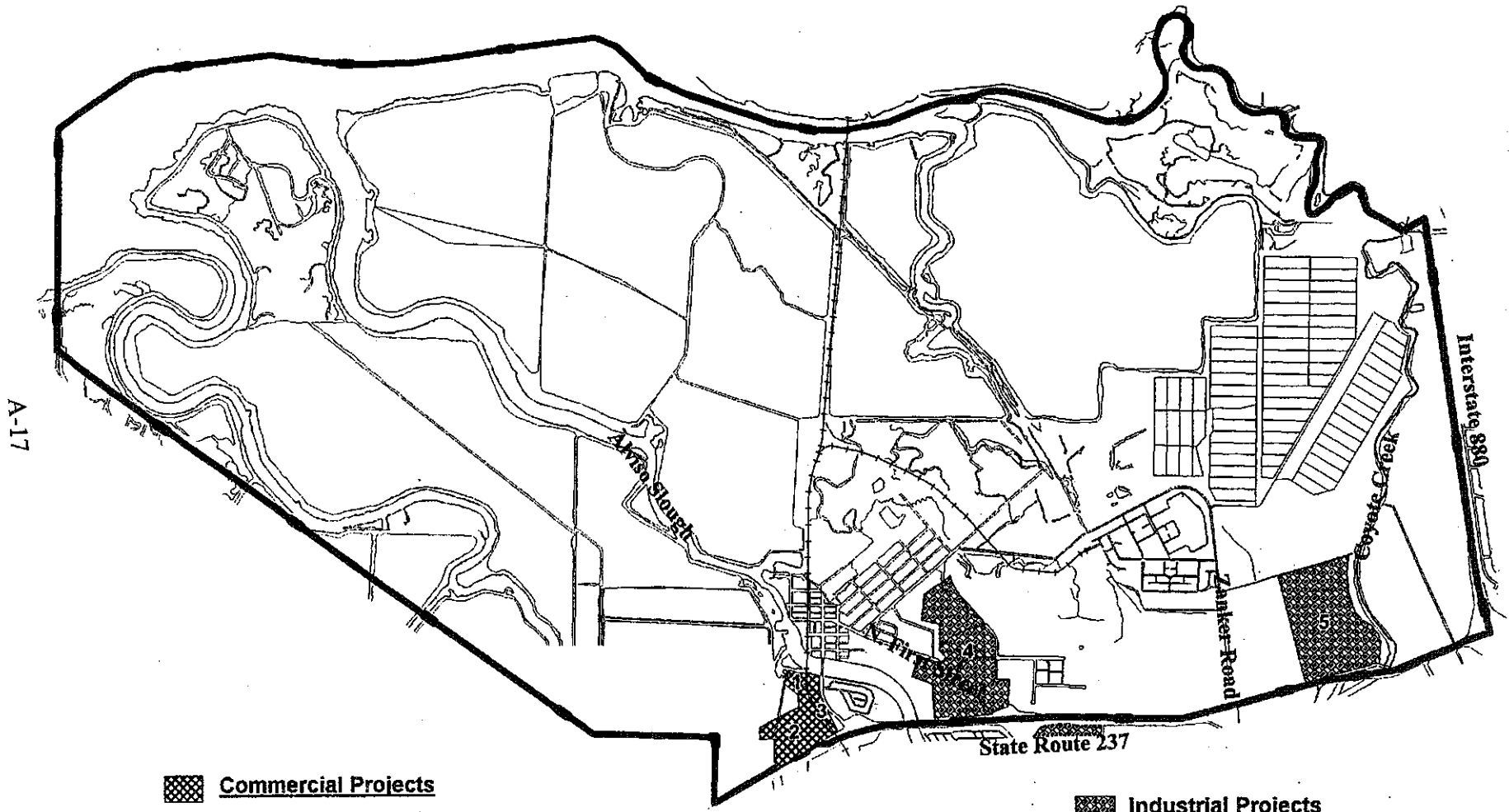
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

San Jose is divided into a total of fifteen (15) planning areas (see Figure 1, below). The individual planning area maps that follow include projects in all status categories submitted since January 1, 1999. These maps can be used in conjunction with the data contained in Section V of this report to allow closer analysis of the rate, type, and location of major development activity in the City. (Note: a map exhibit is not provided for San Felipe or Calero as these areas are outside the City's Urban Service Area and Urban Growth Boundary and no major development activity occurred there.)

Figure 1
San Jose Planning Areas



Alviso Planning Area Major Development Activity



A-17

 **Commercial Projects**

- 1 Alviso Youth Foundation
- 2 America Center (Legacy)
- 3 Extended Stay America

Total Commercial Sq.Ft.= 1,086,000

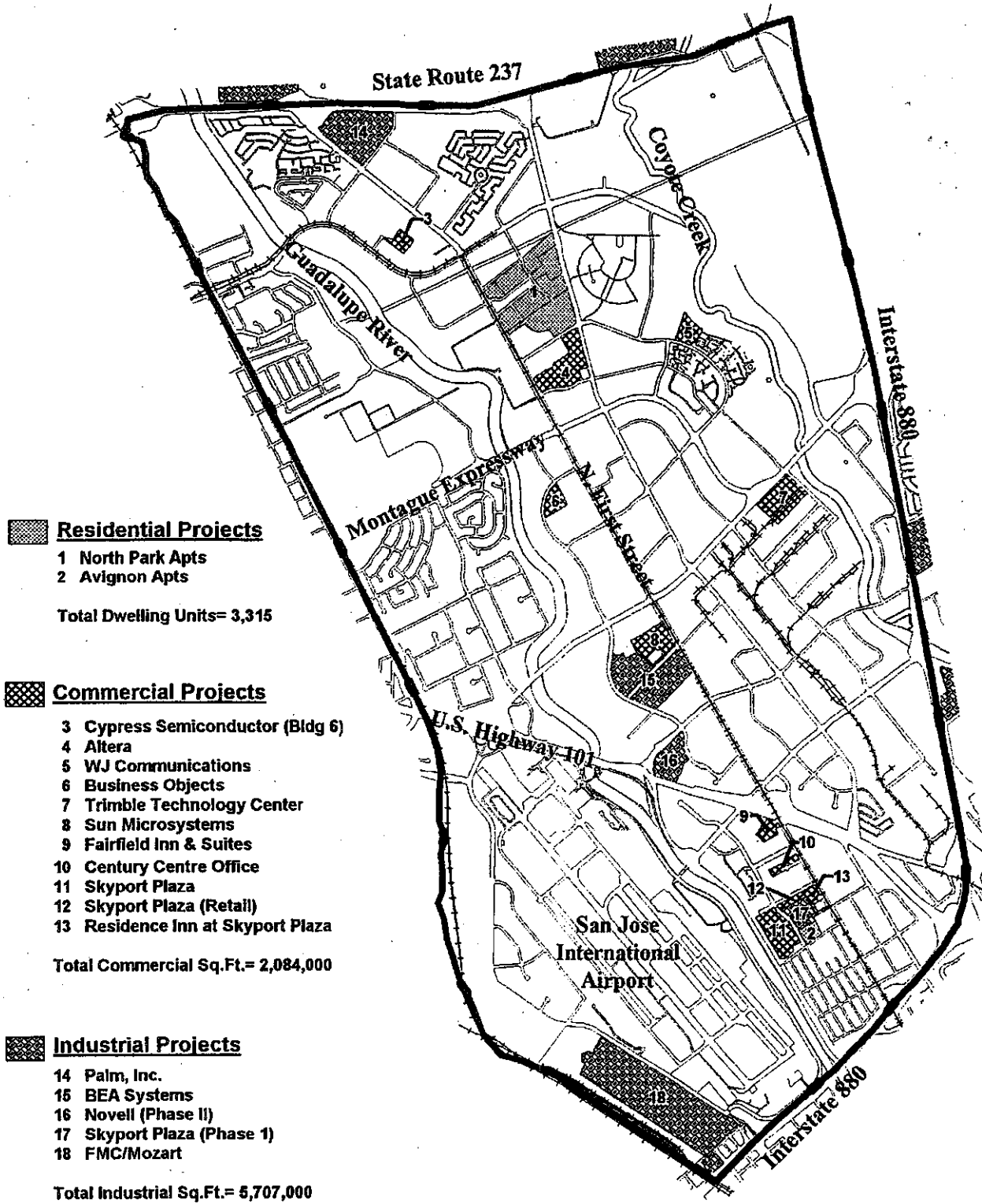
 **Industrial Projects**

- 4 Cisco Systems (Site 6)
- 5 U.S. Dataport

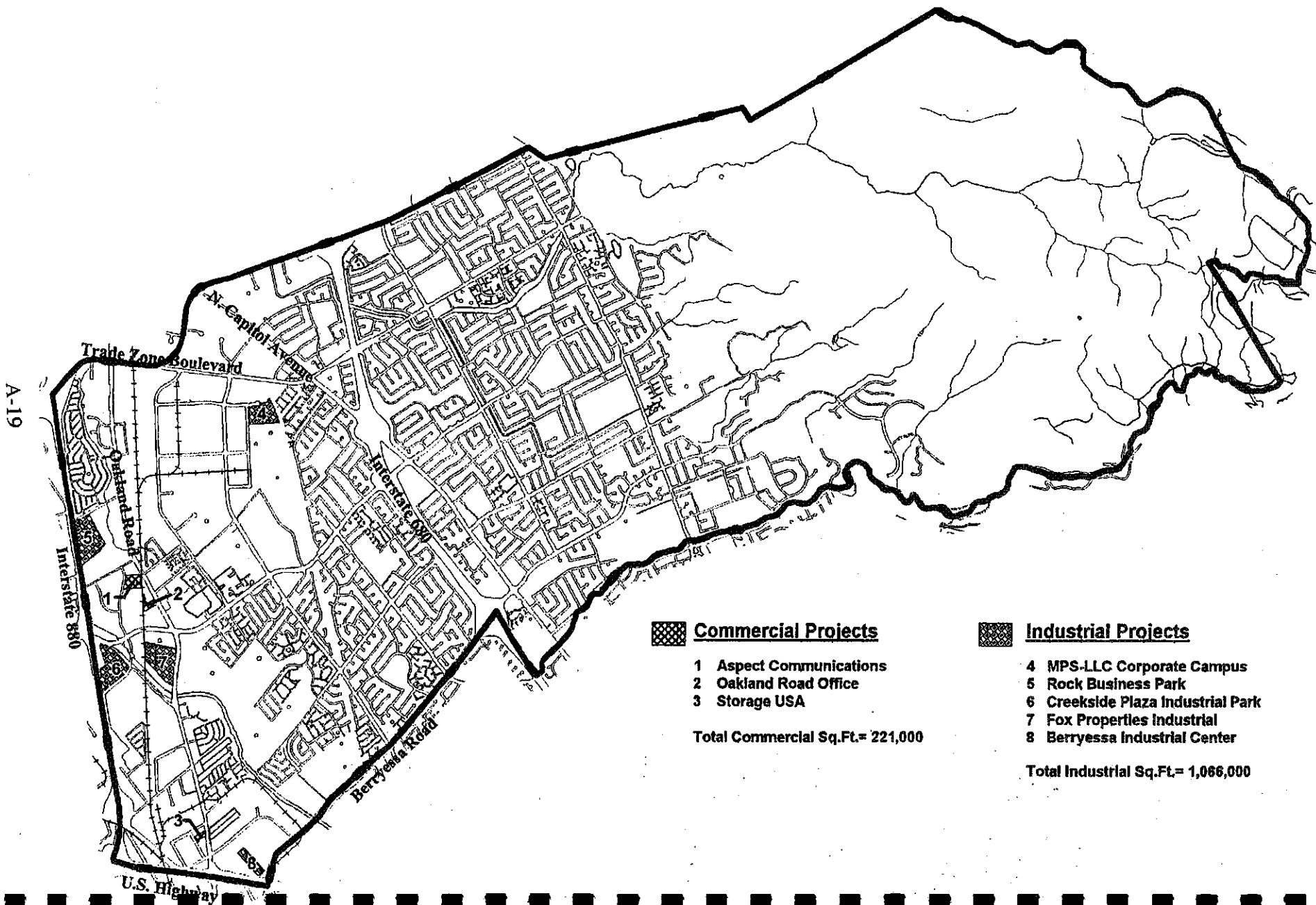
Total Industrial Sq.Ft.= 4,600,000



North Planning Area Major Development Activity



Berryessa Planning Area Major Development Activity



61-A

Commercial Projects

- 1 Aspect Communications
- 2 Oakland Road Office
- 3 Storage USA

Total Commercial Sq.Ft.= 221,000

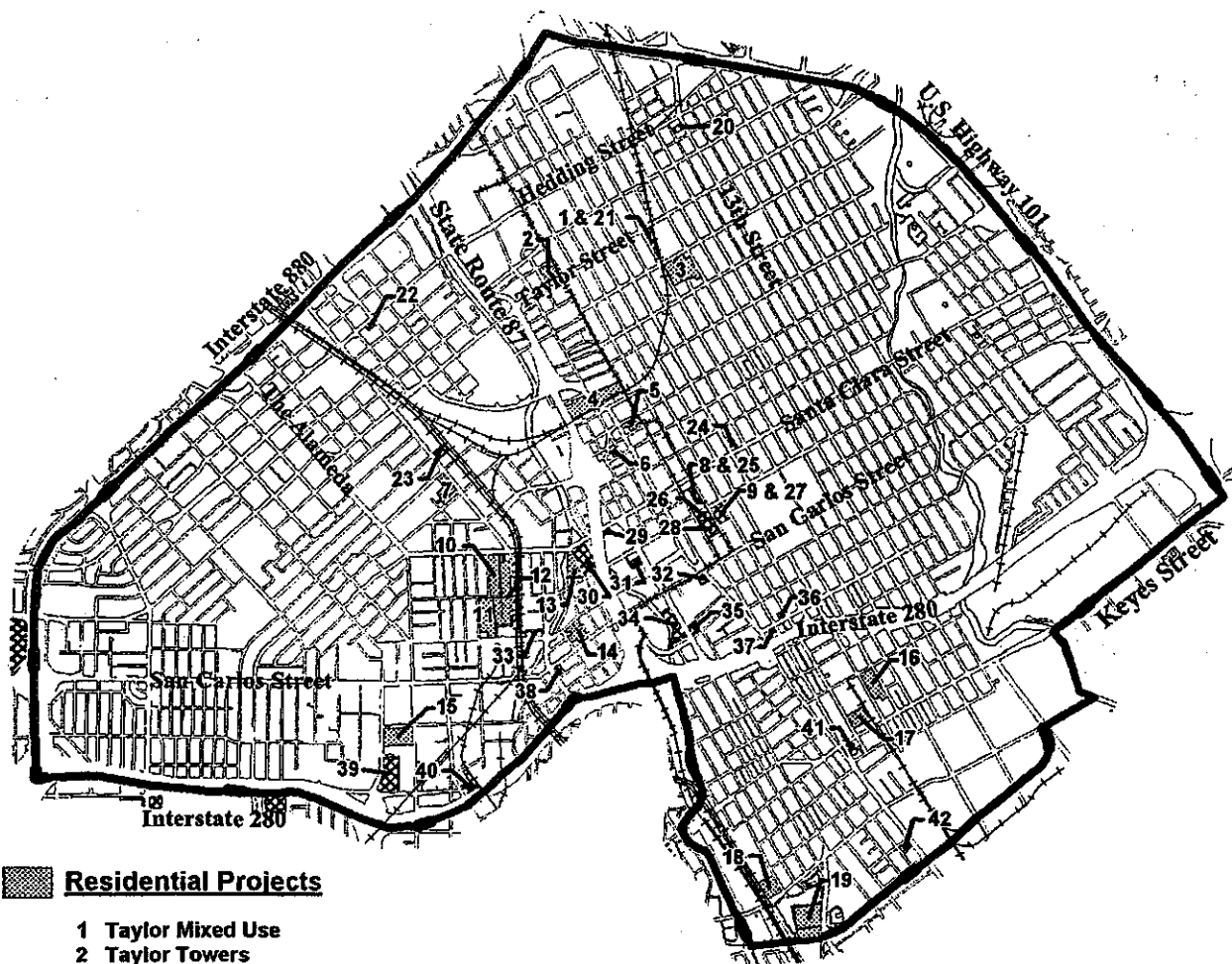
Industrial Projects

- 4 MPS-LLC Corporate Campus
- 5 Rock Business Park
- 6 Creekside Plaza Industrial Park
- 7 Fox Properties Industrial
- 8 Berryessa Industrial Center

Total Industrial Sq.Ft.= 1,066,000



Central Planning Area Major Development Activity



Residential Projects

- 1 Taylor Mixed Use
- 2 Taylor Towers
- 3 Mariani Square Townhomes
- 4 College Park
- 5 Park Townsend Condos
- 6 City Heights Condos
- 7 Cinnabar Commons
- 8 Fountain Alley Mixed Use
- 9 Block 3 Mixed Use
- 10 Avalon at Cahill Park Apts
- 11 Georgetown Townhomes
- 12 Plant 51 Housing
- 13 Delmas Housing
- 14 Legacy at Museum Park
- 15 Midtown Plaza Townhomes
- 16 Villa Torre Apts
- 17 Brickyard Place Apts
- 18 Tamien Place Condos
- 19 Almaden Road Apts

Commercial Projects

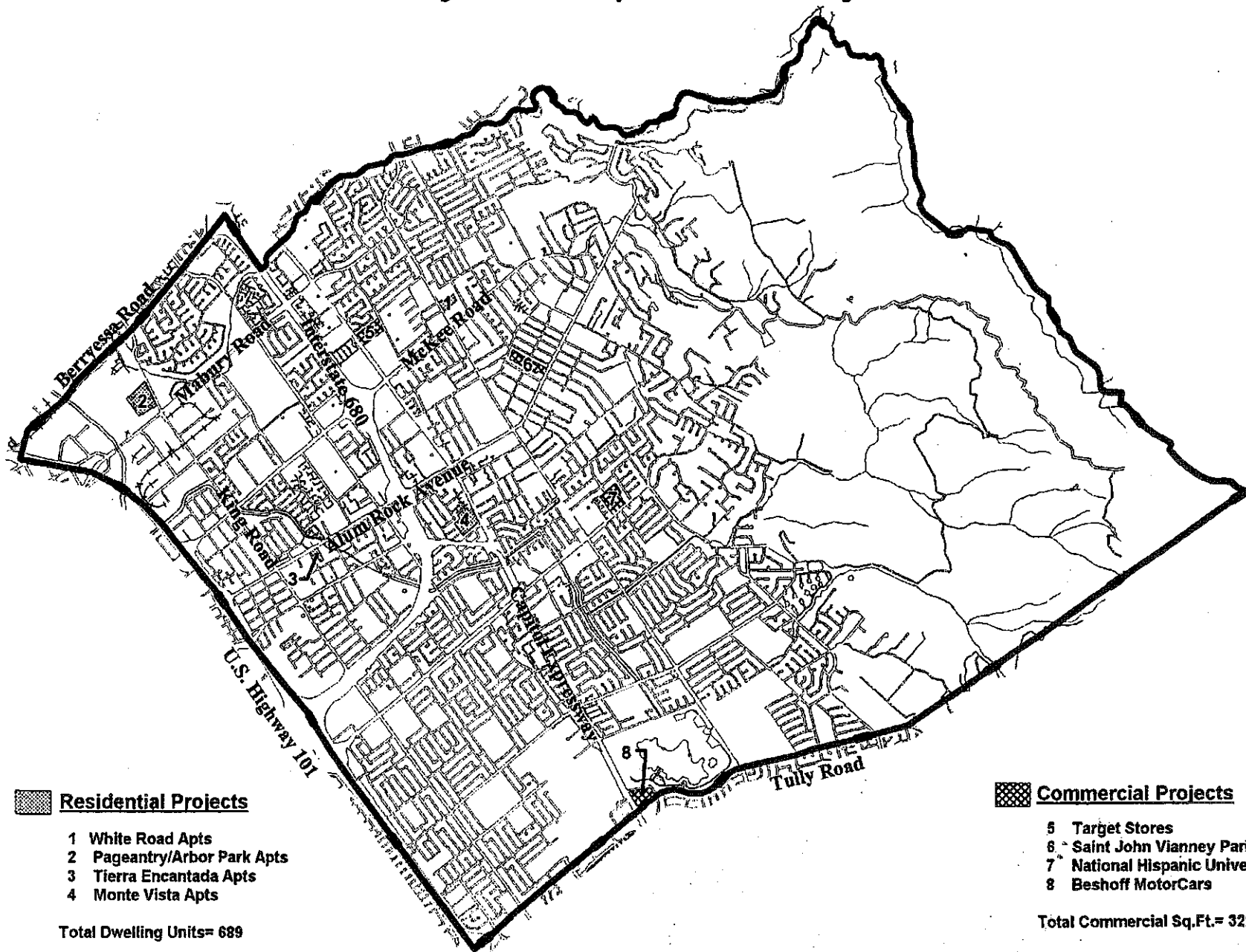
- | | |
|--|--|
| <ul style="list-style-type: none"> 20 Comfort Inn 21 Taylor Mixed Use 22 Coleman Hotel 23 MCI WorldCom 24 First United Methodist Church 25 Fountain Alley Mixed Use 26 8 East San Fernando 27 Block 3 Mixed Use 28 AboveNet (The Pavilion) 29 Marriott Courtyard 30 Delmas Office 31 Adobe Systems III | <ul style="list-style-type: none"> 32 San Jose Marriott Hotel 33 KNTV/WB20 Broadcast Facility 34 Plaza at Almaden 35 488 Almaden Blvd 36 Notre Dame High School 37 San Jose Inn 38 San Carlos Inn 39 Echelon 40 Valley Credit Union 41 Wingate Inn 42 Monterey Road Motel |
|--|--|

Total Dwelling Units= 4,455

Total Commercial Sq.Ft.= 4,340,000

Alum Rock Planning Area Major Development Activity

A-21



Residential Projects

- 1 White Road Apts
- 2 Pageantry/Arbor Park Apts
- 3 Tierra Encantada Apts
- 4 Monte Vista Apts

Total Dwelling Units= 689

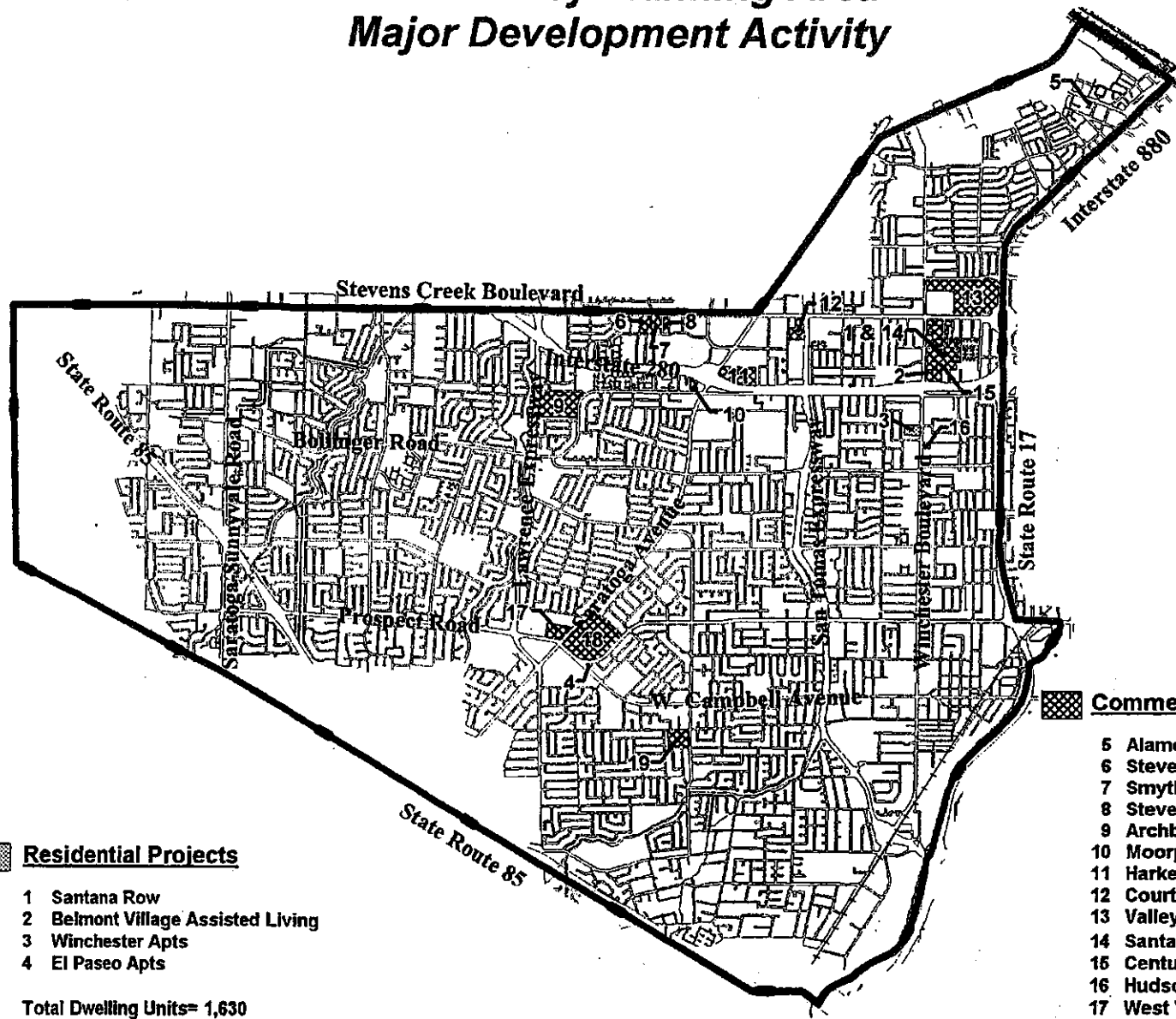
Commercial Projects

- 5 Target Stores
- 6 Saint John Vianney Parish
- 7 National Hispanic University
- 8 Beshoff MotorCars

Total Commercial Sq.Ft.= 322,000



West Valley Planning Area Major Development Activity



Residential Projects

- 1 Santana Row
- 2 Belmont Village Assisted Living
- 3 Winchester Apts
- 4 El Paseo Apts

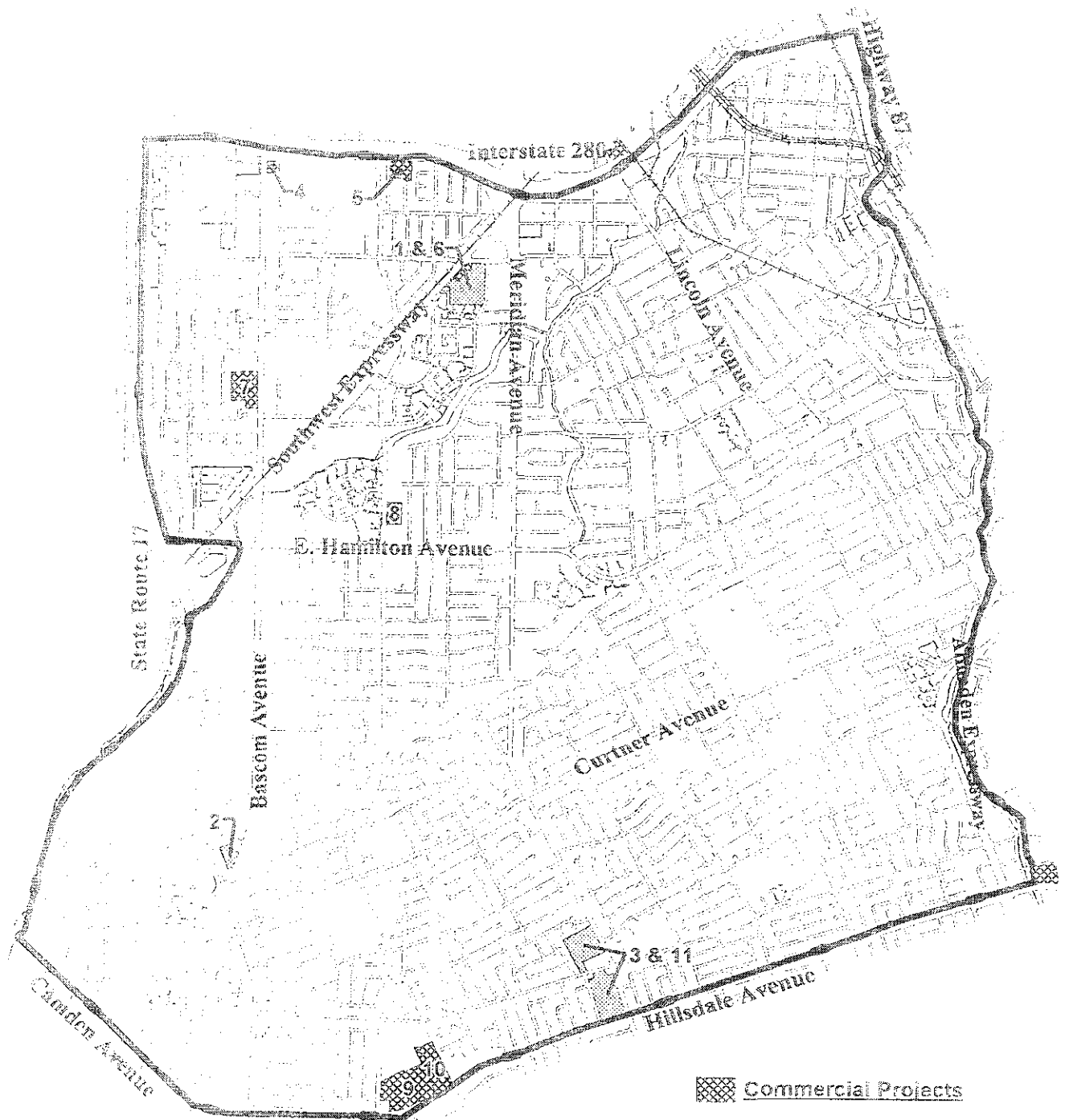
Total Dwelling Units= 1,630

Commercial Projects

- 5 Alameda Inn
- 6 Stevens Creek Honda
- 7 Smythe European
- 8 Stevens Creek Volkswagen
- 9 Archbishop Mitty High School
- 10 Moorpark Hotel
- 11 Harker School (Main Campus)
- 12 Courtesy Chevrolet
- 13 Valley Fair Shopping Center
- 14 Santana Row
- 15 Century Plaza Office Center
- 16 Hudson Co. Office
- 17 West Valley Shopping Center
- 18 Target Stores
- 19 Harker School (Bucknall Campus)

Total Commercial Sq.Ft.= 2,126,000

Willow Glen Planning Area Major Development Activity



Residential Projects

- 1 Fruitdale Station
- 2 El Parador Senior Apts
- 3 Hacienda Gardens

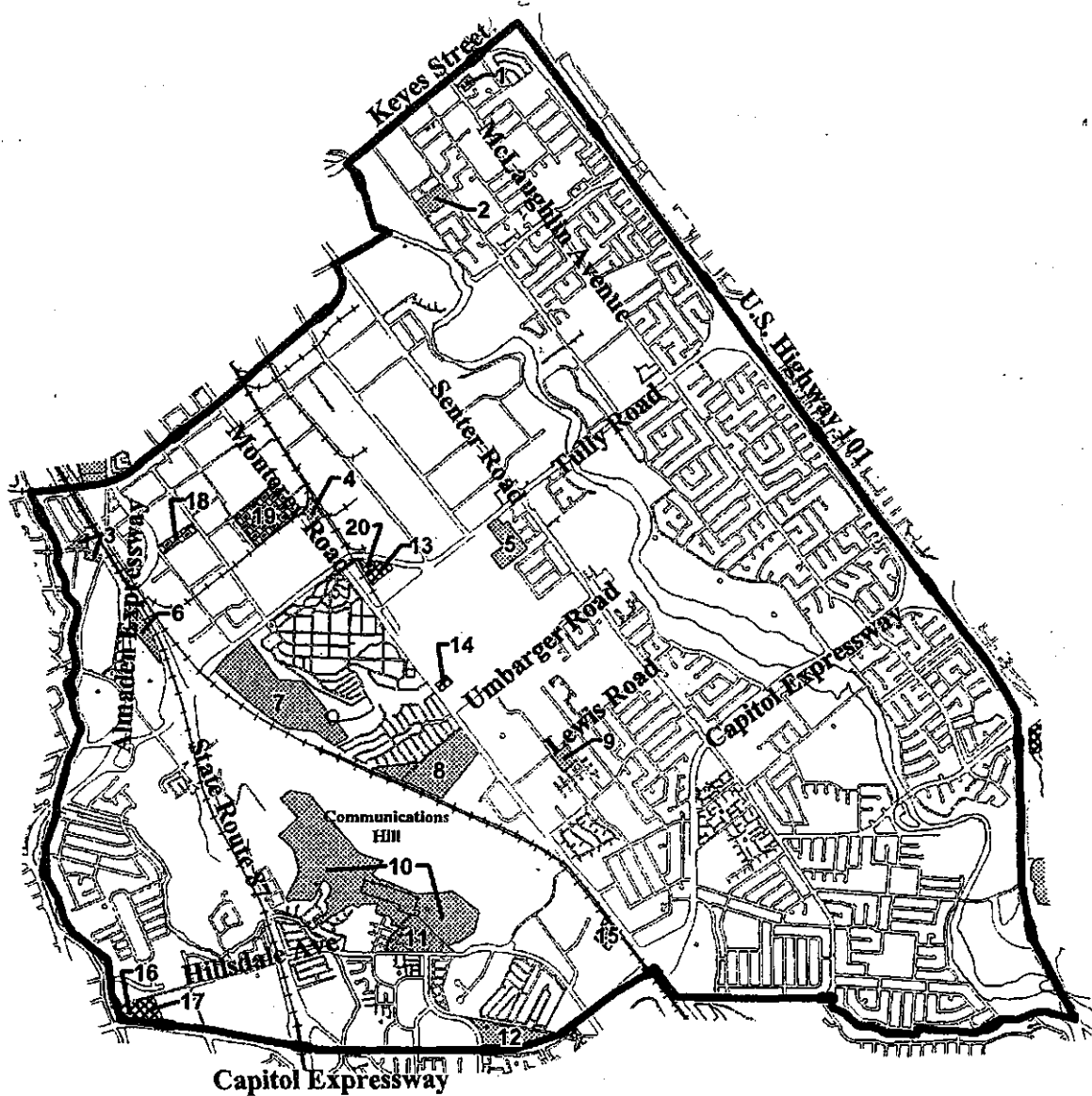
Total Dwelling Units= 866

Commercial Projects

- 4 S.J City College High Tech Center
- 5 Crossroads Bible Church
- 6 Fruitdale Station
- 7 San Jose Water Co.
- 8 Valley Christian Elementary School
- 9 The Home Depot
- 10 Target Stores
- 11 Hacienda Gardens

Total Commercial Sq.Ft.= 801,000

South Planning Area Major Development Activity



Residential Projects

- 1 Pollard Plaza Apts
- 2 Oak Circle Senior/Teacher Apts
- 3 Willow Glen Senior Apts
- 4 Tully Gardens
- 6 County Fairgrounds Housing
- 6 Evans Lane Apts
- 7 Dairy Hill
- 8 Goble Lane Housing
- 9 Summerwind Apts
- 10 KB Home (Communications Hill)
- 11 Tuscany Hills
- 12 Bella Villagio

Total Dwelling Units= 4,156

Commercial Projects

- 13 Public Storage
- 14 Holiday Inn Express
- 15 Capitol Self Storage
- 16 Friendly Ford
- 17 Bob Lewis Volkswagen

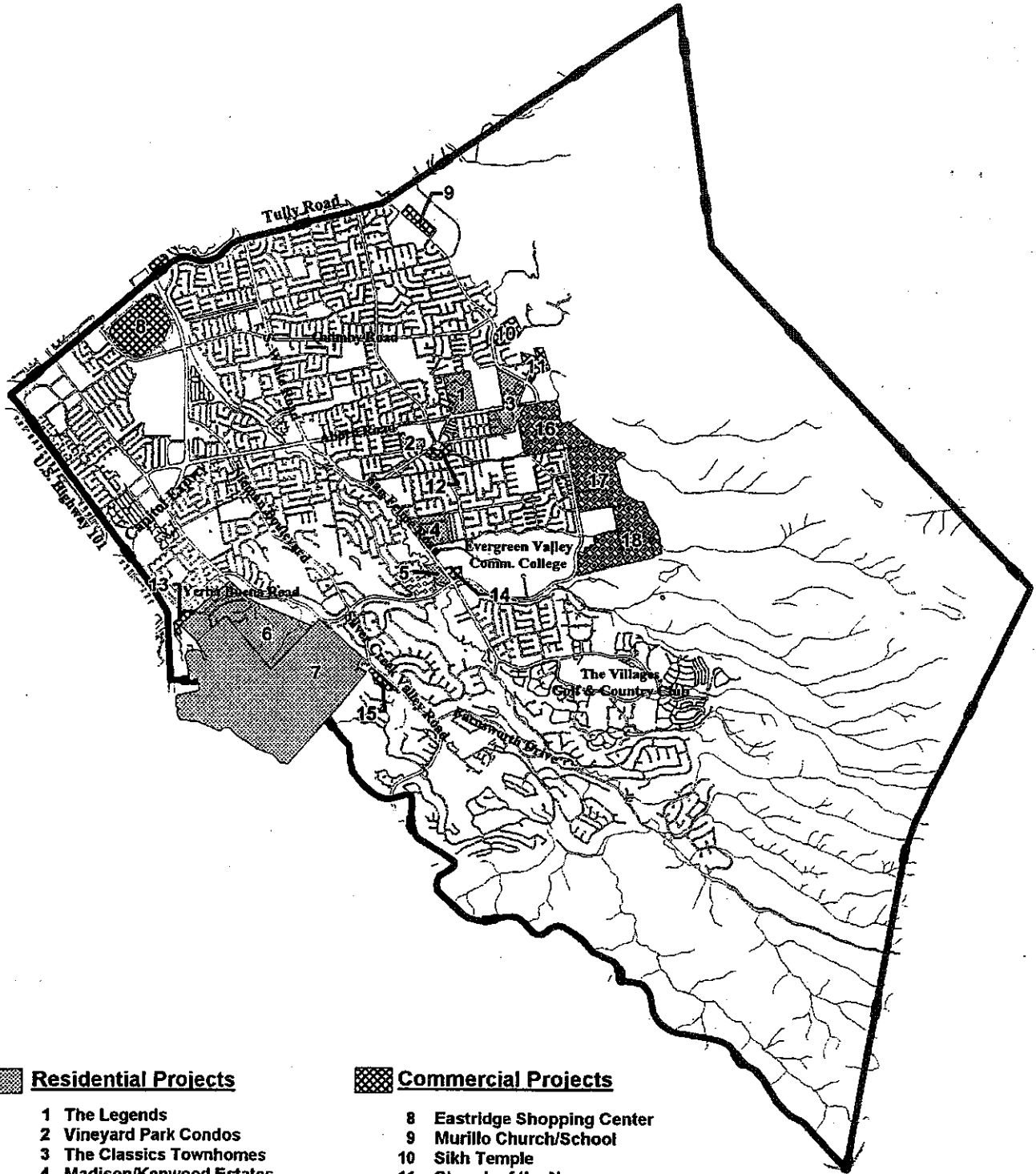
Total Commercial Sq.Ft.= 369,000

Industrial Projects

- 18 Stone Avenue Industrial
- 19 Monterey Business Center
- 20 Tully Road Data Center

Total Industrial Sq.Ft.= 587,000

Evergreen Planning Area Major Development Activity



Residential Projects

- 1 The Legends
- 2 Vineyard Park Condos
- 3 The Classics Townhomes
- 4 Madison/Kenwood Estates
- 5 BridgePoint Senior Apts
- 6 Ryland SilverRidge
- 7 Ranch on Silver Creek

Total Dwelling Units= 1,280

Commercial Projects

- 8 Eastridge Shopping Center
- 9 Murillo Church/School
- 10 Sikh Temple
- 11 Church of the Nazarene
- 12 Evergreen Village Center
- 13 Church of the Crossroads
- 14 Evergreen MarketPlace
- 15 Canyon Creek Plaza

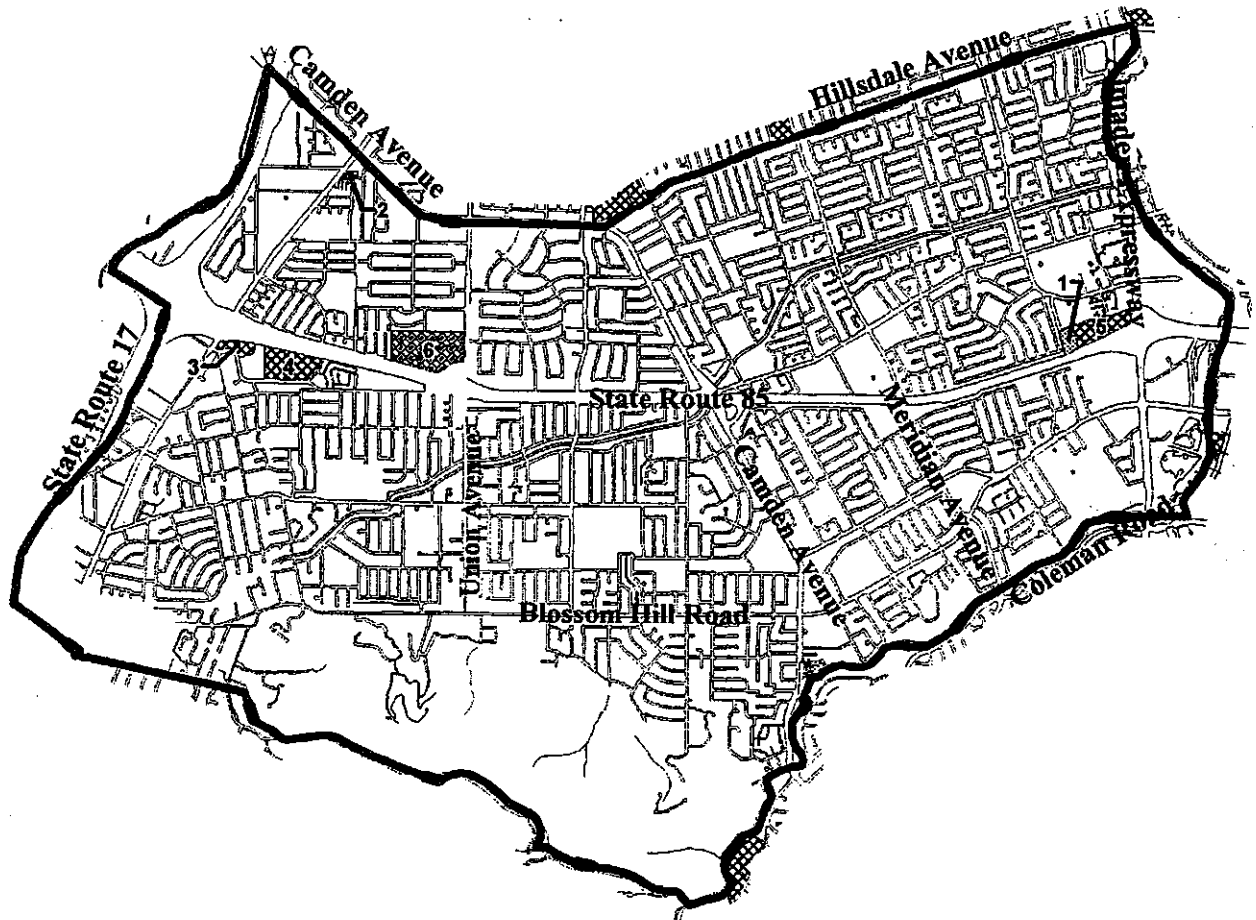
Total Commercial Sq.Ft.= 857,000

Industrial Projects

- 16 Berg & Berg (Evergreen)
- 17 IDS Industrial Park
- 18 Highlands Corporate Centre

Total Industrial Sq.Ft.= 4,541,000

Cambrian/Pioneer Planning Area Major Development Activity



Residential Projects

- 1 Cherryview Senior Apts
- Total Dwelling Units= 150

Commercial Projects

- 2 A-1 Self Storage
- 3 Samaritan Medical Center
- 4 Samaritan Women/Children Center
- 5 Expo Design Center/Best Buy

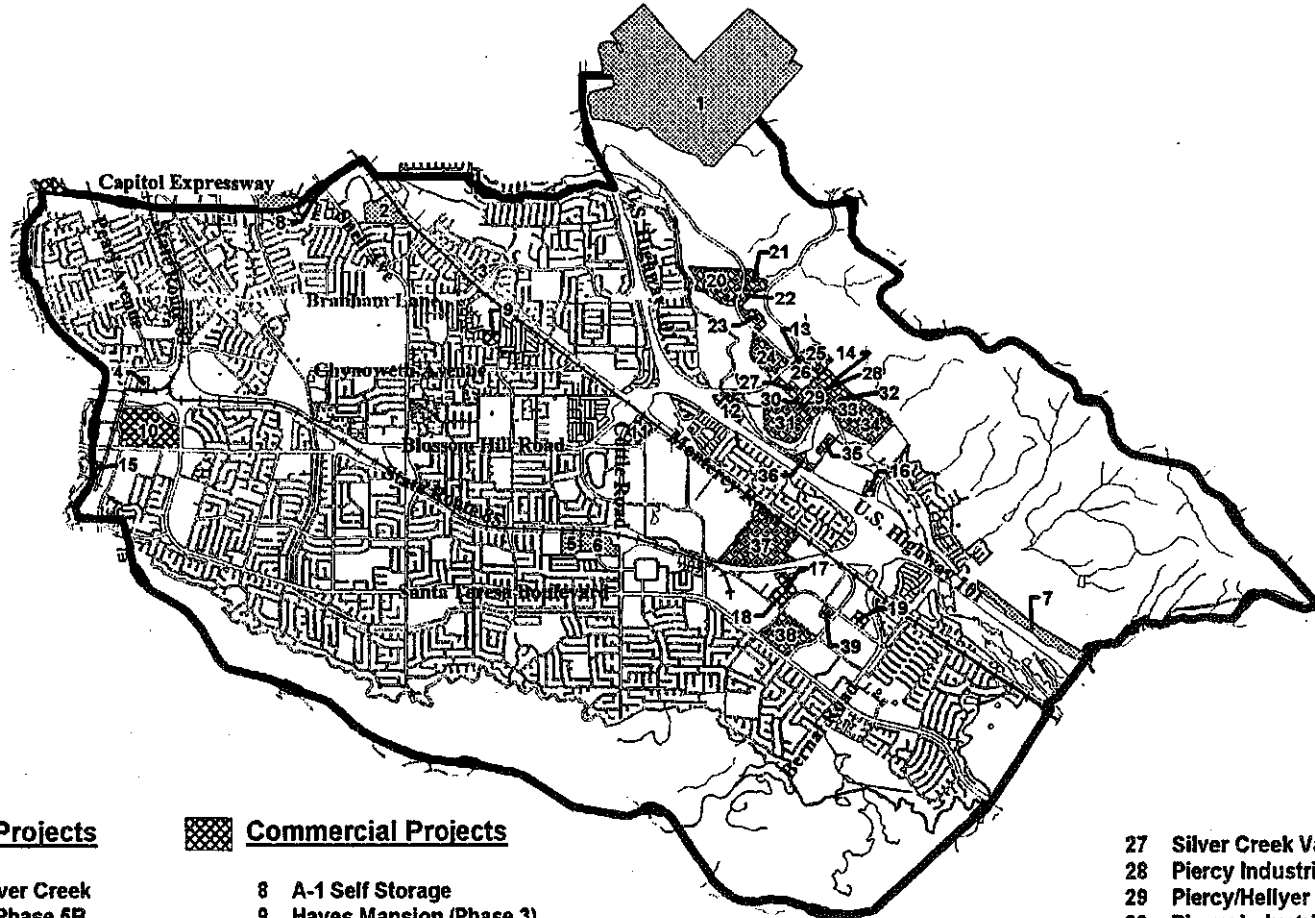
Total Commercial Sq.Ft.= 421,000

Industrial Projects

- 6 Xilinx

Total Industrial Sq.Ft.= 120,000

Edenvale Planning Area Major Development Activity



A-27

Residential Projects

- 1 Ranch on Silver Creek
- 2 The Woods, Phase 5B
- 3 Branham Lane Apts
- 4 Cilker Apts
- 5 Palma Sorrento Apts
- 6 Village at Marineo Apts
- 7 Metcalf Road Housing

Total Dwelling Units= 2,186

Commercial Projects

- 8 A-1 Self Storage
- 9 Hayes Mansion (Phase 3)
- 10 Oakridge Shopping Center
- 11 Lowe's Home Improvement
- 12 Silver Creek Valley Place
- 13 Commonwealth Credit Union
- 14 Edenpark (Phase 1)
- 15 Blossom Hill Mini-Storage
- 16 Holiday Inn Silicon Valley
- 17 Nortel Networks
- 18 Valley Oak Tech. Campus
- 19 Extended Stay America

Total Commercial Sq.Ft.= 1,761,000

Industrial Projects

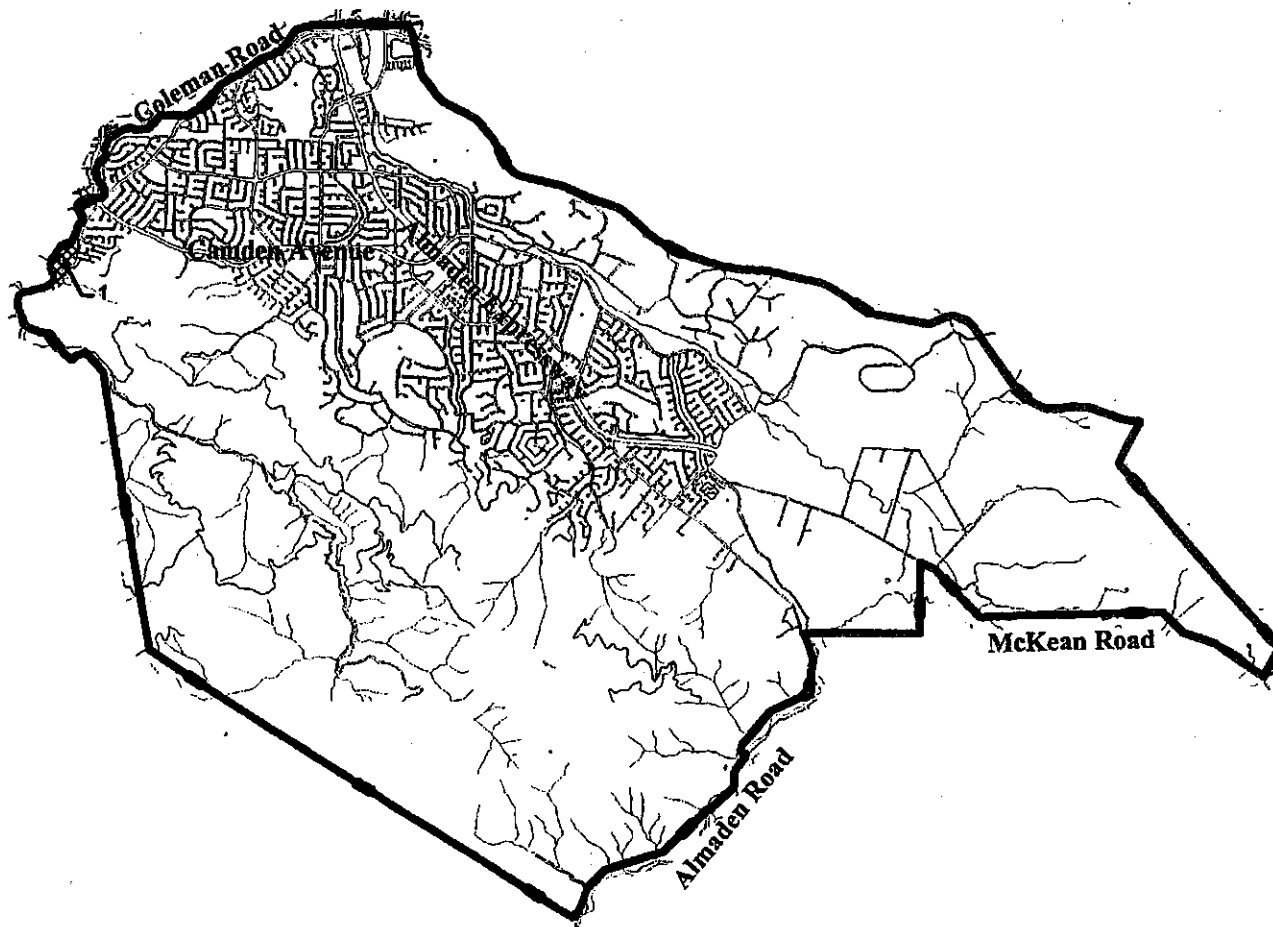
- 20 Celestica
- 21 Tyco Electronics
- 22 Jetstream Communications
- 23 ACT Manufacturing
- 24 Ciena
- 25 Edenvale Business Park
- 26 Silver Creek Valley Corp. Center

- 27 Silver Creek Valley Business Park
- 28 Piercy Industrial (English Property)
- 29 Piercy/Hellyer Business Park
- 30 Piercy Industrial (Mellow Property)
- 31 Piercy Business Park
- 32 Edenpark (Phase III)
- 33 Edenpark (Phase II)
- 34 Foxconn Intl
- 35 Pepper Lane-Ferrari Office
- 36 Sunrise Telecom
- 37 Equinix
- 38 Synopsys
- 39 IKOS Systems

Total Industrial Sq.Ft.= 6,158,000



Almaden Planning Area Major Development Activity

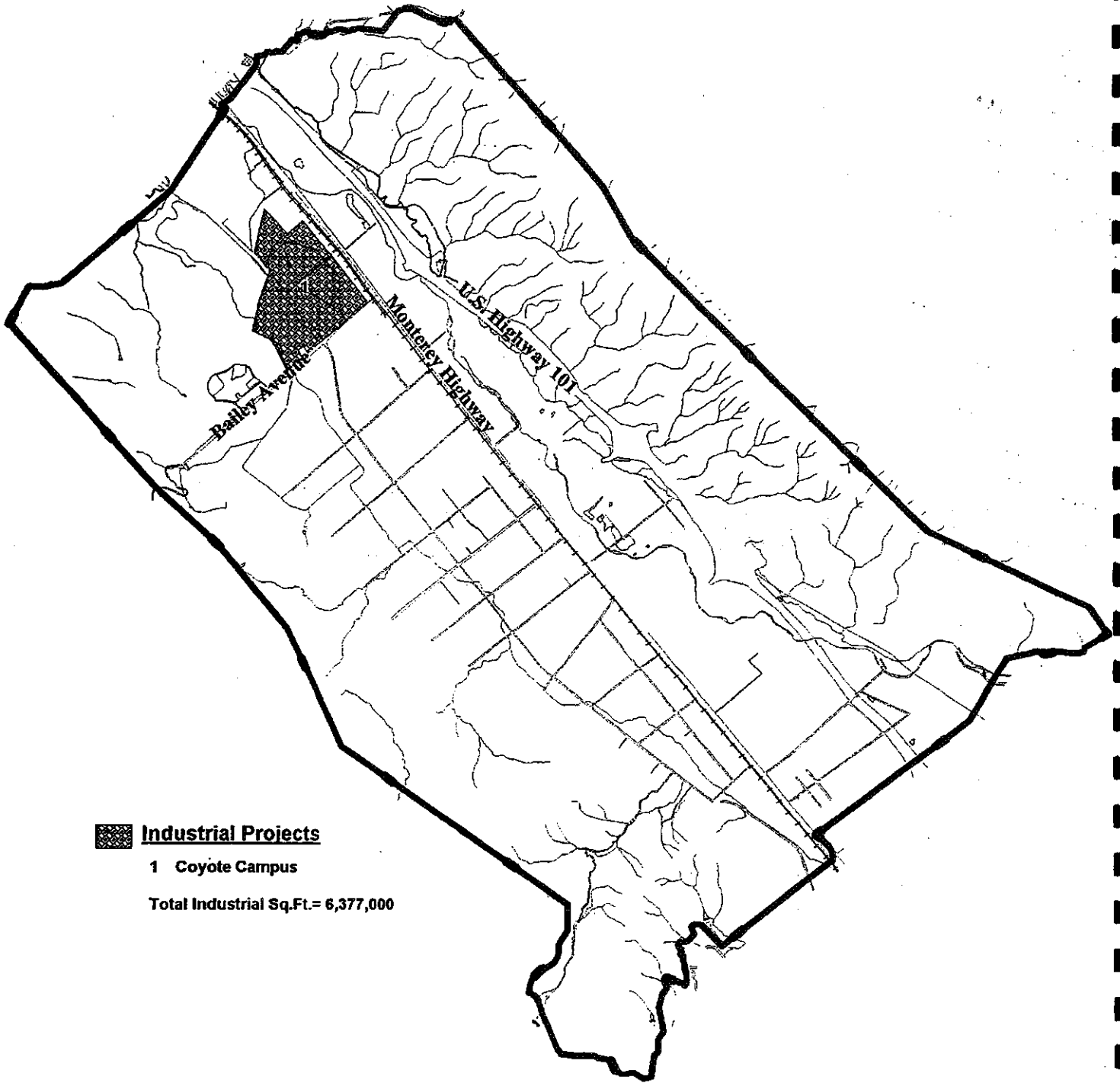


 **Commercial Projects**

1 Guadalupe Mines Office

Total Commercial Sq.Ft.= 45,000

Coyote Planning Area Major Development Activity



 **Industrial Projects**

1 Coyote Campus

Total Industrial Sq.Ft.= 6,377,000

VII. APPENDIX: SOURCES

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

Data Collection and Analysis

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

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

This year, staff also obtained feedback on the five-year forecast from members of the local development community at a regularly scheduled "roundtable" meeting held on January 24, 2003. Meeting participants commented that the forecast assumption of relatively stability going forward is difficult to foresee given the current high degree of economic uncertainty.

Review of Publications

Planning staff consulted several publications that made an important contribution to the preparation of this report. Publications of particular relevance to this year's report included the following: San Jose Business Journal and San Jose Mercury News (various articles), the Silicon Valley Manufacturing Group's *Projections 2002*, Joint Venture's *2002 Index of Silicon Valley*, the Association of Bay Area Governments' (ABAG) *Regional Economic Outlook 2003-04*, Commercial Property Service's (CPS) *RealNews* (quarterly), the Construction Industry Research Board's *California Construction Review* (monthly), and the California Employment Development Department's *Current Labor Force and Industry Employment* (monthly).

*Five-Year Economic Forecast
and
Revenue Projections*

2004-2008

Appendix B

General Fund Revenue Descriptions

GENERAL FUND REVENUE DESCRIPTIONS

Property Tax

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

In 1979, in order to mitigate the loss of Property Tax revenues after approval of Proposition 13, the State legislature approved Assembly Bill 8 (AB 8). This action was approved to provide a permanent method for allocating the proceeds from the 1 percent property tax rate, by allocating revenues back to local governments based on their historic shares of property tax revenues. AB 8 shifted approximately \$772 million of school district property tax revenue to local governments and backfilled schools' lost revenue with subsidies from the State General Fund. Actions taken by the State in order to balance the 1992-1993 and 1993-1994 State budgets partially reversed the AB 8 formula. The 1992-1993 action reduced the City's Property Tax proceeds by nine percent, and shifted this funding to schools in order to reduce the amount of State backfill required. As part of the State's 1993-1994 Budget, the AB 8 formula was again altered requiring another ongoing shift in City Property Tax revenue to K-12 schools and community colleges.

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

GENERAL FUND REVENUE DESCRIPTIONS

Sales and Use Tax

The Sales Tax is an excise tax imposed on retailers for the privilege of selling tangible personal property. The Use Tax is an excise tax imposed on a person for the storage, use, or other consumption of tangible personal property purchased from any retailer. The proceeds of sales and use taxes imposed within the boundaries of San Jose are distributed by the State to various agencies, with the City of San Jose receiving one percent. The total sales tax rate for the County of Santa Clara is currently 8.25%. On November 5, 1996, voters approved the imposition of a ½ percent increase to the rate (Measure B) for Santa Clara County for a period commencing April 1, 1997 and terminating March 31, 2006. The distribution of the sales tax proceeds is as follows:

Agency	Distribution Percentage
State of California	5.50%
City of San Jose	1.00%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	0.50%
Santa Clara County	<u>0.75%</u>
Total Sales Tax	8.25%

Major items, such as services, are exempt from the tax code. As part of a 1991-1992 legislative action, tax exemptions were removed from candy and snack foods, bottled water, newspapers and periodicals, and fuel and petroleum products sold to certain carriers. The removal of these exemptions became effective July 1991. On November 3, 1992, however, the voters approved Proposition 163, which partially repealed the prior action, re-establishing the exemption for snack food, candy, and bottled water effective December 1, 1992.

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

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

GENERAL FUND REVENUE DESCRIPTIONS

Transient Occupancy Tax

The Transient Occupancy Tax is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The tax rate is currently 10%, six percent of which is placed in the Transient Occupancy Tax Fund and four percent of which is deposited in the General Fund. The tax is authorized by Municipal Code, Section 4.74, Ordinance number 21931.

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (six percent of room rent) is restricted by Ordinance number 20563 to the following uses:

- 1) Funding for the Convention and Visitors Bureau, including a rental subsidy of City facilities for convention purposes.
- 2) Funding for cultural grants such as the San Jose Symphony and the San Jose Museum of Art, and a rental subsidy for the cultural use of City facilities.
- 3) Funding for the City's operating subsidy to the Convention and Cultural Facilities.

The General Fund portion of the Transient Occupancy Tax was enacted as a general tax and cannot be legally dedicated to any specific purpose.

Franchise Fees

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

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

On July 1, 1996, commercial solid waste collection franchise fees (CSW) were converted to a volume basis. This revision amended the previous structure (which had been in effect since January 1, 1995) which assessed a franchise fee equal to 28.28% of gross receipts in excess of \$250,000. With that change, fees were set at \$1.64 per cubic yard per collection for cubic yards in excess of 43,000 (the cubic yard basis is tripled if the waste has been compacted) in a fiscal year, and were assessed on any

GENERAL FUND REVENUE DESCRIPTIONS

Franchise Fees (Cont'd.)

commercial business engaged in the collection, transportation, or disposal of garbage and/or rubbish (solid waste) accumulated or generated in the City of San Jose. In December 1997, the City Council increased the rate to \$2.41 (excluding the first 29,200 cubic yards hauled in the fiscal year), effective on January 1, 1998. In 1999-2000, this fee was increased to \$2.84 per cubic yard. In 2002-2003, a shift in the revenue distribution between the CSW and AB 939 fees (also known as the "commercial source reduction and recycling fee" collected and deposited in the Integrated Waste Management Fund) was approved, increasing the amount collected for CSW to \$3.34 per cubic yard. The CSW is authorized by Title 9 of the Municipal Code, Chapter 9.08.

The City collects a Franchise Fee from any company that provides cable television (Ordinance No. 22128). The current fee is five percent of gross receipts derived from subscriptions. Excluded from the gross receipts are amounts derived from installation, late charges, advertising, taxes, line extensions, and returned check charges.

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

Utility Tax

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (e.g., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). The telephone utility tax is assessed on the basic charges and intrastate calls. Consumers pay five percent of their utility charges to the utility company that acts as a collection agent for the City. The utility company collects the tax from consumers on a monthly basis and is required to remit that amount to the City by the 25th of the following month. The tax is not applicable to State, County, or City agencies. Also, per State regulations, insurance companies and banks are exempted from the tax. This tax is authorized by Title 4 of the Municipal Code, Section 4.68. In November 1996, a five percent utility tax was imposed on interstate and international calls as part of the New Realities Task Force recommendations contingent on voter approval. Since voters did not approve the continuation of the increase, this tax was eliminated. This tax was collected from November 1996 through October 1998.

GENERAL FUND REVENUE DESCRIPTIONS

Business Tax

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

Category	Annual Tax
1 – 8 Employees	\$150.00
9 – 1,388 Employees	\$150.00 plus \$18.00 per Employee
1,389 and over Employees	\$25,000

In addition to the rates listed above, City Ordinance 21518 specifies the assessment of taxes by grouping taxed businesses (each at a different rate) in the following categories: Rental or Lease of Residential or Non-Residential property, Mobile Home Parks, and Water Companies. Rented or leased properties (if three or more residential rental units) are subject to the \$150.00 minimum tax, but are also assessed \$5.00/rental unit over 30 units for residential properties and \$0.01 per square foot in excess of 15,000 square feet for non-residential properties. Fees for both residential and non-residential properties are limited to a maximum of \$5,000. Mobile home parks are treated as residential properties. Water companies are assessed by a schedule that assigns an amount (from \$200 to \$20,000) depending on the number of active metered connections. In November 1996, the rates had been increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates (as reflected) have been returned to the levels prior to November 1996.

There are several exclusions (by Federal or State regulations) or exemptions (by the City Council) from the General Business Tax. Among the major ones are Banks and Insurance Companies, Charitable and Non-Profit Organizations, and Interstate Commerce. In addition, on June 8, 1993, City Council deleted the sunset provision of a business tax exemption for certain artists and craftpersons selling their wares at one location. The Business Tax is authorized by Title 4 of the Municipal Code, Chapter 4.76.

On May 26, 1987, the City Council enacted a new Disposal Facility Tax which became effective July 1, 1987. The rate structure is based on the weight of solid waste disposed. On July 1, 1992, City Council increased the Disposal Facility Tax from \$3.00 per ton of disposed waste to \$13.00 per ton. This tax is assessed on landfills located in the City of San Jose. Beginning 2002-2003, waste previously classified as alternate daily cover will be subject to the Disposal Facility Tax.

During the 1991-1992 fiscal year, Council approved the establishment of a Cardroom Ordinance which contained the provision to tax gross receipts from cardrooms located in the City. On June 9, 1992, City Council approved an ordinance amending the San Jose Municipal Code that increased the tax rate schedule and expanded the permissible games authorized. A gross receipt monthly tax schedule was established with taxes ranging from 1% to 13% of gross receipts. For 1993-1994, Council approved a revision to the Cardroom Ordinance, instituting a flat 13% gross receipts tax for all cardrooms located in the City with annual gross revenues in excess of \$10,000.

GENERAL FUND REVENUE DESCRIPTIONS

Other Licenses and Permits

The City requires payment for the issuance of Building Permits, Fire Permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. For example, the City requires fire safety inspections of all commercial property. The fee provides for inspection charges and a number of special charges. Authorized exceptions include the addition and/or alteration of under 20 sprinkler heads and the installation of portable fire extinguishers. The fee is authorized by Title 17 of the Municipal Code, Chapter 17.12.

Where appropriate, license and permit fees take into consideration approved exceptions to Council's full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City's Annual Fees and Charges Report.

Fines, Forfeitures, and Penalties

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

The City receives fines and forfeitures of bail resulting from violation of State Health and Safety Codes and City Ordinances. These fees, authorized by the State Criminal Code and City Ordinances, are collected by the County and remitted to the City on a monthly basis.

The City also receives revenue collected in connection with violations of the City's vehicle parking laws. These fines vary according to the nature of the violation. The City pays an agency to process and collect the fines. The only authorized exemption is for "on call" emergency vehicles.

GENERAL FUND REVENUE DESCRIPTIONS

Use of Money and Property

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

Revenue is also received from the rental of City-owned property and from the sale of agricultural products grown on City land. Exceptions are created by Council resolution. The fees are authorized in Title 2 of the Municipal Code, Section 2.04.1070.

Revenue from Local Agencies

This revenue category contains revenue received from a variety of other local government agencies. The five primary sources of revenue are the reimbursement for City staff and overhead costs from the Redevelopment Agency; the reimbursement from the Redevelopment Agency for payment of the Convention Center debt service; Enterprise Fund In-Lieu Charges; payments from the Central Fire District for fire services provided to District residents by the San Jose Fire Department; and payments from the County for the Paramedic Program.

Revenue from the State of California

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

The Motor Vehicle In-Lieu (MVLIF) Tax revenues are license fees collected by the California Department of Motor Vehicles (DMV). Until 1998-1999, the annual license fee was two percent of the market value of the vehicle as determined by the DMV. In 1998-1999, the State reduced the license fees by 25%, but agreed to backfill local jurisdictions for the loss in revenue. That backfill is now 67.5% of MVLIF revenues received by the City. The State withholds less than five percent of these fees for the support of the DMV. More than 95% of these fees are divided equally between

GENERAL FUND REVENUE DESCRIPTIONS

Revenue from the State of California (Cont'd.)

counties and cities, and their aggregate shares are distributed in proportion to the respective populations of the cities and counties of the state. The exemptions authorized by the State Constitution, Article 13, include vehicles owned by insurance companies and banks, publicly owned vehicles, and vehicles owned by certain veterans with disabilities. The tax is authorized by the State Revenue and Taxation Code.

In-Lieu Taxes are also levied against airplanes. While the method of collection is similar, the distribution is different. Revenue is distributed according to the location of the aircraft, which is then allocated to cities, counties, and school districts. State legislative action in 1992-1993 eliminated local Trailer Coach In-Lieu Tax revenues. These funds were shifted to the State General Fund.

Revenue from the Federal Government

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

Departmental Charges

Departmental Charges are comprised of fees charged for services which are primarily provided by the following departments: Planning, Building and Code Enforcement; Police; Public Works; Transportation; Library; and Parks, Recreation, and Neighborhood Services. The Parks, Recreation, and Neighborhood Services Department, for example, charges specific fees for various recreational programs, such as aquatic and adult sports programs. The prices and rates are determined by ordinance, and each of the several hundred charges is fully explained in the City's Annual Fees and Charges Report.

GENERAL FUND REVENUE DESCRIPTIONS

State Gas Tax

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

County Allocation :	a	No. of Registered Vehicles in County
	÷ b	No. of Registered Vehicles in State
	x c	\$0.0104
	x d	Gallons of Gas Sold

City Allocation:	a	Incorporated Assessed Value in County
	÷ b	Total Assessed Value in County
	x c	County Allocation

Individual City Allocation:	a	Population in City
	÷ b	Population all Cities in County
	x c	City Allocation

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

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

Other Revenue

This revenue category contains revenue received from a variety of miscellaneous sources. For several years, Solid Waste Program revenues comprised the majority of revenues in this category. However, as approved by the City Council on November 22, 1994, approximately \$55.77 million in budgeted Solid Waste revenues were removed from this category to reflect the implementation of the newly established Integrated Waste Management (IWM) Fund. Revenue categories appearing in the IWM Fund include: Recycle Plus charges (Residential and Commercial), Assembly Bill 939 (AB 939) fees, and lien revenues related to billings which took place after the creation of the new fund. Revenues, which are proposed to remain in the General Fund, total approximately \$2.2 million for the collection of solid waste enforcement fees.

GENERAL FUND REVENUE DESCRIPTIONS

Other Revenue (Cont'd.)

Other significant sources of revenue in this category include the following components: cost reimbursements related to Finance Department staff in the Investment Program; Compaq Center rental, parking, suite, and naming revenues; and multi-year utility company reimbursements for fiber optic infrastructure inspection costs. The remainder of revenue collected represents one-time and/or varied levels of reimbursements, including sale of surplus property receipts, Senate Bill 90 (SB 90) reimbursements, and miscellaneous revenues associated with the Office of the City Attorney.

Transfers and Reimbursements

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

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

Transfers consist of both one-time and ongoing revenue sources to the General Fund. Ongoing transfers include Airport Maintenance and Operation Fund reimbursements for Airport Police and Fire services, Municipal Water System return on investment transfer, and capital fund transfers for maintenance and operating expenses incurred by the General Fund. One-time transfers occur on a sporadic basis and have included the disposition of uncommitted fund balances in several special funds and the transfer of monies to fund a variety of City projects. Reimbursements from other funds represent the cost to the General Fund for services provided on behalf of the other City funds.