

**2004-2005
City Manager's Budget Request**

&

**2005-2009
Five-Year Forecast
and
Revenue Projections**

**For the
General Fund and Capital Improvement Program**

Office of the City Manager

March 2004

**2004-2005
CITY MANAGER'S BUDGET REQUEST
&
2005-2009
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS**

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Prepared by
Office of the City Manager
March 2004

March 1, 2004

HONORABLE MAYOR AND CITY COUNCIL:

In compliance with City Charter Section 1204, provided herein is the 2004-2005 City Manager's Budget Request, and 2005-2009 Five-Year Economic Forecast and Revenue Projections for the General Fund and Capital Improvement Program.

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 2004-2005 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 2004-2005 and the subsequent four fiscal years.

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

2004-2005 City Manager's Budget Request

Given the projections documented in this report, the task of balancing the 2004-2005 General Fund Operating Budget will present a significant challenge. Despite signs of a tentative economic recovery at the national level, it appears that locally we will face a third straight year characterized by stagnant or still falling revenue collections in almost all of our major revenue sources, while expenses, especially those associated with employee benefits, will experience sharp increases. As discussed later in this Transmittal Memorandum and in greater detail in this document, a General Fund shortfall for 2004-2005 in the amount of \$76.6 million is currently projected for the 2004-2005 fiscal year. This gap virtually equals the record setting shortfall projected and later closed in the 2003-2004 fiscal year budget (excluding State Budget rebalancing measures). In addition, our projections also indicate that the City will face deficits, albeit smaller than that projected for next year, in all five years of this forecast.

For the major capital budget revenues discussed in this document, a modest overall increase from the prior Capital Improvement Program (CIP) is projected based on the assumption that revenue collections will reach a low point in the current year and will stabilize over the forecast period.

2004-2005 City Manager's Budget Request (Cont'd.)

However, it should be noted that the revenue estimates for these categories are projected at levels last experienced in the late-1990's and reflect a significant drop from the peak collections of 2000-2001. Fortunately, because a continued drop in these economically sensitive revenues was assumed in the development of the last few forecasts, the City has been able 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.

Our overall assumption is that we face at least one more year of depressed economic conditions, followed by very moderate growth for the remainder of the forecast period. We continue to believe that the most crucial factor in the timing of a turnaround in the local economy is the local employment situation. The County continues to experience an extremely soft employment market where a net loss of jobs continues even through the most recent month. Although the expectation is that this net loss of jobs will bottom out sometime in the next six months, this forecast assumes that any significant growth of jobs is still in the future, and that such growth is a prerequisite for the resumption of City revenue growth.

The City also faces the challenging task of planning for an unknown level of revenue loss from State budget balancing actions. It is clear that the State will take local government revenues to help overcome its massive budget deficits. Unfortunately, the depth of those cuts will remain unknown until the Governor and Legislature reach agreement on a new budget. Under the Governor's Proposed Budget the City's General Fund would lose approximately \$10 million. At risk beyond that amount is the backfill of Vehicle License Fee funds that was the subject of much debate last year. Our exposure in that category totals approximately \$37 million. Any revenue loss from State actions must be added to the shortfall amount included in this report.

Clearly, the City faces many difficult choices in balancing next year's budget. Minimizing as much as possible the damage to essential City services, while taking the necessary steps to bring expenses in line with available resources, will be an enormous challenge. In approaching the process of developing budget balancing proposals, the Administration will utilize the principles outlined below.

The City Council priorities identified in prior policy sessions, including those outlined in the Mayor's 2003-2004 Mid-Year Budget Actions Memorandum and approved by Council on February 17, will guide our balancing strategy 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 currently scheduled to be submitted on April 30, 2004. Again, to the extent possible given the current fiscal condition, the Administration also intends to protect and preserve 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.

2004-2005 City Manager's Budget Request (Cont'd.)

Consistent with the previously mentioned 2003-2004 Mid-Year Budget Actions Memorandum approved by the City Council on February 17, 2004 (attached as an appendix to this Transmittal Memorandum), the following specific principles: Balanced Budget, Satisfied Customers, and Engaged Employees, are recommended for use in formulation of the 2004-2005 Proposed Budget balancing strategy.

Balanced Budget

- 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;
- Mitigate, to the extent possible, 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;
- As directed by City Council, use all of the Economic Uncertainty Reserve to reduce the projected General Fund deficit if employee bargaining groups agree to zero salary and benefit increases for one year by April 1, 2004. The Administration would further recommend that if agreements are not in place by that time, we retain a substantial 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;
- Advance those budget reduction proposals for implementation during this fiscal year that would most likely be recommended for consideration as part of the 2004-2005 Proposed Budget;
- In addition to strategies that achieve efficiencies and appropriate cost savings, utilize fee increases to assure that operating costs are fully covered by fee revenue. Revisit the fees and charges structure to implement revisions that would charge non-residents a premium for our services and discourage "abusers" of services;
- Explore opportunities to establish new fees for services where appropriate, including, but not limited to, a "9-1-1" fee;
- Continue with the elements of the current capital improvement plan that keeps money flowing to our economy. In addition, however, bring forward recommendations for further deferral of capital improvement program schedules for projects that create negative impacts on the General Fund;

Satisfied Customers

- 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;

2004-2005 City Manager's Budget Request (Cont'd.)

- 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;
- Consider alternative service delivery mechanisms (e.g., appropriate community partnerships, public-private partnerships, working with Santa Clara County and other jurisdictions to ensure no service overlap, outsourcing/insourcing services delivered by City staff, etc.);
- Emphasize performance by focusing on improving employee productivity and continuously improving business practices, including streamlining, innovating, and simplifying City operations;

Engaged Employees

- Continue to make employee involvement a priority for CSA budget balancing idea development;
- Ensure that an active budget communication plan with City employees is in place and utilized;
- Balance proposed 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 groups to find ways to limit the number of employee layoffs.

In light of the current forecasted budgetary situation, in October, the Administration 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 2004-2005 budget proposals necessary to eliminate the projected General Fund shortfall and the potential impact of State budget balancing actions, utilizing these principles. For planning purposes, targets for the size of budget proposals to be submitted were set at 10% of General Fund Base Budget (adjusted) amounts for the Public Safety CSA and 20.4% for the remaining six CSAs.

The Mayor will issue a proposed March Budget Message later this month, which 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, those Proposed Budgets will contain comprehensive plans

2004-2005 City Manager's Budget Request (Cont'd.)

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 June Budget Message Memorandum during the months of May and June 2004.

2005-2009 Five-Year Economic Forecast and Revenue Projections

Forecast Highlights

As described in this document, projections for the 2004-2005 fiscal year reflect a \$76.6 million base gap between revenue and expenditures in the General Fund and smaller incremental shortfalls in the subsequent years. The significant size of the shortfall is the combined result of three factors: an ongoing budget shortfall that was not solved in the 2003-2004 budget, a substantial increase in the costs for employer contributions to retirement funds which are currently projected for both the 2004-2005 and 2006-2007 fiscal years, and an economic downturn in Silicon Valley that has far exceeded all earlier estimates in terms of its depth and length.

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 assumes a return to normal business spending rather than the strong recovery normally seen between a recession and a return to standard business spending. According to economists from the UCLA Riverside Forecasting Center, a "normal" recession begins with a downturn in consumer spending followed by a reduction in business spending in reaction to the reduced consumer spending. The current recession was significantly different than that type of recession in that almost all of the downturn was on the business side, while consumer spending has held up remarkably well. There cannot be a "recovery" from the consumer sector because there is nothing for the consumer to recover from. For this reason, the majority of any improvement will have to be carried by growth in business spending.
- National data, along with general forecast projections indicate that a recovery at the national level is underway. Most leading economic indicators are generally up, interest rates remain low, and business to business activity appears to be picking up. Although some employment growth is included in the forecast, it is not expected to be enough to drive down the rate of unemployment. However, the available data also indicates that the national economy is

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Forecast Highlights (Cont'd.)

continuing to fare far better than Silicon Valley's. The key presumption underlying this forecast is that the Valley must see an increase in jobs and a significant recovery in the technology industry for a significant local economic rebound to occur.

- Because of the breadth and depth of local economic challenges, which has far exceeded that felt in most parts of the nation, we believe the resumption of local growth will lag behind the national economic improvement. Thus, it is 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.
- The General Fund projections for the coming year (2004-2005) are significantly worse than those included for that year in the last forecast issued by the Budget Office (March 2003). In that forecast, an incremental 2004-2005 (base case) shortfall of \$26.6 million was projected. In this forecast, that shortfall has grown to \$76.6 million. The three primary reasons for the increase include: a steeper than expected decline in local revenues, the use of one-time measures to balance the current year budget, and the larger than anticipated increase in Retirement System costs. As a result of these factors, for a second straight year the projected shortfall for 2004-2005 is one of the largest the City has ever faced. To our knowledge, at least in recent years, the City has not experienced deficits of this magnitude, especially in two successive years. The forecast further indicates that in year three of the forecast (2006-2007), predicted increases in City retirement contribution costs (\$25.4 million) will result in an additional significant General Fund shortfall (\$38.5 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.
- It is important to note that this forecast does not presume any specific amount of negative impact on our revenues from State budget balancing actions. This is not a reflection of any belief that we will not experience such an impact, only that the size of the revenue loss is currently unknown. In the current year, as part of earlier State budget balancing actions, the City lost \$10.8 million in Motor Vehicle In-Lieu Taxes and related interest. The Governor's 2004-2005 Proposed Budget released in January 2004 proposes to shift an additional \$1.336 billion in property tax revenues from cities, counties, special districts and redevelopment agencies on an ongoing basis to the Educational Reform Augmentation Fund (ERAF) accounts in each county to help defer the State's obligation for K-12 education funding. Our current analysis indicates that this additional shift would cost the City's General Fund approximately \$6.8 million in reduced General Fund Property Tax revenue annually, along with the loss of approximately \$10 million in annual funding from the Redevelopment Agency. The Governor has also proposed eliminating the jail booking fee reimbursement program. This would cost the City an additional \$2.5 million annually in reduced reimbursement.

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Forecast Highlights (Cont'd.)

- The 2004-2005 forecast is significantly impacted by the large increase (\$21.7 million) in the required employer retirement contribution rates for both retirement systems (Federated and Police and Fire) that have been recently projected as a result of the latest actuarial reviews. The previous forecast had assumed revised retirement rates would impact the General Fund by \$11 million in 2004-2005. Total retirement contributions by the City will exceed \$100 million next year.
- Not included in this forecast is the potential negative impact to the General Fund which may result from changes in the funding mechanism for the Office of Cultural Affairs (OCA) as the result of the current RFP process underway for operation of the Convention Center. Currently, revenues from generated by the Convention Center and collected in the Convention and Cultural Affairs Fund help support a portion of the costs of the OCA. The complete loss of that subsidy would cost the General Fund approximately \$500,000. Unless an alternate method of funding those costs are included in the conversion process, those costs will fall to the General Fund and increase the shortfall estimate amount identified in this document.
- This General Fund forecast for the first time incorporates the impacts of the new Civic Center project. Included are projections for the debt service costs associated with the construction project and the furniture, technology and equipment as well as current estimates for the operating and maintenance costs for the new building. Several cost savings estimates are also included, such as lease and operating and maintenance cost savings for the existing City Hall and other leased facilities. Several of the cost savings items assumed in the forecast will require City Council action to implement. It is important to note that the combination of the proposed cost savings and the costs savings actually realized last year with the move to the old Martin Luther King, Jr. Library, completely offset the General Fund costs associated with the new Civic Center over the five-year period of this forecast. However, because some of the cost savings were realized early, as part of the 2003-2004 budget process, a portion of the General Fund shortfall in this forecast is associated with the resulting gap in the later years between expenditures and savings associated with moving into the new building. It should be noted that the costs of the new Civic Center will also have a financial impact on the City's special and capital funds that support a portion of the City's workforce that will be relocating to the new facility. These impacts will be built into each of these budgets.

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Forecast Highlights (Cont'd.)

- This document also includes projections for revenues generated by construction-related taxes used to support several key Capital Budget programs. On an overall basis, these revenues are expected to experience slight growth over the prior forecast, but remain well below the peak levels of 2000-2001. 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 a steep decline in 2001-2002 that has continued through 2003-2004, will reach a low point this fiscal year and will stabilize and experience a modest recovery 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.
2. **Base 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, such as additional operating costs related to capital projects and furnishings for the three bond project programs (Library, Parks, and Public Safety).

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Background (Cont'd.)

In Section 4, Alternate Forecast Scenarios, of this document an operating margin comparing projected revenues and expenditures is provided for each expenditure scenario. 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.

3. **Additions and Deletions to the Base** – This section describes the committed and extended additions considered in the forecast.
4. **Alternative Forecast Scenarios** – Because all forecasts are burdened with a large degree of uncertainty, two plausible alternative forecast scenarios are presented – an “optimistic” case and a “pessimistic” case. These cases are compared with the base case to show the range of growth rates for revenues and the associated operating margins.
5. **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 of the City's major General Fund revenue categories.

General Fund Forecast

The General Fund Forecast (Base Case with Committed Additions) predicts a 2004-2005 shortfall in the amount of \$76.57 million. This is followed by projections for net incremental shortfalls in each of the subsequent four years of \$8.80 million, \$38.46 million, \$17.15 million, and \$12.63 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 that amount.

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

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

General Fund Forecast (Cont'd.)

2005-2009 GENERAL FUND FORECAST
Projected General Fund Margins
 (Base Case with Committed Additions)
 (\$ in Millions)

| | <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> |
|--|------------------|------------------|------------------|------------------|------------------|
| March 2004 Incremental Surplus/(Shortfall) | (\$76.57) | (\$8.80) | (\$38.46) | (\$17.15) | (\$12.63) |
| March 2003 Incremental Surplus/(Shortfall) | (\$26.64) | (\$10.52) | (\$12.63) | (\$10.69) | N/A |

In the other four years of the forecast, presuming ongoing resolution of the problems in the prior 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 forecast: that the economy will not soon resume the record setting pace experienced in the last years of the 1990s, and 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. It is recommended that the City Council consider most seriously the "Base Case" forecast, which includes ongoing program costs plus Committed Additions.

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

General Fund Forecast (Cont'd.)

Committed Additions

Reflecting previous City Council decisions, a number of specific "committed" additions are included in this forecast in the years that they are projected to be required. The Committed Additions category includes 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. Funding to bridge the gap in the Capital Improvement Program for the scheduled replacement of communications equipment also continues to be included in this section.

As discussed previously, the costs associated with the New Civic Center are reflected in the Committed Additions section for the first time. These include debt service costs associated with the construction project along with the furniture, technology and equipment, and the operating and maintenance costs. In addition to these costs, there are a number of cost offsets shown as committed additions, including savings from the elimination of parking costs associated with City employees who work in the downtown offices, and the estimated telephone system and technology savings that will be realized from the technology investments in the new Civic Center. This Committed Additions section also includes a few cost savings that have been presented to the City Council, but would require further action to be implemented. These include savings from lower operating and maintenance costs for the existing City Hall and revenue from leasing portions of the existing City Hall that are both associated with the revised space plan, and the use of a portion of the proceeds projected from the sale of the employee parking lot (E-Lot).

Not included in the Committed Additions section are the additional operating costs related to the projects now in the adopted Capital Improvement Program. Although in the past, these expenditures were included in the "committed" category, the majority of these items are expansions/modifications to existing facilities, which are more discretionary in nature. As a reflection of the more severe fiscal conditions now facing the City, these costs 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.

2005-2009 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 been developed. "Optimistic" and "Pessimistic" revenue cases were created 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 are modeled at plausibly more optimistic or pessimistic levels.

In the Pessimistic Case, we model a scenario where a significant drop in interest rates combined with a downturn in home prices and a slowdown in the public sector chokes off economic activity and drags down the economy. Consumer confidence drops as does the stock market; general economic activity slows; and increased uncertainty causes businesses to curb spending on technology equipment. This case also includes higher interest rates produced by a weaker dollar and extremely high federal deficits. In this case, local revenues fall to levels much lower than the base case, staying lower 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 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 stay 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 to levels higher than that assumed by the Base Case. In addition, increases in local employment levels create a faster recovery in the jobs market and the housing market improves significantly over the base case.

Capital Revenue Forecast

Section Five of this report describes the 2005-2009 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]).

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Capital Revenue Forecast (Cont'd.)

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)**

| | 2004-2008 CIP | 2005-2009 Forecast | Difference | Change |
|---|--------------------------|-------------------------------|-------------------|---------------|
| Construction and Conveyance Tax | 80,000 | 82,000 | 2,000 | 3 % |
| Building and Structure Construction Tax | 43,659 | 41,201 | (2,458) | (6)% |
| Construction Excise Tax | 58,950 | 66,079 | 7,129 | 12 % |
| Residential Construction Tax | 428 | 956 | 528 | 123 % |
| Sanitary Sewer Connection Fee | 4,331 | 4,993 | 662 | 15 % |
| Storm Drainage Connection Fee | 1,818 | 2,318 | 500 | 28 % |
| TOTAL | 189,186 | 197,547 | 8,361 | 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 \$82 million, which is a slight increase from the \$80 million included in the 2004-2008 CIP. This estimate is built on the conservative assumption that collections in the current year will total \$24 million, will drop to \$18 million in 2004-2005, and will remain flat at \$16.0 million annually for each of the remaining years of the five-year forecast. Collections in this category peaked in 2000-2001 at \$31.6 million and have subsequently dropped to \$26.3 million in 2001-2002 and to \$24.8 million in 2002-2003. The 2003-2004 estimate of \$24 million allows for a slight decline in annual collections, even though receipts through the first half of the year have been extremely strong. This revenue estimate represents a relatively conservative scenario, but allows for a significant downward adjustment in housing activity that we still believe possible given the current economic conditions. The further reductions to the \$18 million and \$16 million annual collection levels presumed in this forecast reflect what is believed to be a more sustainable level of housing resale activity and is based on the presumption that further adjustments will occur in the housing market.

The remaining five economically sensitive capital revenue categories are directly linked to development activity, which is expected to stabilize over the forecast period from a low point projected in the current fiscal year. The 2005-2009 CIP assumes growth in the Construction Excise and Residential Construction Tax categories when compared with the estimates included in the 2004-2008 CIP. The Building and Structure Construction Tax, however, is projected to decline slightly from the last CIP in part due to its reliance on industrial activity, which is expected to remain slow over the forecast period.

2005-2009 Five-Year Economic Forecast and Revenue Projections (Cont'd.)

Capital Revenue Forecast (Cont'd.)

The Sanitary Sewer and Storm Drainage Connection Fee categories, both of which contribute to the funding for capital programs to maintain those systems, are expected to be higher over the five-year period from the levels included in the current Capital Improvement Program (CIP), based on the actual performance in these areas.

It should be noted, however, that while overall revenues show some growth from the prior CIP, this forecast still projects that most of the revenues will remain well below the levels experienced during the economic peaks of the late 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 continue to analyze the revenue collections in these categories and the underlying economic conditions to determine if further refinements to the revenue estimates are necessary.

Conclusion

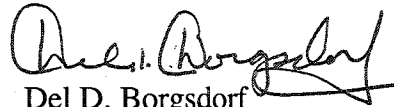
Although this Budget Request and Forecast are being released amid some signs of a tentative economic recovery at the national level, it is our belief that the City must plan for at least an 18 month lag in any significant recovery in the local economy. All major financial indicators in the local economy, in particular the job situation, remain stagnant. As a result, the City's economically sensitive revenue collections continue to be uniformly flat or falling. Add to this the almost certain negative impacts of State budget balancing actions that threaten the possibility of even larger shortfalls for the City, and the result will be a third straight year of sizeable budget shortfalls in the General Fund, and a number of other City special fund programs.

As in the past, the City is taking a proactive approach to addressing the challenging issues outlined in this report. We continue the variety of cost containment strategies that Council has directed, including a hiring freeze now in its third year. Several weeks ago, as part of the Mid-Year Budget Review, the Council directed implementation of even more pro-active actions. Included were mid-year reductions to all departments, the preparation of recommendations for an immediate reduction of 100 vacant positions, and the accelerated implementation of budget strategies that were to be brought forward as part of the normal budget process.

In summary, this document presents our most current projections for the budgetary situation both next year and for the next four-year period. We recommend that next year's City budget be prepared presuming no significant improvement in revenue growth, and 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.

Conclusion (Cont'd.)

I am fully confident that through the continued strong leadership of the Mayor and City Council, the City will respond appropriately to the economic challenges utilizing the proven financial management and strategic thinking that has served us so well in the past, and that through a collaborative process we will work successfully to maintain our strong financial condition, and formulate a plan to provide our citizens with all essential services.



Del D. Borgsdorf
City Manager

*2005-2009
Five-Year Forecast and
Revenue Projections*

Elements of the General Fund Forecast

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, 2004-2005, will be updated as appropriate as part of the City Manager’s 2004-2005 Proposed Operating Budget, scheduled to be published on April 30, 2004.

This forecast has been built using two basic assumptions: (1) although the national economy is starting to recover, the local economy remains stagnant, and (2) a recovery in the local economy and in the associated City revenues will lag a recovery in the national economy. On an overall basis, as a consequence of these two presumptions and based on an analysis of the current year’s 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 used to develop the revenue estimates upon which this forecast is based.

National Outlook

The U.S. is currently in the midst of a modest economic recovery that began in the last half of calendar year 2003. The recovery appears to reflect the impact of expansionist monetary and fiscal policies and strong gains in productivity.

Many economists remain, however, very concerned about the sluggishness in job growth that has accompanied this apparent recovery. In February, the Conference Board released its widely watched Index of Consumer Confidence. The report indicated a significant nine-point drop in confidence that was attributed to consumers’ disenchantment with the weakness in the labor market. This follows closely on the heels of a report of a dip in CEO confidence reported in January by the Conference Board (although the report also indicated that even with the dip, there continue to be more positive than negative responses). Every major forecast has expressed concerns regarding the “jobless recovery”. This phenomenon has been attributed to a trend in sending even skilled service sector jobs overseas because of cost and competitive pressures, and to the deleterious effect of productivity gains on job creation.

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National Outlook (Cont'd.)

Our revenue forecast is largely based on the national and state economic forecasts produced by the Anderson Business School at UCLA. UCLA is forecasting a continued but somewhat subdued national economic expansion for the next several years. For this current year, its national forecast anticipates an annual growth rate of around 3%. This growth rate appears to be at the lower range sampled forecasts. UCLA projects slower growth than other forecasters in part due to its focus on a particular segment of the economy known as consumer durables (products that last more than three years, e.g., cars). Consumers usually increase purchases of durable goods in cycles related to interest rates. For the last several years, because of very low interest rates, consumers have been on a purchasing binge, buying up huge amounts of these goods and often going into debt to do so. UCLA cautions that historically consumers become satiated with consumer goods after several years of increasing expenditures. When this occurs, consumers cut back on their purchases. Because consumers make up two-thirds of the economy, any cutback on their part will necessarily ripple throughout the entire economy.

The UCLA report also notes that calendar year 2004 is an election year and election years tend to exhibit stronger economic growth for obvious reasons. A significant portion of forecasted growth is expected to come from fiscal stimulus applied primarily for political reasons prior to the coming U.S. presidential election. It is felt that current monetary and fiscal policies utilizing tax cuts and low interest rates will continue to stimulate the economy in the short term. UCLA forecasters warn, however, that this stimulus will be offset by the impact of the expected severe cuts in spending by local and state governments, as they address the greatest fiscal challenge they have faced in decades. This will inevitably exert considerable downward pressure on economic growth in 2004-2005.

Another area of concern for the future economic outlook is the fact that much of this recovery is being fueled by a large and growing federal deficit. One of the most important post-election issues will undoubtedly be the size of the deficit, which is expected to be in the \$500 billion range, clearly an unsustainable level. Most forecasters, including the UCLA forecasters, expect that post-election action will have to be taken to reduce the size of the deficit from this very lofty level. Policies that reduce the deficit will, however, tend to put a downward drag on the pace of economic growth, particularly in the out years of the forecast.

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, as noted above. Inflation, on the other hand, is forecast to remain very low through the balance of the forecast period.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Santa Clara County Outlook

Santa Clara County has obviously suffered more from the collapse of the Internet bubble than any other major area in the country. The effects of the bursting bubble continue to linger, even as there are signs a recovery is slowly beginning to emerge.

Despite signs of improved profits, revenues, and stock prices at some of the valley's largest companies, there is a persistent concern regarding the valley's job growth, which continues to lag the general economic recovery. It is true that jobs always lag in the recovery process as employers generally wait for substantial increases in profits over a reasonable period of time to ensure that any hiring is not premature. However, in a typical recovery, job expansion would be well under way by now and that has not yet happened. In fact, on a year-to-year comparison, the latest monthly job report published by the State of California shows that jobs are actually still declining, although the pace of the decline has slowed.

This slow growth in local jobs is quite concerning, as there are indications that it is not just a cyclical problem. There appears to have been an actual structural shift in the county's job market and this structural shift seems to be more predominant in the high tech industries. There are two generally cited causes for this shift--remarkable increases in productivity and overseas outsourcing.

Economists have been forecasting very large increases in productivity for some time. The source of the productivity increases is generally attributed to companies' rapid adaptation of communication/internet technologies that have been developing over the past decade. These technologies have enabled companies to increase output without increasing the number of workers.

Productivity increases have been the norm through much of the history of the United States, and generally increases in productivity are considered to be a good thing as companies are always searching for ways to increase output per worker. But when demand fails to keep pace with productive capacity, companies can cut workers and still maintain output sufficient to meet current demand. And who would be more able to embrace these productivity changes than the high tech companies themselves? Similar technology jumps occurred with the adaptation of the steam engine, the use of electricity and the adaptation of mass production technologies. There are signs, however, that this rise in productivity is of a different nature. A controversial aspect of the current trend is the issue of overseas job outsourcing. Virtually unheard of just a few years ago, this trend is responsible for the losses of perhaps as many as several tens of thousands of jobs in the valley, with no real end in site. Compounding the problem, the types of jobs being outsourced keep moving up the occupational ladder. Initially confined to lower echelon workers such as customer support and clerical workers, the current trend is to outsource the much more skilled labor of programmers and engineers.

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ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Santa Clara County Outlook (Cont'd.)

In order to be able to take advantage of outsourcing benefits, the outsourcing companies generally need to be quite comfortable with the required communication and other technologies needed to support distant worksites. And once again, the companies most likely to be comfortable with these requisites are the types of companies located here in the valley.

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. The proponents of outsourcing insist that new technologies will be developed that will end up re-employing local workers. When and to what extent these product cycles occur, however, 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. Although it is possible that a new innovation will spur the valley's growth over and above that expected to take place in the next five years, such an event is not included in this forecast.

Unfortunately, Santa Clara County is not well positioned for short-term economic recovery. The twin trends of productivity increases and outsourcing represent a significant threat to the valley's job generating capabilities over the next several years. The fact that many of these job losses are occurring in the middle income classes underscores the challenge this trend poses to short-term economic recovery.

This forecast projects that modest job growth in the valley will begin sometime during the first half of this year (2004) and that jobs will continue to grow throughout the forecast horizon. However, the growth trend will be very subdued by historical standards and will not come anywhere close to reaching previous heights in the foreseeable future.

The high tech sector is not the only problem area for local job growth. Another problem for overall job growth in the near to intermediate term will be the public sector. This area has been one of the few bright spots for job growth in the valley over the last several years, as local, state and federal employment remained relatively stable. This status has changed radically, as it is now projected that declines will occur in the state and local sectors as these sectors cope with dramatically reduced tax revenue flows and resulting budget deficits. Federal employment should remain relatively stable, however, offsetting some of the anticipated declines in state and local employment.

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ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Santa Clara County Outlook (Cont'd.)

Santa Clara County has lost more jobs than any single region in the country since the Great Depression and even now the losses continue. Yet, surprisingly, local home prices and sales remain brisk. In fact, prices have risen over 7% in the past twelve months, in a region that already had some of the highest home prices in the world. These high prices have fueled significant concern that the area is experiencing a residential real estate bubble, which could burst. Of course, the same cannot be said for the area's totally moribund commercial real estate market. While it is true that some space is currently being absorbed, there is still so much over-capacity on the market that significant new development in the near future is not anticipated.

Nationally, real estate is expected to cool, due partially to an expected rise in interest rates and partially to the actual rise in home prices over the last several years. That general trend is likely to be reflected here in Santa Clara County as well.

On the basis of the observations described above, the current forecast for the local economy is one that looks very much like the conditions that prevailed in the county during the early 1990's. 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 assumes that by the beginning of 2004-2005, the employment declines will end and the County will finally begin to recover from the recession. That recovery, however, will be slow.

City of San José Outlook

The recent resurgence in corporate profits and the rising stock market should eventually begin to help San José revenues, but it will take some time for these benefits to materialize. However, these improvements are going to be overshadowed by the very slow job growth expected over the duration of the forecast horizon. This slow job growth and expected moderate increases in interest rates will have a negative impact on the home prices and real estate in the valley.

As expected, a reduction in growth has already occurred in this year's property assessment role, as compiled by the County government. Despite relatively robust residential real estate, the secured tax role growth was only around 3.5%, which is well below expectations. Part of the problem was the slow inflation rate and terrible non-residential real estate conditions that dragged down the relatively healthy residential real estate market. Adding to the problems of the slowing in the secured role, the unsecured role actually declined over the same time period. This unsecured decline, however, was not a surprise either, as this had also been anticipated.

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ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

City of San José Outlook (Cont'd.)

In the forecast period, property taxes will be below that experienced over the last decade owing to an ongoing weakness in the non-residential market and slow job growth. With very little new non-residential construction and ongoing high vacancy rates, the non-residential market is expected to add little to overall property tax collections.

Sales taxes in general are anticipated to achieve less than historical growth levels during the forecast period because of anticipated weak job growth in addition to generally low inflation rates that keep prices down. One area of potential strength may be in the business-to-business sales sector that should show near term strength as businesses resume their spending.

Utility tax is another area of concern, particularly the City's largest utility tax source, electricity. A recent court ruling regarding PG&E's bankruptcy will result in a reduction of electricity rates. These reductions, while good for the electricity consumer, are bad news for the City's revenues. The rate reductions, which will be retroactive to January 1, 2004, have been incorporated into this forecast.

In summary, the forecast period will be characterized by short-term continued weakness, followed by modest and historically low revenue growth rates.

Economic Drivers

The 2005-2009 forecast was built utilizing the following specific economic assumptions:

- Real Gross Domestic Product will grow 3.38% in 2004-2005 and the economy will expand by 3.50% in 2005-2006, and 3.60% in 2006-2007, with slightly slower growth in the last two years of the forecast period of 3.50% in 2007-2008 and 3.55% in 2008-2009.
- The prime rate will remain at a relatively low level, averaging 5.27% over the forecast period.
- Mortgage rates will be lower over the period, averaging 6.56%, and ranging from 6.60% in 2005, 6.70% in 2005-2006, 6.60% in 2006-2007, 6.60% in 2007-2008, and 6.30% in 2008-2009.

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ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Economic Drivers (Cont'd.)

- The national unemployment rate will decline to 6.40% in 2005, 6.30% in 2005-2006, 6.10% in 2006-2007, 6.00% in 2007-2008 and 5.8% in 2008-2009, averaging 6.12% over the period.
- National employment growth will rise to 1.03% in 2004-2005, and hold steady at that level until experiencing a slight decrease to 1.02% in 2008-2009.
- Historically low national inflation rates will rise only slightly, with growth averaging 2.17% over the forecast period, with a high of 2.33% in 2004-2005 and a low of 2.00% in 2008-2009.
- Historically above national levels, local inflation will rise as well, but average only 2.30% over the forecast period, with a high rate of 2.57% in 2005-2006 and a low rate of 2.09% in 2008-2009.
- San José's population growth levels will increase slowly over the period, averaging approximately 0.84% over the forecast period. Total population is expected to grow from approximately 933,000 residents in 2004-2005 to 965,000 residents in the 2008-2009.
- The County unemployment rate will remain higher than the national one, averaging 6.72% over the forecast period, with a high of 6.98% in 2004-2005 and a low of 6.44% in 2008-2009.
- Total County employment growth rates will average 1.59% over the forecast period, changing from 1.65% in 2004-2005 to 1.75% in 2005-2006, 1.50% in 2006-2007, 1.52% in 2007-2008, and 1.54% in 2008-2009.

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 were created using specific sets of differing economic and political assumptions.

It should be noted that alternative economic scenarios are not likely to be exactly symmetrical to the base forecast. This lack of symmetry is largely due to how the scenarios are developed with specific sets of alternative economic assumptions that would not necessarily be equally divergent from the base case. For instance, in this forecast the optimistic case is somewhat more divergent from the base case than the pessimistic case in 2009, while the opposite is true in 2006.

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ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Pessimistic and Optimistic Scenarios (Cont'd.)

Optimistic Case

A great deal of attention is currently being paid to the lack of job growth in the economy and, in fact, this slow growth is a major driver of the base case scenario. Outsourcing and productivity increases are the most often cited reasons for the lagging growth. The base case assumes that the problem of slower than normal job growth persists through most of the forecast horizon.

But this phenomenon of slower than normal growth is relatively new to economic forecasters and they may not yet fully understand its dynamics. It is very conceivable that job growth, particularly over the next several years, could be much more robust than that assumed by the base case for both the national and local economy. In fact, there is a body of opinion that feels that job growth could accelerate markedly over the next year. Business profits are soaring and revenues are also up strongly. The average weekly hours put in by full-time workers is also up sharply, which is usually considered a harbinger of additional future hiring.

Higher than expected job growth both nationally and locally forms the basis of the optimistic scenario. The higher employment levels translate directly to higher incomes and consumer spending. Another key factor in this scenario is interest rates. Despite the higher job growth in this scenario, there is little upward pressure on interest rates. And while the interest rates are higher than the base case, they are not so high as to severely impact the housing market. The housing market remains relatively strong and this further increases consumer confidence and spending.

In this optimistic scenario, the tax revenues to the public sector (including San José) are more than forecast by the base case and this helps prevent many of the cuts that would be expected under the base case scenario. In the out years, the higher job growth continues as do reasonable levels of interest rates and inflation and general economic activity continues at a higher pace than the base case.

Pessimistic Case

There are a considerable number of new and unfamiliar forces shaping the economy both domestic and international. The economy is currently riding a wave of economic expansion that is being driven, to a very large extent, by the lowest interest rates that this country has seen since before WWII. Lower interest rates have reduced many consumers' monthly home payments through refinancing and consumers have responded to the increased monthly budgets by continuing very high consumption patterns. In addition, the low rates are currently encouraging an expansion in the capital goods sector of the economy. The base case assumes that interest rates rise gradually in the coming years as the economy picks up and the Federal Reserve eases off its low interest rate policy. But the possibility of higher than expected rates cannot be ignored and higher than expected rates form the basis for this scenario.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

Pessimistic and Optimistic Scenarios (Cont'd.)

Pessimistic Case (Cont'd.)

Several factors could emerge that could push rates up higher than that expected by the base case. The falling dollar could put upward pressure on rates as foreign investors seek better returns in areas other than the United States. Another threat comes from inflation. In this scenario, higher inflation rates are tied to the declining dollar and to higher than anticipated energy prices. Inflation has been benign for the last several years, but is currently undergoing a mild resurgence. Higher inflation will almost always result in higher interest rates.

Most vulnerable to rising interest rates is the housing market. Due to low interest rates, the housing market has undergone a tremendous expansion over the last several years. Both prices and sales have soared to the point where many consider the housing market to be another "bubble", not unlike the IT bubble at the turn of the decade.

The higher rates in this scenario put an immediate end to the housing expansion and result in declining home prices. Lower home prices set off a ripple effect as the lower home prices sap consumers' confidence and lessen their ability to borrow. A fall in consumption and the general level of economic activity would most certainly ensue.

In addition, this scenario assumes that the currently low levels of employment persist longer into the forecast horizon than in the base case. Along with a persistent lack of job growth, the increasingly high cost of doing business in California could result in a further slowdown in the local economy. If more businesses expand or relocate out of state to relieve cost pressures, economic growth in California will be weak, even during a time of growth at the national level. With slower growth and continued low employment levels, local and state government revenues would be lower resulting in larger budget gaps. As the deficits climb beyond those envisioned by the base case, local and state government would be forced to make additional cutbacks in their spending thereby putting increased downward pressure on the economy.

Impact of Forecasted Economic Conditions on Revenue Collections

When forecasting the City's revenue growth, it is important to remember that only about 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 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.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT (CONT'D.)

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

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 must be directly linked to costs with the result 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 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 2004-2005 through 2008-2009 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 (2004-2005) 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 2003-2004 and, building upon those projections, a forecast for 2004-2005 revenues was made. These revenue estimates will be examined and updated again during the development of the 2004-2005 Proposed Operating Budget.

As displayed in the Forecast, revenues (exclusive of beginning fund balance) are shown to increase from \$616.4 million in 2004-2005 to \$685.9 million in 2008-2009, for an average growth rate of 2.17% per year. This growth rate is significantly lower than that projected in the last Forecast presented in March 2003 (3.69%).

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 2004-2005 base case.

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REVENUE FORECAST

Property Tax receipts of \$97.9 million are projected for 2004-2005. This amount would be approximately 1.0% growth over the prior year, reflecting higher growth in the Secured category offset by decreases in the Unsecured Property Tax area 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 2003-2004 growth rate of approximately 8.3% over the prior year, followed by a lower 2004-2005 growth rate of 3.0%. The growth rate for 2003-2004 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 2004-2005 Secured Property Tax levy will be based on real estate activity in calendar year 2003. At this point, data on the actual tax levy for 2004-2005 is not available. Because the performance in the 2003 calendar year was not anticipated to be as strong in terms of property turnovers, a conservative growth rate of 3.0% is projected for 2004-2005. More current information on the growth in the tax role should be available for the development of the 2004-2005 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 2004-2005 (3.0%), 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 approximately the same as the growth level experienced in 1994-1995 (3.0%) and higher than the growth level experienced in 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 decline (13.3%) in the current year. This level of decline is significantly lower than the growth 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 2004-2005 Unsecured Taxes are projected to decrease by an additional 9.0%. 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.

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REVENUE FORECAST

Property Tax (Cont'd.)

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 2003-2004, it is estimated that collections will be below the prior year level by approximately 10.0%, reaching \$4.6 million. This collection level is expected to fall further to \$4.1 million in 2004-2005. 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 2004-2005, consistent with historical trends. Through the remaining years of the forecast, the growth rate averages 4.7%.

The projection for 2003-2004 year-end collections of Sales Taxes is a key factor in determining the Sales Tax forecast for 2004-2005 and each year thereafter. The forecast for the General Sales Tax revenue estimate assumes a decline of approximately 0.5% in 2003-2004 over the actual prior year collection level. The 2003-2004 estimate is built on the actual performance for the first quarter (July through September activity down 0.9%) 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 2004-2005 General Sales Tax estimate of \$123.9 million assumes growth of 1.5% over the 2003-2004 estimated collection level. This reflects our belief that we will begin to see a slight resumption of growth beginning next fiscal year.

Proposition 172 Sales Tax collections are expected to end the 2003-2004 year slightly higher 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 experience weak growth of only approximately 2.0% this year and approximately 2.0% growth again in 2004-2005.

Through the remaining years of the forecast in this category, the growth rate averages 4.25%. These rates range from a low of 3.26% in 2009 to a high of 4.89% in 2006.

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

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REVENUE FORECAST

Departmental Charges and Other Licenses (Cont'd.)

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 costs, 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.

Revenue from the Solid Waste Enforcement Fee is now included in Departmental Charges. This fee is expected to be slightly below current year budgeted expectations and then grow by approximately 1.6% in 2004-2005.

All other Departmental Charges and Other License revenues are anticipated to grow, 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 3.6% and 0.7%, respectively, in 2005-2006, averaging 2.7% for Departmental Charges and 2.05% for Other Licenses for the remaining years.

The Cardroom Business Tax is also included in the Other Licenses category. In 2003-2004, the Adopted Budget estimate was broken down into two categories: ongoing funding (\$2.50 million); and one-time funding (\$5.0 million). This distinction was made to continue phasing out the ongoing reliance on this revenue source per City Council direction.

For 2004-2005, the ongoing forecast estimate of \$1.25 million reflects converting another \$1.25 to the one-time funding category. As was the case when the 2003-2004 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 2003-2004 estimate for General Business License Tax proceeds assumes that collections will meet the Adopted Budget estimate (\$12.42 million), including approximately \$0.4 million in one-time regulatory enforcement revenue. For 2004-2005, flat growth in on-going revenue is projected for this category. In the Disposal Facility Tax (DFT) category, revenue collections in 2003-2004 are expected to fall below the Adopted Budget estimate (\$16.1 Million) by approximately \$2.2 million, declining to \$13.9 million, mainly due to a dispute over the removal of the Alternate Daily Cover (ADC) exemption (\$1.8 million). For 2004-2005 DFT collections are expected to remain flat from the prior year but with the \$1.8 million added back based on the expectation that the ADC dispute will be settled favorably. 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.

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REVENUE FORECAST

The **Money and Property** category consists primarily of interest income. The 2004-2005 estimates in this forecast for earnings on investments of General Fund and several other funds' cash assume a historically low average interest rate of 2.3%, applied to an average cash balance of approximately \$175.5 million. This forecast reflects a decrease to the average interest rate yield (down from 2.7% in 2003-2004) and a slight decrease in the average cash balance (down from \$195.0 million), both used to develop the estimate in the 2003-2004 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 2004-2005. The forecast projects modest growth of approximately 2.0% 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 comparative growth of only 2.9%, reflecting a slowing trend and general impacts of the recession. In 2004-2005, the forecast assumes that growth will continue to slow, experiencing modest growth of 2.0% over the 2003-2004 estimate (after taking out the impact of the \$10.5 million "one-time" decrease that resulted from the ramp-up time necessary for the State to fully implement the increase in the VLF fees in 2003-2004). 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 4.33% in 2004-2005 to a high of 4.91% in 2008-2009. It should be noted that 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. Since the application was renewed by the State for another three-year term in 2003-2004, the San José LEARNS grant of approximately \$1.7 million is included in the forecast. For 2004-2005, 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 \$690,000. Other ongoing grants are projected to be received approximately at the current year level for 2004-2005 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 2003-2004 are expected to total \$17.0 million and remain flat in 2004-2005. In the out years of the forecast, growth of well under 1.0% annually is projected.

The **Transient Occupancy Tax** estimate for 2003-2004 reflects a decline of 1.2% from the prior year level, reflecting the stagnant economy. In 2004-2005, a modest increase of 2.0% is anticipated. In the remaining years of the forecast, average annual growth of approximately 5.0% is anticipated based, in part, on an expectation of increased hotel activity over the forecast period.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Utility Taxes are imposed on electricity, gas, water and telephone usage. Collections in 2003-2004 are anticipated to end the year approximately 0.5% above the 2002-2003 actual level. This level reflects lower performance related to Electricity Utility Taxes, due to a one-time rebate to PG&E customers and a reduction in electricity rates during the year, offset by increases in Telephone Utility Taxes and stronger Gas and Water Utility Taxes. For the Electricity and Gas Utility Taxes, a combined 3.6% decrease is expected for 2004-2005 from the current year estimate. For the Water Utility Tax area, growth of 5.0% is anticipated based on an expected rate increase. For the Telephone Utility Tax, a slight decline of 2.0% is assumed, reflecting a continuation of current trends.

In the current year, **Franchise Fee** collections are expected to decline by slightly less than 1.0% from the 2002-2003 actual level. This drop from the prior year is partially due to lower Franchise Fees related to Electricity, offset by an increase in Commercial Solid Waste (CSW) Franchise Fees. In the CSW Franchise Fee category, collections are anticipated to grow from \$8.6 million in 2002-2003 to \$9.3 million in 2003-2004, and then increase to \$9.4 million in 2004-2005, primarily reflecting the phased-in shift of AB 939-related fees approved by the City Council in the 2003-2004 Adopted Operating Budget. This CSW Franchise Fee also reflects the sustained trend in reduced solid waste volume levels, as diversion program impacts become more significant.

In 2004-2005, the projection for collections in the Electricity and Gas Franchise Fee categories is based on activity from calendar year 2004. For the Electricity and Gas Franchise Fee, a decrease of 1.5% and growth of 2.0%, respectively, is projected in 2004-2005 based on a decrease in rates 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 decrease 1.5% in 2004-2005 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 2004-2005 are expected to remain flat from the 2003-2004 estimate of \$1.2 million.

In the out years of the forecast, revenues are anticipated to increase an average of 1.1% 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

The 2003-2004 estimates for the **Fines, Forfeitures and Penalties** category presume very slight growth from the 2002-2003 actual collection level. It is assumed that collections in 2004-2005 will be less than 1% above the 2003-2004 year-end projections, reaching \$12.5 million. A low rate of growth of slightly less than 1% for this category is anticipated in the latter years of the forecast.

As with the prior forecasts, the long delayed collection of 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 five years.

The largest portion of the **Revenue from Local Agencies** category consists of Redevelopment Agency Convention Center lease payment (pass-through) reimbursements. The debt service amounts have been predetermined. Estimated Agency reimbursements for City service costs for 2004-2005 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 2003-2004, Central Fire District payments are expected to at least meet the budgeted amount of \$4.5 million. 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, growth of 3.0% is projected for 2004-2005 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 2.4% in 2004-2005. Also in 2004-2005, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed to grow by 0.2% to the \$1.5 million level based on the annual adjustments approved under the existing contract.

An overall decline of 1.9% from the 2003-2004 year-end estimate is expected in the Revenue from Local Agencies category in 2004-2005. This growth rate is significantly lower than the slight growth in the out years due to the absence of one-time grants expected to be received and concluded in 2003-2004, including matching funds of \$1.1 million from local agencies related to an Interoperable Communications Federal grant. Overall, the average growth rate following 2004-2005 is approximately 1.2%.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

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 2004-2005 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.

The **Overhead Reimbursements** and **Reimbursements for Services** categories for 2004-2005 reflect the majority of changes in overhead rates that will occur. Overhead reimbursements are forecasted to decline by approximately 2% in year two and to be flat in year four due to potentially lower salaries and/or fewer positions due to the significant increase in employer contributions to retirement funds creating a significant budget deficit. 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" except in years two and four of the forecast period.

The significant decrease in the **Transfers** category estimate for 2004-2005 primarily reflects a reduction for one-time transfers in 2003-2004 from the Healthy Neighborhood Venture Fund (\$10.0 million) and the Vehicle Maintenance and Operations Fund (\$2.9 million). A cost of living increase in the reimbursement for Airport Crash Fire Rescue and Airport Police Consolidation costs is assumed for 2004-2005 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 2004-2005 of \$33.0 million is based on the following assumptions:

- A Contingency Reserve balance of at least \$22.0 million will remain uncommitted by year-end; and
- A total of \$11.0 million will be achieved from a combination of expenditure savings and the liquidation of prior-year carryover encumbrances.

The future year beginning fund balance estimates assume the continuation of the 2004-2005 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

Personal Services Base

As has been the practice in the last several forecasts, the first year (2004-2005) projection for personal services costs was calculated at a detailed level. An extract of payroll system information as of September 2003 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, 2003-2004 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 2004-2005 personal services preliminary estimate, as displayed in Section Two of this report, represents growth of approximately 7.7% from the 2003-2004 Adopted Budget level. The growth of approximately \$37.8 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 (2003-2004), but not yet distributed in the Adopted Budget (Police Officers Association and International Association of Firefighters); an increase of approximately 19% (\$4.5 million) for the City's lowest priced health plan effective January 2004; and revised employer retirement contribution rates for both retirement systems (Federated and Police and Fire) that have been approved as a result of the latest actuarial reviews increasing costs by \$21.7 million.

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 2004-2005 because costs for all of the twelve employee bargaining units with open contracts are not included in the personal services total. The projected costs for those bargaining unit agreements are carried separately in the Salary and Benefit Reserve.

In year two, in order to maintain existing benefits for the Police/Fire Retirement plan, the retirement rate for the Police/Fire Retirement plan was adjusted to reflect the projected impact of the economy upon the retirement portfolios, as discussed in the most recently completed actuarial. In 2006-2007, the retirement rate adjustment is projected to increase expenditures by approximately \$25.4 million. In the prior forecast, an increase of only approximately \$11 million was assumed in 2006-2007. 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 5.3%. This projected rate of growth is down from the 6.3% presumed in the March 2003 forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

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 2003-2004, 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 2004-2005 estimates represent a decrease of \$5.41 million from the current year level. This primarily reflects the impact of deleting rebudgeted items included in the 2003-2004 Adopted Budget.

Departmental gas and electricity funding was decreased in the forecast by \$392,000 to reflect approved gas and electric rates, and projected consumption changes from expanded City facilities. Other specific adjustments included in the 2004-2005 non-personal/equipment base include increases to the amounts for vehicle maintenance and operating costs (\$282,000), vehicle replacement costs for the police fleet (\$2.97 million), and contractually required cost of living increases to major contracts. For the out years of the forecast, a growth rate of 2.0% was assumed from the 2004-2005 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 (2004-2005) represents a reduction of \$8.2 million from the 2003-2004 level. This large reduction primarily reflects the combined impact of deleting rebudgets (\$11.76 million) and other one-time items (\$0.78 million) budgeted in 2003-2004. These reductions are offset by the inclusion of an increase of \$1.85 million to Workers' Compensation Claims payments. The Claims payments in this forecast range from \$21.4 million in 2004-2005 to \$25.09 million in 2008-2009. Payment costs are expected to be up significantly in all five years from the March 2003 forecast level. This reflects the spike in costs experienced in the last 18 months. Although the number of claims has decreased, substantial increases in the cost per claim for greater than anticipated medical costs have been realized.

In 2003-2004, contractually required cost of living increases to office space leases are carried at the required level in the non-personal/equipment category. In 2004-2005, **Lease Payments** have been removed from non-personal/equipment and are shown as a separate item. This change is due to changes vastly different than the 2.0% growth necessary in the out years of the forecast. In 2004-2005, \$4.79 million is needed to provide space for City services. The costs range in the forecast from approximately \$4.79 million in 2004-2005 down to approximately \$1.91 million in 2006-2007. This is down significantly from prior forecasts to reflect projections for the new Civic Center, which is scheduled to come on-line during the last quarter of 2004-2005.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Other Expenditures (Cont'd.)

The **Convention and Cultural Affairs Fund Transfer** estimate of \$2.4 million was assumed in each year of the five-year period. This is a change from the previous forecast, to reflect actions taken during 2003-2004 to reduce this cost by \$192,000. Not included in this forecast is the potential impact to the General Fund that may result from changes in the funding mechanism for the Office of Cultural Affairs as the result of the current RFP process underway for operation of the Convention Center.

The **Other Transfers** category includes the revenue-offset payments for the Camden Lifetime Activities Center debt service (\$215,000 in 2004-2005) and various Maintenance Assessment Districts for the General Fund's share of landscape services in those areas.

Communications Center Debt Service includes funding for debt service as required under terms of financing used for construction of the Communications Center. In 2004-2005, \$2.374 million has been included.

The General Fund **Capital Projects** category includes \$708,000 for the Congestion Management program. Also included in this category is the continuation of allocations for Arena Repairs, unanticipated maintenance of City facilities, fuel tanks, and methane monitoring, control and replacement.

As was the case in the March 2003 forecast, continued funding for the **Replacement of Fire Apparatus** is carried in this Forecast. Costs include 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 bond payment is \$728,000 in 2004-2005. The final payment of \$716,000 is scheduled in 2006-2007.

A **Sidewalk Repair Program Allocation** of \$2.0 million per year is included to provide ongoing funding for the repair of deteriorating sidewalks for owner-occupied residences. This is a change from the previous forecast to reflect actions taken in 2003-2004.

The **Equipment** category includes a general equipment reserve of \$100,000 for subsequent allocation in the Proposed Budget. In addition, \$250,000 was assumed annually for computer equipment and automation projects for subsequent allocation in the Proposed Budget. These annual allocations have been reduced by one-half from the previous forecast to reflect actions taken in 2003-2004.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Other Expenditures (Cont'd.)

The 2004-2005 Forecast **Salary and Benefit Reserve** includes projections for required funding for potential compensation increases for the bargaining units open during 2004-2005. For 2004-2005, all of the twelve contracts with bargaining units will become open that year. 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.)

A **Vehicle Replacement/General Fleet** allocation of \$2.5 million per year is included in years two through five to fund the vehicle replacement schedule recommended by the General Services Department. Prior to the March 2003 Forecast, previous forecasts included funding in the amount of \$2.5 million in all five years. 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 2004-2005.

In 2004-2005 **Vehicle Replacement/Police Fleet** funding is carried at the required level in the departmental budget (\$4.9 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 \$.65 million in 2005-2006 to a reduced need of \$1.145 million in 2006-2007 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 \$16.506 million (one-time) was included and is available for allocation during 2004-2005 for one-time purposes. This reserve was set aside to fund a portion of the shortfall that was projected for 2004-2005 in the most recent forecast. In addition, the Reserve for Economic Uncertainty of \$15.800 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 \$6.250 million available from the phase-out of Cardroom revenue from the ongoing budget. The cumulative total of these reserves is \$38.566 million.

Contingency Reserve

In this forecast, the 2004-2005 Contingency Reserve has been estimated at the level presumed to remain at the Council policy level (\$24 million). Although this level would be above the 3% Council policy level, it is designed to include the 3% reserve requirements associated with rebudgets that may be approved in the Adopted Budget. In the last four years of the Forecast, the Contingency Reserve has been held at the 3% policy level.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

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.

The Extended Additions category is also presented for review by the City Council. Included in this category are expenditures for operating costs related to capital projects and furnishings for the three bond project programs (Library, Parks and Public Safety) and other parks and recreation facilities. 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 2005-2009 Forecast:

Communications Equipment Replacement and Upgrades (\$143,000 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.

Funding for **Fox Theater Operations** (\$750,000 in 2004-2005) is included in anticipation of the theater's scheduled opening in 2004-2005. The Fox Theater renovation is being completed by the Redevelopment Agency. These costs represent the funding necessary to maintain and operate the renovated Fox Theater in 2004-2005.

Increased costs for street lighting and maintenance of scheduled **Street Improvements** (\$137,000 in 2004-2005) are also shown as a Committed Addition.

The approved bond measures from the elections of November 2000 and March 2002 will result in new and expanded library, community, police and fire facilities and will require additional **Maintenance** funding (\$68,000 in 2004-2005). Additional operating (programming) costs are included in the Extended Additions category.

New Parks and Recreation Facilities (\$305,000 in 2004-2005) 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. Additional operating (programming) expenditures are included in the Extended Additions category.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Committed Additions (Cont'd.)

Communications Hill Fire Station is scheduled to be completed July 2006. In order to be fully operational July 2006, additional costs of \$587,000 are necessary in year two to support the fire station.

The **Civic Center** is scheduled to open in spring 2005. The following chart identifies both the General Fund costs and the available cost offsets over the forecast period.

General Fund Impact of New Civic Center

| | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | Total |
|--|----------------|--------------------|----------------|-------------|-------------|--------------|
| Civic Center Costs | | | | | | |
| Civic Center Debt Service | | 1,566,000 | 9,940,000 | 9,942,000 | 9,945,000 | 31,393,000 |
| Technology, Furniture & Equipment Debt Service | | 3,507,000 | 3,507,000 | 3,507,000 | 3,507,000 | 14,028,000 |
| Civic Center Operating and Maintenance | 328,000 | 2,579,000 | 2,762,000 | 2,954,000 | 3,157,000 | 11,780,000 |
| Cost Offsets | | | | | | |
| Savings from Avoided Lease Costs* | - | (2,247,000) | (3,126,000) | (3,282,000) | (3,447,000) | (12,102,000) |
| Savings from Avoided Employee Parking Costs | - | (615,000) | (646,000) | (678,000) | (712,000) | (2,651,000) |
| Savings from Reduced Telephone System and Technology Costs at New Civic Center | | (650,000) | (650,000) | (650,000) | (650,000) | (2,600,000) |
| Savings from Reduced Operating & Maintenance Costs at Existing City Hall | | (900,000) | (1,810,000) | (1,901,000) | (1,996,000) | (6,607,000) |
| Rent from Leasing Existing City Hall | | (1,185,000) | (2,370,000) | (2,370,000) | (2,370,000) | (8,295,000) |
| Proceeds from Sale of Parking Lot (E-Lot) | | | (3,662,000) | (4,119,000) | (3,633,000) | (11,414,000) |
| Forecast Subtotal | 328,000 | 2,055,000 | 3,945,000 | 3,403,000 | 3,801,000 | 13,532,000 |
| Previously Avoided Lease Costs (Old MLK)* | | (3,087,000) | (3,241,000) | (3,403,000) | (3,801,000) | (13,532,000) |
| Net Impact | 328,000 | (1,032,000) | 704,000 | - | - | - |

* The lease costs are not reflected in the Committed Additions section of the forecast. The remaining lease costs are included in the Other Expenditures portion of the forecast and the previously avoided lease costs no longer are reflected in the forecast.

As shown above, the costs associated with the New Civic Center include debt service payments for the construction project and the furniture, technology and equipment along with the operating and maintenance costs. A plan has been developed to offset these costs over the five-year period. Savings are available from avoided lease costs, the elimination of parking costs associated with City employees who work in the downtown offices, and the estimated telephone system and technology savings that will be realized from the technology investments in the new Civic Center. The forecast also assumes a few cost offsets that have been presented to the City Council but would require further action to be implemented. These include savings from lower operating and maintenance costs for the existing City Hall and revenue from leasing portions of the existing City Hall that are both associated with the revised space plan and a portion of the proceeds from the sale of the employee parking lot (E-lot).

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Committed Additions (Cont'd.)

In the development of the model for the new Civic Center, it was assumed that the savings from avoided lease costs would be available to offset costs associated with the new facility. A portion of these lease savings were realized early as a budget balancing strategy in 2003-2004 when staff in leased space were relocated to the old Martin Luther King, Jr. Library. Once these savings are applied against the new Civic Center costs, there are sufficient cost offsets to close the funding gap for the new Civic Center over the forecast period.

The costs associated with the new Civic Center will be spread among all of the City funds that support staff that will be located in the new facility. The General Fund is responsible for approximately 50% of these costs with the special and capital funds covering the remaining costs. Because the 5-Year Forecast focuses on the General Fund, the specific financial impacts on the special and capital funds have not been reflected in this document. These costs will be addressed in each of the budgets for these funds.

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** funding for the three bond measures and other new parks and recreation facilities 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 \$726.0 million in 2004-2005 to \$886.3 million in 2008-2009, for an average growth rate of approximately 5.1%. General Fund sources (including beginning fund balance), on the other hand, total \$649.4 million in 2004-2005, and grow to \$732.6 million in 2008-2009, which is an average growth rate of only 3.1%.

Compared to the last forecast, produced in March 2003, expected growth rates in the out years of the forecast for expenditures have changed slightly, increasing from 5.43% to 5.57% for the comparable period of 2005-2006 through 2007-2008. Expectations for overall growth rates for revenue collections during the comparable three-year period have decreased slightly from 3.68% to 3.16%.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

Operating Margin (Cont'd.)

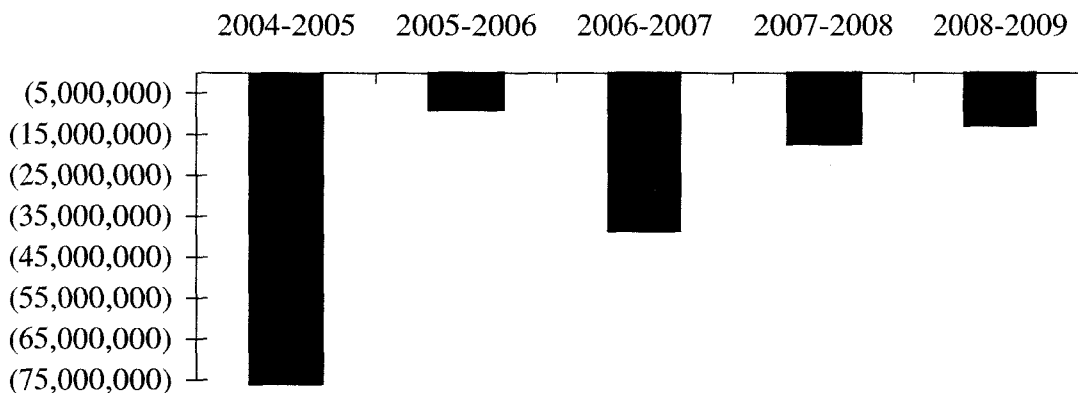
The Base Case with Committed Additions Forecast shows a shortfall in the first year (2004-2005) of \$76.6 million. This compares with the last projection for that year (from the March 2003 Five-Year Forecast) of a \$26.6 million shortfall increment in 2004-2005. The incremental shortfall (assuming each 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 2003 forecast. In addition, some one-time funds are available for use in each year.

| (\$ in millions) | <u>2004-2005</u> | <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| March 2003 | | | | | |
| Incremental Surplus/Shortfall | (\$76.57) | (\$8.80) | (\$38.46) | (\$17.15) | (\$12.63) |
| March 2002 | | | | | |
| Incremental Surplus/Shortfall | (\$26.64) | (\$10.52) | (\$12.63) | (\$10.69) | 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:

**Changes in Operating Margin (Base Case)
2005-2009**



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*2005-2009
Five-Year Forecast and
Revenue Projections*

Base General Fund Forecast

2005-2009 Forecast
FIVE-YEAR FORECAST DRIVERS

BASE CASE

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|----------|---------|---------|---------|---------|
| <u>National Assumptions</u> | | | | | |
| Real Gross Domestic Product (% Change) | 3.38% | 3.50% | 3.60% | 3.50% | 3.55% |
| Prime Rate | 4.75% | 5.00% | 5.50% | 5.60% | 5.50% |
| Mortgage Rate | 6.60% | 6.70% | 6.60% | 6.60% | 6.30% |
| US Unemployment Rate | 6.40% | 6.30% | 6.10% | 6.00% | 5.80% |
| Total US Employment Rate (% Change) | 1.03% | 1.03% | 1.03% | 1.03% | 1.02% |
| US Car Sales (% Change) | 12.00% | 3.57% | 6.90% | 0.81% | 4.00% |
| OPEC Oil Price (% Change) | (16.13%) | (3.85%) | (6.00%) | 0.00% | (2.13%) |
| US Consumer Price Index (CPI) | 2.33% | 2.30% | 2.10% | 2.10% | 2.00% |
| <u>Local Assumptions</u> | | | | | |
| San José Population | 933,200 | 942,950 | 950,450 | 957,950 | 965,450 |
| San José Population (% Change) | 1.04% | 0.80% | 0.79% | 0.78% | 0.78% |
| County Unemployment Rate | 6.98% | 6.87% | 6.70% | 6.61% | 6.44% |
| Total County Employment Rate (% Change) | 1.65% | 1.75% | 1.50% | 1.52% | 1.54% |
| Number of Hotel Rooms | 10,343 | 10,593 | 10,843 | 10,893 | 10,893 |
| County Consumer Price Index (CPI) | 2.44% | 2.57% | 2.20% | 2.19% | 2.09% |

BASE CASE

March 2004 Forecast

REVENUE SUMMARY

| | ADOPTED | | FORECAST | | | |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2003-2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| PROPERTY TAX | 92,438,000 | 97,915,000 | 102,674,000 | 106,524,000 | 111,754,000 | 117,700,000 |
| | | 5.93% | 4.86% | 3.75% | 4.91% | 5.32% |
| SALES TAX | 128,818,000 | 128,772,000 | 134,940,000 | 141,539,000 | 147,271,000 | 152,072,000 |
| | | (0.04%) | 4.79% | 4.89% | 4.05% | 3.26% |
| DEPARTMENTAL CHARGES | 24,974,477 | 25,617,000 | 26,538,000 | 27,250,000 | 27,976,000 | 28,749,000 |
| | | 2.57% | 3.60% | 2.68% | 2.66% | 2.76% |
| BUSINESS LICENSE TAX | 28,541,000 | 27,725,000 | 27,803,000 | 27,869,000 | 27,939,000 | 28,012,000 |
| | | (2.86%) | 0.28% | 0.24% | 0.25% | 0.26% |
| MONEY & PROPERTY | 9,732,500 | 7,160,000 | 7,268,000 | 7,413,000 | 7,561,000 | 7,713,000 |
| | | (26.43%) | 1.51% | 2.00% | 2.00% | 2.01% |
| OTHER LICENSES | 38,201,685 | 33,486,000 | 33,720,000 | 33,512,000 | 34,602,000 | 35,816,000 |
| | | (12.34%) | 0.70% | (0.62%) | 3.25% | 3.51% |
| MOTOR VEHICLE IN LIEU | 53,550,000 | 53,991,000 | 56,329,000 | 58,976,000 | 61,742,000 | 64,774,000 |
| | | 0.82% | 4.33% | 4.70% | 4.69% | 4.91% |
| FEDERAL REVENUE | 1,026,904 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| | | (80.52%) | 0.00% | 0.00% | 0.00% | 0.00% |
| OTHER STATE REVENUE | 4,698,626 | 4,704,000 | 4,812,000 | 4,913,000 | 5,016,000 | 5,116,000 |
| | | 0.11% | 2.30% | 2.10% | 2.10% | 1.99% |
| GAS TAX | 17,800,000 | 17,000,000 | 17,073,000 | 17,170,000 | 17,155,000 | 17,165,000 |
| | | (4.49%) | 0.43% | 0.57% | (0.09%) | 0.06% |
| TRANSIENT OCCUPANCY TAX | 6,718,500 | 5,846,000 | 6,201,000 | 6,544,000 | 6,824,000 | 7,099,000 |
| | | (12.99%) | 6.07% | 5.53% | 4.28% | 4.03% |
| UTILITY TAX | 66,979,000 | 63,613,000 | 63,708,000 | 63,728,000 | 63,855,000 | 64,161,000 |
| | | (5.03%) | 0.15% | 0.03% | 0.20% | 0.48% |
| FRANCHISE FEES | 32,406,000 | 31,672,000 | 31,815,000 | 32,212,000 | 32,641,000 | 33,130,000 |
| | | (2.27%) | 0.45% | 1.25% | 1.33% | 1.50% |
| FINES, FORFEITURES & PENALTIES | 12,734,000 | 12,475,000 | 12,605,000 | 12,706,000 | 12,806,000 | 12,906,000 |
| | | (2.03%) | 1.04% | 0.80% | 0.79% | 0.78% |
| REVENUE FROM LOCAL AGENCIES | 39,520,530 | 40,595,000 | 41,079,000 | 41,572,000 | 42,076,000 | 42,589,000 |
| | | 2.72% | 1.19% | 1.20% | 1.21% | 1.22% |
| OTHER REVENUE | 11,816,110 | 12,740,000 | 12,915,000 | 13,102,000 | 13,419,000 | 13,016,000 |
| | | 7.82% | 1.37% | 1.45% | 2.42% | (3.00%) |
| TOTAL GENERAL FUND REVENUE | 569,955,332 | 563,511,000 | 579,680,000 | 595,230,000 | 612,837,000 | 630,218,000 |
| | | (1.13%) | 2.87% | 2.68% | 2.96% | 2.84% |

March 2004 Forecast

ADOPTED FORECAST

REVENUE SUMMARY

| | 2003-2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| TRANSFERS & REIMBURSEMENTS | | | | | | |
| OVERHEAD REIMBURSEMENTS | 32,023,467 | 29,518,000 | 28,928,000 | 29,796,000 | 29,796,000 | 30,689,000 |
| TRANSFERS | 35,741,603 | 22,883,000 | 23,260,000 | 23,648,000 | 24,048,000 | 24,460,000 |
| REIMBURSEMENTS FOR SERVICES | 470,000 | 485,000 | 500,000 | 515,000 | 530,000 | 546,000 |
| TOTAL TRANSFERS & REIMBURSEMENTS | 68,235,070 | 52,886,000 | 52,688,000 | 53,959,000 | 54,374,000 | 55,695,000 |
| | | (22.49%) | (0.37%) | 2.41% | 0.77% | 2.43% |
| AVAILABLE BEGINNING BALANCE | 140,675,984 | 33,000,000 | 43,072,000 | 44,731,000 | 45,786,000 | 46,726,000 |
| GRAND TOTAL SOURCES | 778,866,386 | 649,397,000 | 675,440,000 | 693,920,000 | 712,997,000 | 732,639,000 |
| | | (16.62%) | 4.01% | 2.74% | 2.75% | 2.75% |

EXPENDITURE SUMMARY

| | ADOPTED FORECAST | | | | | |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2003-2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| TOTAL PERSONAL SERVICES | 489,200,007 | 526,985,243 | 551,614,000 | 599,518,000 | 622,981,000 | 647,375,000 |
| | | 7.72% | 4.67% | 8.68% | 3.91% | 3.92% |
| TOTAL NON-PERSONAL/EQUIPMENT | 81,083,656 | 75,678,083 | 77,192,000 | 78,736,000 | 80,311,000 | 81,917,000 |
| | | (6.67%) | 2.00% | 2.00% | 2.00% | 2.00% |
| OTHER EXPENDITURES | | | | | | |
| CITY-WIDE EXPENSES | 86,692,199 | 78,495,000 | 81,143,000 | 83,717,000 | 87,007,000 | 91,950,000 |
| LEASE PAYMENTS | <i>Included in N/P</i> | 4,790,000 | 2,533,000 | 1,905,000 | 1,965,000 | 2,063,000 |
| CONVENTION AND CULT AFFAIRS FD TRANSFER | 2,495,533 | 2,404,696 | 2,404,696 | 2,404,696 | 2,404,696 | 2,404,696 |
| OTHER TRANSFERS | 341,969 | 338,561 | 294,304 | 311,304 | 305,304 | 306,304 |
| COMMUNICATIONS CENTER DEBT SERVICE | 2,369,400 | 2,374,200 | 2,416,000 | 2,408,000 | 2,414,000 | 2,413,000 |
| CAPITAL PROJECTS | 20,052,000 | 4,977,000 | 4,920,000 | 4,919,000 | 4,203,000 | 2,413,000 |
| EQUIPMENT (INCLUDING COMPUTER) | 0 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| SALARY AND BENEFIT RESERVE | 20,810,985 | 3,785,000 | <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 | 50,733,962 | 0 | 0 | 0 | 0 | 0 |
| VEHICLE REPLACEMENT/GENERAL FLEET | 0 | 0 | 2,500,000 | 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> | 650,000 | (1,145,000) | (585,000) | (691,000) |
| SUBTOTAL OTHER EXPENDITURES | 183,496,048 | 97,514,457 | 726,017,000 | 775,624,000 | 803,856,000 | 833,001,000 |
| | | (46.86%) | 644.52% | 6.83% | 3.64% | 3.63% |
| CONTINGENCY RESERVE | 25,086,675 | 24,057,000 | 25,072,000 | 26,731,000 | 27,786,000 | 28,726,000 |
| TOTAL BASE EXPENDITURES (w/o ADDITIONS) | 778,866,386 | 724,234,783 | 751,089,000 | 802,355,000 | 831,642,000 | 861,727,000 |
| | | (7.01%) | 3.71% | 6.83% | 3.65% | 3.62% |

OPERATING MARGIN

| | ADOPTED FORECAST | | | | | |
|--|------------------|--------------|-------------|--------------|--------------|--------------|
| | 2003-2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| BASE EXPENDITURES (w/o ADDITIONS) | | | | | | |
| GRAND TOTAL REVENUE | 778,866,386 | 649,397,000 | 675,440,000 | 693,920,000 | 712,997,000 | 732,639,000 |
| GROWTH RATE | | (16.62%) | 4.01% | 2.74% | 2.75% | 2.75% |
| TOTAL BASE EXPENDITURES (w/o ADDITIONS) | 778,866,386 | 724,234,783 | 751,089,000 | 802,355,000 | 831,642,000 | 861,727,000 |
| GROWTH RATE | | (7.01%) | 3.71% | 6.83% | 3.65% | 3.62% |
| OPERATING MARGIN CHANGE | | (74,837,783) | (811,217) | (32,786,000) | (10,210,000) | (10,443,000) |
| <i>From Prior Year</i> | | | | | | |

March 2004 Forecast

ADOPTED FORECAST

EXPENDITURE SUMMARY

| | 2003-2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| COMMITTED ADDITIONS: | | | | | | |
| Communications Equipment Replacement & Upgrades | | 143,000 | 1,666,000 | 79,000 | 2,292,000 | 629,000 |
| Fox Theater Operations | | 750,000 | 773,000 | 789,000 | 805,000 | 821,000 |
| New Civic Center Debt Service Costs | | - | 1,566,000 | 9,940,000 | 9,942,000 | 9,945,000 |
| Civic Center Furniture, Technology & Equip. Debt Service | | | 3,507,000 | 3,507,000 | 3,507,000 | 3,507,000 |
| New Civic Center Operating and Maintenance | 328,000 | 2,579,000 | 2,762,000 | 2,762,000 | 2,954,000 | 3,157,000 |
| Existing City Hall Operating and Maintenance Savings | | | (900,000) | (1,810,000) | (1,901,000) | (1,996,000) |
| Downtown Employee Parking Savings (new CivicCenter garage) | | | (615,000) | (646,000) | (678,000) | (712,000) |
| Rent from Leasing Existing City Hall | | | (1,185,000) | (2,370,000) | (2,370,000) | (2,370,000) |
| New Civic Center Telephone/Technology Savings | | | (650,000) | (650,000) | (650,000) | (650,000) |
| Proceeds from Sale of Parking Lot (E-Lot) | | | | (3,662,000) | (4,119,000) | (3,633,000) |
| Street Improvements | 137,000 | 191,000 | 191,000 | 238,000 | 289,000 | 303,000 |
| New Parks and Recreation Facilities Maintenance | 305,000 | 987,000 | 987,000 | 1,196,000 | 1,387,000 | 1,458,000 |
| Communications Hill Fire Station | | | 587,000 | 1,983,000 | 2,082,000 | 2,185,000 |
| Measure O (Library) Maintenance | - | 132,000 | 132,000 | 224,000 | 273,000 | 370,000 |
| Measure P (Parks) Maintenance | 55,000 | 473,000 | 473,000 | 1,188,000 | 3,278,000 | 3,441,000 |
| Measure O (Public Safety) Maintenance: Fire | - | 587,000 | 587,000 | 2,594,000 | 4,799,000 | 7,215,000 |
| Measure O (Public Safety) Maintenance: Police | 13,000 | 25,000 | 25,000 | 38,000 | 451,000 | 857,000 |
| TOTAL COMMITTED ADDITIONS | 0 | 1,731,000 | 9,723,000 | 15,400,000 | 22,341,000 | 24,527,000 |
| TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS) | 778,866,386 | 725,965,783 | 760,812,000 | 817,755,000 | 853,983,000 | 886,254,000 |
| | | (6.79%) | 4.80% | 7.48% | 4.43% | 3.78% |

OPERATING MARGIN

ADOPTED FORECAST

| | 2003-2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|-------------|--------------|-------------|--------------|--------------|--------------|
| BASE EXPENDITURES (w / COMMITTED ADDITIONS) | | | | | | |
| GRAND TOTAL REVENUE | 778,866,386 | 649,397,000 | 675,440,000 | 693,920,000 | 712,997,000 | 732,639,000 |
| GROWTH RATE | | (16.62%) | 4.01% | 2.74% | 2.75% | 2.75% |
| TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS) | 778,866,386 | 725,965,783 | 760,812,000 | 817,755,000 | 853,983,000 | 886,254,000 |
| GROWTH RATE | | (6.79%) | 4.80% | 7.48% | 4.43% | 3.78% |
| OPERATING MARGIN CHANGE | | (76,568,783) | (8,803,217) | (38,463,000) | (17,151,000) | (12,629,000) |
| <i>From Prior Year</i> | | | | | | |

ONE-TIME FUNDING AVAILABLE

| | | | | | | |
|----------------------------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| 2004-2005 Future Deficit Reserve | 16,505,734 | | | | | |
| Economic Uncertainty Reserve | 15,810,000 | | | | | |
| Cardroom Revenue | 6,250,000 | 7,500,000 | 7,500,000 | 7,500,000 | 7,500,000 | 7,500,000 |
| TOTAL ONE-TIME FUNDING | 38,565,734 | 7,500,000 | 7,500,000 | 7,500,000 | 7,500,000 | 7,500,000 |

EXPENDITURE SUMMARY

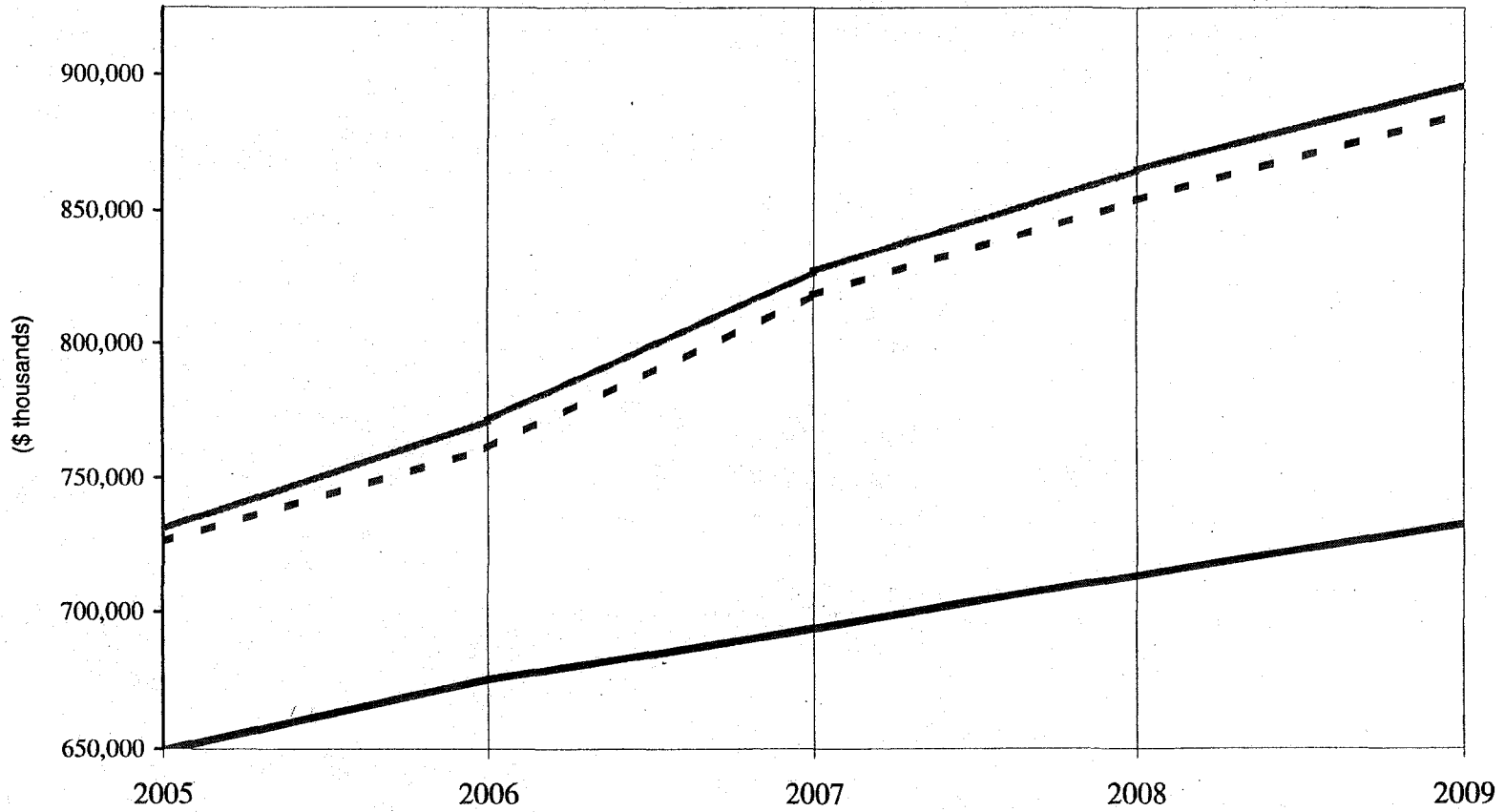
EXTENDED ADDITIONS:

| | <u>2003-2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| New Parks and Recreation Facilities Operations | | 113,000 | 733,000 | 775,000 | 808,000 | 848,000 |
| Measure O (Library) Operations | | | 793,000 | 2,344,000 | 2,435,000 | 3,256,000 |
| Measure P (Parks) Operations | | 30,000 | 509,000 | 1,602,000 | 2,345,000 | 2,529,000 |
| Furniture, Fixtures & Equipment-Parks & Recreation Facilities | | 456,000 | 162,000 | 25,000 | 55,000 | |
| Furniture, Fixtures & Equipment-Library Measure O Projects | | 2,075,000 | 2,348,000 | 1,426,000 | 1,895,000 | 2,742,000 |
| Furniture, Fixtures & Equipment-Parks Measure P Projects | | 1,850,000 | 1,122,000 | 1,755,000 | 1,206,000 | |
| Furniture, Fixtures & Equipment-Pub Safety: Fire | | 125,000 | 4,520,000 | 892,000 | 942,000 | 924,000 |
| Furniture, Fixtures & Equipment-Pub Safety: Police | | 37,000 | 73,000 | 141,000 | 1,533,000 | |
| TOTAL EXTENDED ADDITIONS | 0 | 4,686,000 | 10,260,000 | 8,960,000 | 11,219,000 | 10,299,000 |
| TOTAL BASE EXPENDITURES (w / COMMITTED & EXTENDED ADDS) | 778,866,386 | 730,651,783 | 771,072,000 | 826,715,000 | 865,202,000 | 896,553,000 |
| | | (6.19%) | 5.53% | 7.22% | 4.66% | 3.62% |

OPERATING MARGIN

| | <u>2003-2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|--|------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| TOTAL BASE EXPENDITURES (w / COMMITTED & EXTENDED ADDS) | | | | | | |
| GRAND TOTAL REVENUE | 778,866,386 | 649,397,000 | 675,440,000 | 693,920,000 | 712,997,000 | 732,639,000 |
| GROWTH RATE | | (16.62%) | 4.01% | 2.74% | 2.75% | 2.75% |
| TOTAL BASE EXPENDITURES (w / COMMITTED & EXTENDED ADDS) | 778,866,386 | 730,651,783 | 771,072,000 | 826,715,000 | 865,202,000 | 896,553,000 |
| GROWTH RATE | | (6.19%) | 5.53% | 7.22% | 4.66% | 3.62% |
| OPERATING MARGIN CHANGE | | (81,254,783) | (14,377,217) | (37,163,000) | (19,410,000) | (11,709,000) |
| <i>From Prior Year</i> | | | | | | |

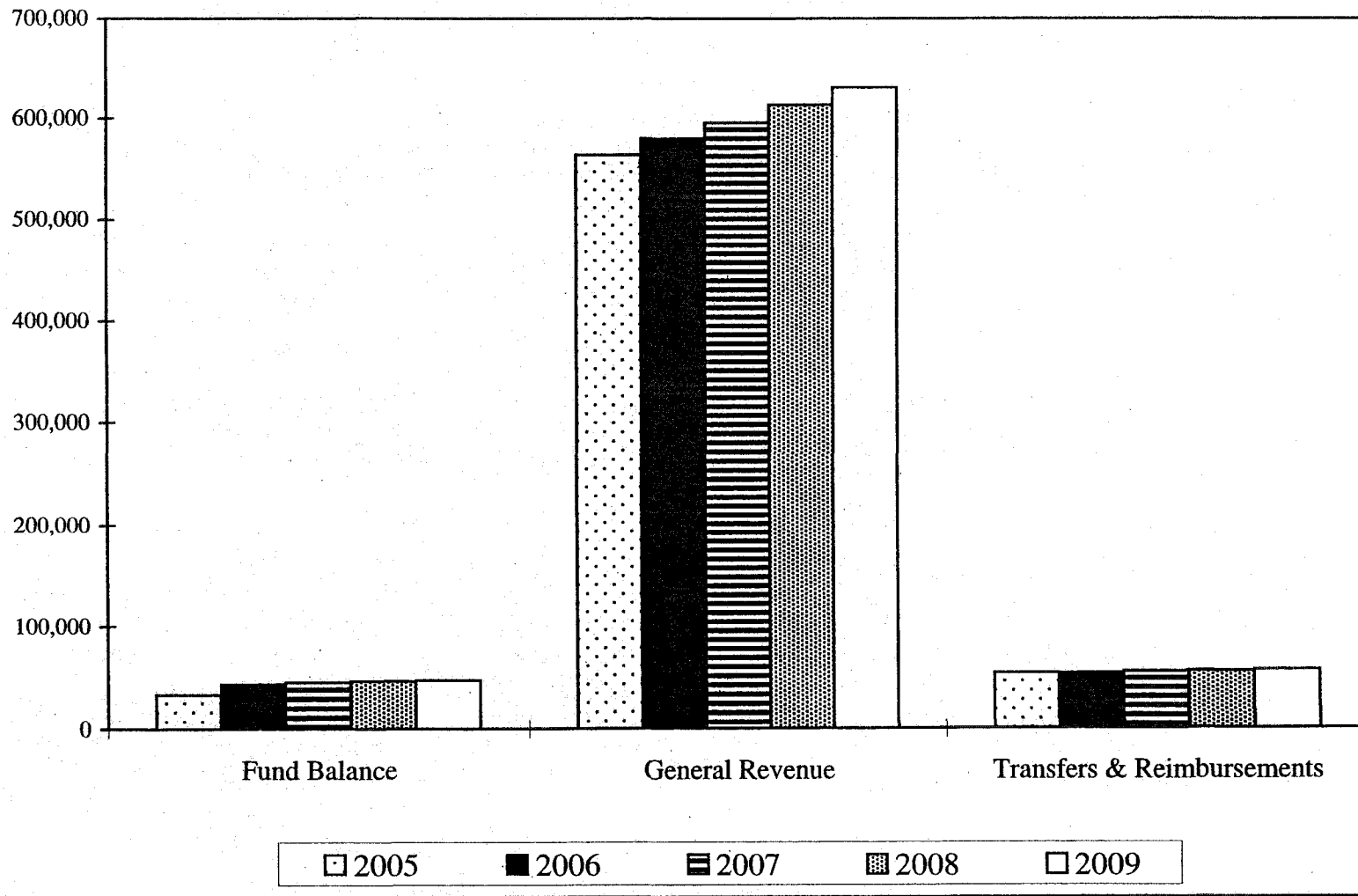
General Fund PROJECTED REVENUES AND EXPENDITURES



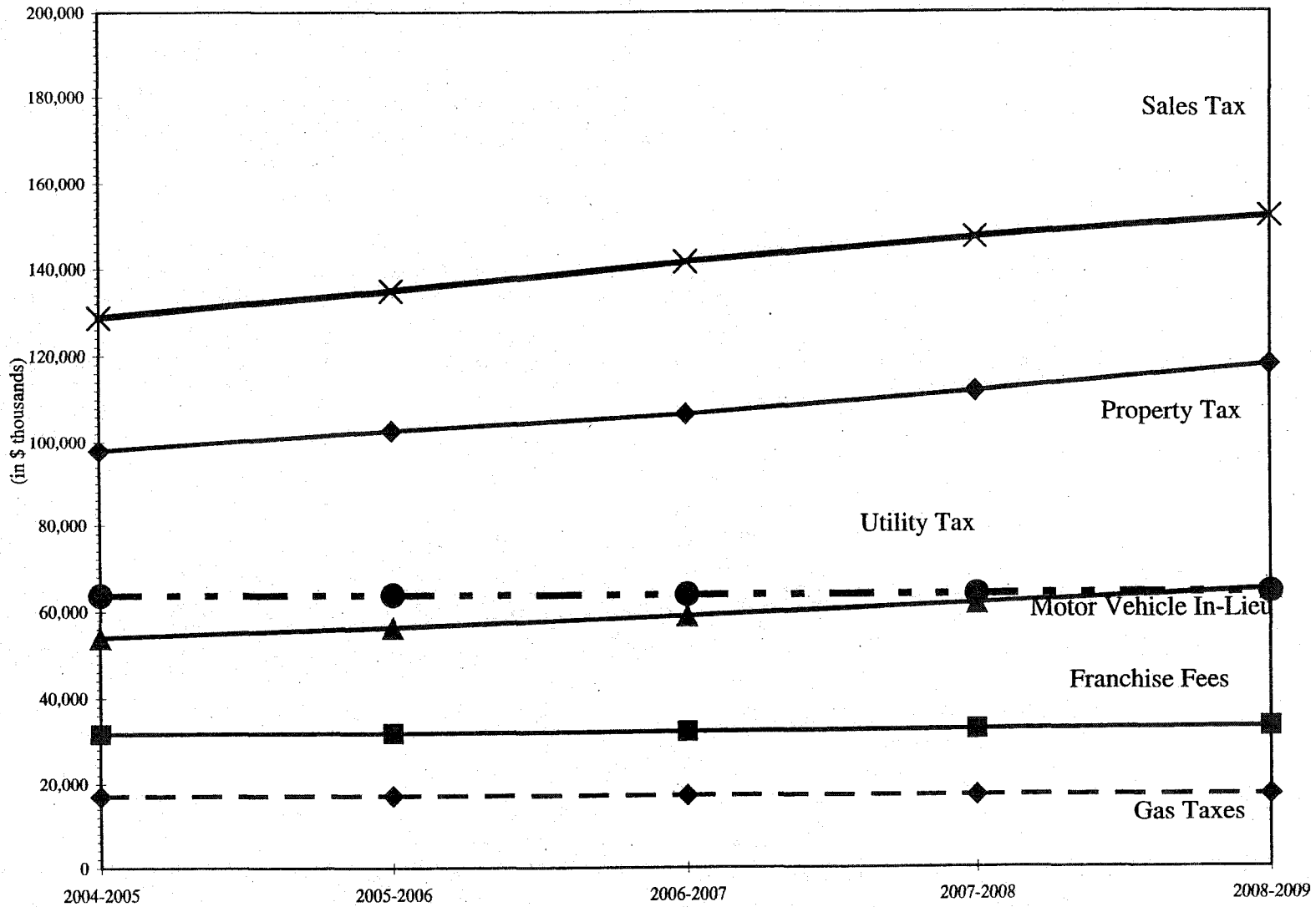
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— BASE CASE REVENUES - - COMMITTED EXPENDITURES — EXTENDED EXPENDITURES

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



General Fund FIVE-YEAR PROJECTION OF KEY REVENUES



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*2005-2009
Five-Year Forecast and
Revenue Projections*

Additions and Deletions to the Base

ADDITIONS AND DELETIONS TO THE BASE

For Council consideration, potential future year program expenditure additions 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 estimated 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 these 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 when it is projected that insufficient revenues will be available in that fund to support the scheduled replacements and General Fund monies would be needed to complete the required equipment upgrades.

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|----------------------------|
| 143,000 | 1,666,000 | 79,000 | 2,292,000 | 629,000 | 4,809,000 |

COMMITTED ADDITIONS AND DELETIONS (CONT'D.)

Fox Theater Operations - This addition provides funding for the maintenance and operating costs of the Fox Theater, which is expected to open in 2004-2005.

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 750,000 | 773,000 | 789,000 | 805,000 | 821,000 | 3,938,000 |

New Civic Center - This addition provides funding for the operating costs of the new Civic Center, which is expected to open in spring 2005. Included in this section are the debt service costs associated with the construction project and furniture, technology and equipment along with the operating and maintenance costs. These costs are offset by the elimination of parking costs associated with City employees who work in the downtown, savings from reduced telephone system and technology costs at the new Civic Center, operating and maintenance cost savings for the existing City Hall, rent from leasing the existing City Hall and proceeds from the sale of the existing City Hall parking lot (E-lot). The costs reflected below **do not** factor in the avoided lease costs associated with moving into the new building, which are treated as part of the base expenditure level. Once the lease costs that will be avoided as part of this forecast along with the lease savings that were captured early as part of the move to the old Martin Luther King, Jr. library are factored in, there will be no net impact on the General Fund over the forecast period.

| | <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|----------------------------|------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | 328,000 | 4,302,000 | 7,071,000 | 6,685,000 | 7,248,000 | 25,634,000 |
| <i>Avoided Lease Costs</i> | | <u>(5,334,000)</u> | <u>(6,367,000)</u> | <u>(6,685,000)</u> | <u>(7,248,000)</u> | <u>(25,634,000)</u> |
| <i>Net Impact</i> | 328,000 | (1,032,000) | 704,000 | 0 | 0 | 0 |

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

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 137,000 | 191,000 | 238,000 | 289,000 | 303,000 | 1,158,000 |



COMMITTED ADDITIONS AND DELETIONS (CONT'D.)

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>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 305,000 | 987,000 | 1,196,000 | 1,387,000 | 1,458,000 | 5,333,000 |

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

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| | 587,000 | 1,983,000 | 2,082,000 | 2,185,000 | 6,837,000 |

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>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| | 132,000 | 224,000 | 273,000 | 370,000 | 999,000 |

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>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 55,000 | 473,000 | 1,188,000 | 3,278,000 | 3,441,000 | 8,435,000 |

COMMITTED ADDITIONS AND DELETIONS (CONT'D.)

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. Also included are the projected costs for a new fire company that will be required.

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 13,000 | 612,000 | 2,632,000 | 5,250,000 | 8,072,000 | 16,579,000 |

EXTENDED ADDITIONS AND DELETIONS

New Parks and Recreation Facilities Operations - This category reflects projected additional costs of fully 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.

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| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 113,000 | 733,000 | 775,000 | 808,000 | 848,000 | 3,277,000 |

Measures O (Library) and P (Parks) Operations - This reflects the projected additional operating costs of new and expanded branch libraries and public community facilities that were approved by the voters in the November 2000 election.

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 30,000 | 1,302,000 | 3,946,000 | 4,780,000 | 5,785,000 | 15,843,000 |



EXTENDED ADDITIONS AND DELETIONS (CONT'D.)

New Parks and Recreation Facilities Furnishings, Fixtures and Equipment - This addition reflects the furnishings, fixtures and equipment for new parks and recreation facilities included in the City's Five Year Improvement Program.

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 456,000 | 162,000 | 25,000 | 55,000 | | 698,000 |

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 proceeds can not be used for the purchase of one-time equipment, the costs for which currently remain unfunded. Below are listed the fiscal years when resources are needed to complete the implementation of these facilities.

| <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> | <u>2007-2008</u> | <u>2008-2009</u> | <u>5 Year Total</u> |
|------------------|------------------|------------------|------------------|------------------|---------------------|
| 4,087,000 | 8,063,000 | 4,214,000 | 5,576,000 | 3,666,000 | 25,606,000 |

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2005-2009

*Five-Year Forecast and
Revenue Projections*

Alternate Forecast Scenarios

**PROJECTED FIVE-YEAR REVENUES
2005-2009
MARCH 2004**

| OPTIMISTIC CASE | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| Real Gross Domestic Product (% Change) | 3.50% | 3.80% | 3.75% | 3.80% | 3.70% |
| Total US Employment Rate (% Change) | 1.03% | 1.04% | 1.04% | 1.04% | 1.04% |
| Total County Employment Rate (% Change) | 1.82% | 1.90% | 1.90% | 2.00% | 2.10% |
| County Unemployment Rate | 6.81% | 6.68% | 6.40% | 6.50% | 6.28% |
| Total Revenue (\$) | 652,673,000 | 682,579,000 | 706,728,000 | 731,465,000 | 757,180,000 |
| Growth Rate | | 4.58% | 3.54% | 3.50% | 3.52% |

| BASE CASE | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| Real Gross Domestic Product (% Change) | 3.38% | 3.50% | 3.60% | 3.50% | 3.55% |
| Total US Employment Rate (% Change) | 1.03% | 1.03% | 1.03% | 1.03% | 1.02% |
| Total County Employment Rate (% Change) | 1.65% | 1.75% | 1.50% | 1.52% | 1.54% |
| County Unemployment Rate | 6.98% | 6.87% | 6.70% | 6.61% | 6.44% |
| Total Revenue (\$) | 649,397,000 | 675,440,000 | 693,920,000 | 712,997,000 | 732,639,000 |
| Growth Rate | | 4.01% | 2.74% | 2.75% | 2.75% |

| PESSIMISTIC CASE | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| Real Gross Domestic Product (% Change) | 3.00% | 3.00% | 2.40% | 2.30% | 2.20% |
| Total US Employment Rate (% Change) | 1.01% | 1.02% | 1.03% | 1.03% | 1.02% |
| Total County Employment Rate (% Change) | 0.13% | 1.25% | 1.45% | 1.35% | 1.30% |
| County Unemployment Rate | 6.98% | 6.87% | 6.70% | 6.61% | 6.44% |
| Total Revenue (\$) | 640,572,000 | 664,910,000 | 681,673,000 | 699,283,000 | 716,824,000 |
| Growth Rate | | 3.80% | 2.52% | 2.58% | 2.51% |

PROJECTED FIVE-YEAR OPERATING MARGINS
2005-2009
MARCH 2004

| EXPENDITURE CASES | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| EXPENDITURES - BASE (w/ COMMITTED ADDS) | 725,966,000 | 760,812,000 | 817,755,000 | 853,983,000 | 886,254,000 |
| EXPENDITURES - EXTENDED | 730,652,000 | 771,072,000 | 826,715,000 | 865,202,000 | 896,553,000 |

| OPTIMISTIC REVENUE CASE | | | | | |
|---|--------------|--------------|--------------|--------------|-------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| TOTAL REVENUES (\$) | 652,673,000 | 682,579,000 | 706,728,000 | 731,465,000 | 757,180,000 |
| GROWTH RATE | | 4.58% | 3.54% | 3.50% | 3.52% |
| OPERATING MARGIN - BASE (w/ COMMITTED ADDS) | (73,293,000) | (4,940,000) | (32,794,000) | (11,491,000) | (6,556,000) |
| OPERATING MARGIN - EXTENDED | (77,979,000) | (10,514,000) | (31,494,000) | (13,750,000) | (5,636,000) |

| BASE REVENUE CASE | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| TOTAL REVENUES (\$) | 649,397,000 | 675,440,000 | 693,920,000 | 712,997,000 | 732,639,000 |
| GROWTH RATE | | 4.01% | 2.74% | 2.75% | 2.75% |
| OPERATING MARGIN - BASE (w/ COMMITTED ADDS) | (76,569,000) | (8,803,000) | (38,463,000) | (17,151,000) | (12,629,000) |
| OPERATING MARGIN - EXTENDED | (81,255,000) | (14,377,000) | (37,163,000) | (19,410,000) | (11,709,000) |

| PESSIMISTIC REVENUE CASE | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| TOTAL REVENUES (\$) | 640,572,000 | 664,910,000 | 681,673,000 | 699,283,000 | 716,824,000 |
| GROWTH RATE | | 3.80% | 2.52% | 2.58% | 2.51% |
| OPERATING MARGIN - BASE (w/ COMMITTED ADDS) | (85,394,000) | (10,508,000) | (40,180,000) | (18,618,000) | (14,730,000) |
| OPERATING MARGIN - EXTENDED | (90,080,000) | (16,082,000) | (38,880,000) | (20,877,000) | (13,810,000) |

2005-2009
*Five-Year Forecast and
Revenue Projections*

Capital Revenue Forecast

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 each 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, which is expected to continue in the near term. This decline started in 2001-2002 when the total value of building permits dropped approximately 40% to a six-year low of \$1.0 billion. This downward trend has continued since that time and is expected to hit bottom in the current fiscal year. In 2003-2004, the total value of building permits is projected to reach just \$800 million, down 10% from the \$890 million collected in 2002-2003. For the forecast period, construction activity is expected to stabilize, with some modest recovery anticipated for commercial and industrial development.

Continued weakness in construction activity was assumed in the development of the last forecast. Fortunately, the decline has been slightly less severe than conservative projections assumed, and in fact, the low point may have been reached. As a result, on an overall basis, this 5-year forecast assumes higher revenue collections (an increase of \$8.4 million or 4%) from the 2004-2008 CIP. This growth reflects higher projected collections in five of the six revenue categories. The Building and Structure Construction Tax, which is one of the largest construction-related taxes, is the only category in which downward adjustments are recommended. Receipts in this category are expected to decline over the period by 6% from the prior 5-year Forecast, largely due to this category's heavy exposure to anemic industrial construction activity levels.

Despite the modest overall increase from the prior Capital Improvement Program (CIP), it should be noted that revenues during this period are projected to equal the low levels last experienced in the mid-1990's. The continued drop in economically driven activity has been assumed in the development of the last few forecasts. 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 2004-2008 Adopted CIP. A summary of the totals is shown below.

Forecast Comparison Summary

(\$ Thousands)

| | 2004-2008 CIP | 2005-2009 Forecast | Difference | Change |
|---|------------------|-----------------------|--------------|------------|
| Construction and Conveyance Tax | 80,000 | 82,000 | 2,000 | 3 % |
| Building and Structure Construction Tax | 43,659 | 41,201 | (2,458) | (6) % |
| Construction Excise Tax | 58,950 | 66,079 | 7,129 | 12 % |
| Residential Construction Tax | 428 | 956 | 528 | 123 % |
| Sanitary Sewer Connection Fee | 4,331 | 4,993 | 662 | 15 % |
| Storm Drainage Connection Fee | 1,818 | 2,318 | 500 | 28 % |
| TOTAL | 189,186 | 197,547 | 8,361 | 4 % |

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

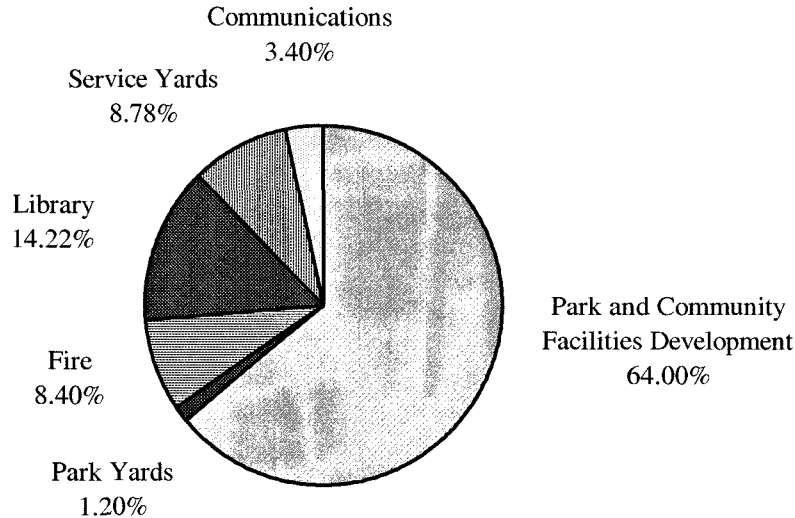
The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds one hundred dollars. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately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

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

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

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 Park and Community Facilities Development portion of the estimated revenues, less non-construction costs and transfers to the General Fund, is allocated for all years of the forecast using a two to one ratio, with two-thirds of the proceeds going to neighborhood/district 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. 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 \$82 million, which is a slight increase from the \$80 million estimated 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.

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

- **Prior Year Collection Trends**

Historically, Construction and Conveyance Tax revenues have been impacted by the ups and downs of the local economy. 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 again 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 growth was indicative of the economic gains during that period, reflected by the stock market growth, low unemployment, the gains in personal income. As economic conditions began to worsen, tax receipts in this area fell with a 17% decline in 2001-2002 to \$26.3 million and an additional 5.5% decline in 2002-2003 to \$24.8 million. This drop-off, however, has not been as severe as the declines in other economic sectors. The question remains whether any further declines will be realized during this economic downturn.

- **2003-2004 Collections**

The performance in the real estate market has been extremely strong through the first half of this year. The total number of sales for all types of residences in San José through January totaled 6,729, which was up significantly (37%) from the same period last year. The median single-family home price in San José is also holding relatively steady, with some modest growth over the last couple of years. In January 2004, this figure was \$514,700, up from \$482,500 in January 2003 and from \$459,800 in January 2002. This median home price, however, is about equal to the January 2001 figure of \$510,000. Through the first half of the year, home sellers have also been able to sell their homes in less time, which is also a sign of economic strength. The number of days a house remains on the market has steadily decreased during 2003-2004, from 59 in July 2003 to 49 in January 2004. For comparison purposes, the number of days on market is currently much lower than the January 2003 figure of 68 and the January 2002 figure of 85 but is higher than the January 2001 figure of 26 days.

Construction and Conveyance Tax collections through January have far exceeded our expectations. This growth, however, does not appear consistent with the other economic indicators in the region, including the relatively high unemployment rate in the County and the significant loss of jobs since 2000. This substantial increase in property sales that drive these tax receipts may have been due, in part, to consumers taking advantage of the favorable interest rate environment that has made purchasing a home somewhat more affordable. As the interest rates increase with the improving economy, there is some concern that the local housing market will be negatively impacted. There is also concern that there may be a bubble in the local real estate market. According to PMI Mortgage Insurance Co., a leading mortgage insurer, San José is by far the riskiest area in the nation in terms of likely home price deflation, due to continuing job losses and sluggish job creation in the area (February, 2004). In light of these potential risks, the revenue estimates for this category are extremely conservative. In the current year, collections are expected to reach a minimum of \$24 million. This represents a worse case scenario for this category and it is likely that receipts will actually exceed this level.

CAPITAL REVENUE FORECAST

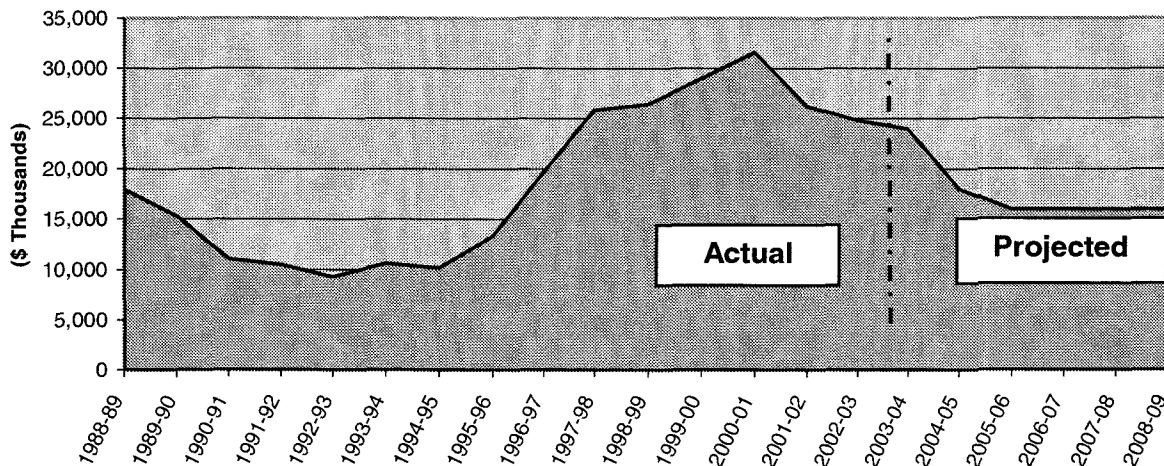
CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

• 2005-2009 Collections

The 2005-2009 Construction and Conveyance Tax revenue forecast is built on the assumption that collections will fall to \$18 million in 2004-2005 and will level off at \$16 million annually for each of the remaining years of the 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.

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

Construction and Conveyance Tax Revenues



CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax, the capital revenue projections described in this forecast 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 (2004-2009)", 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

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

Department intends these to be interpreted as “ball park” estimates of the most likely state of the local economy based on current information. As new information becomes available, these 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.

A. Residential Construction Activity

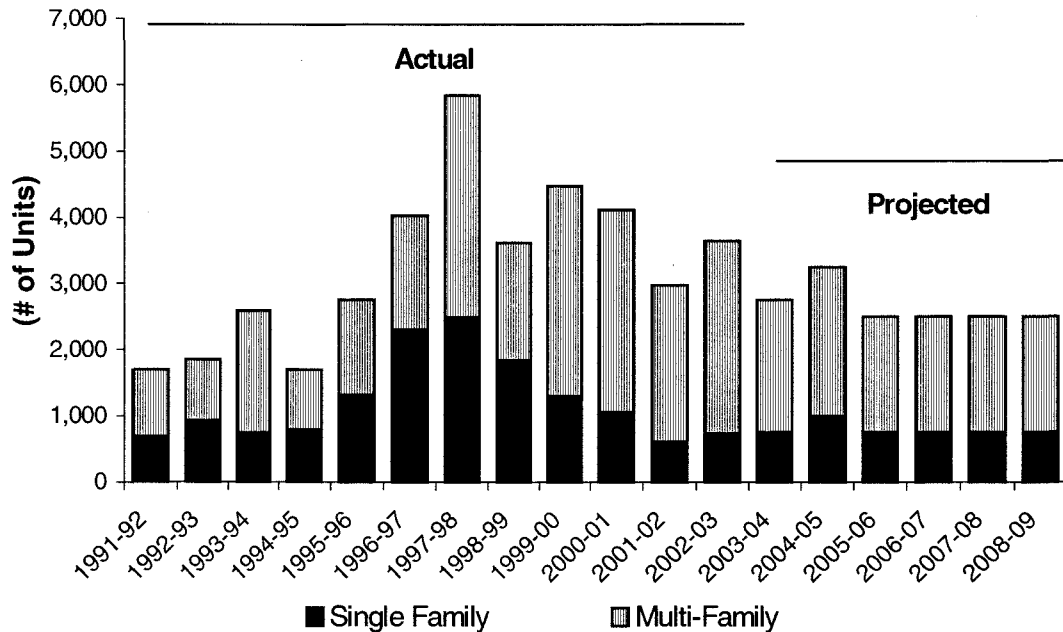
A significant portion of development-related revenue in San José has traditionally been generated by residential construction. Permit activity in 2002-2003 experienced great volatility. After stalling during the first six months (with just 500 new dwelling units), building permit activity rose more than five-fold in the second half, finishing the year at 3,646. This amount represented a 22% increase from 2001-2002, when permits dropped to a six-year low, and well exceeded the forecast of 2,250 units. In 2003-2004, the issuance of permits is expected to be somewhat lower than in 2002-2003, with an estimated 2,750 new units. Over the five years of this forecast, the Planning, Building and Code Enforcement Department is predicting slower actuals when compared to previous forecasts in the total number of units constructed. Residential construction activity is expected to generate 13,250 units over the 5-year period, an average of 2,650 units per year. This represents a slight decrease from the annual estimates of 2,700 units included in the 2004-2008 Forecast and 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 9,250 multi-family units are expected to be constructed over the next five years, down slightly from the 9,500 projected in the 2004-2008 Forecast and down significantly from the 11,000 projected in the 2003-2007 Forecast. In this forecast, 4,000 single-family dwellings are anticipated. This figure is identical to the 2004-2008 Forecast and somewhat higher than the 2003-2007 Forecast of 3,500 units, but is well below the 5,500 units projected in the 2001-2005 Forecast. The chart below shows the number of units, by housing type, anticipated in San José through 2008-2009.

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

Residential Construction Activity



B. Commercial Construction Activity

Total commercial valuation for new projects and alterations is anticipated to drop to an eight year low of approximately \$250 million in 2003-2004. This is less than half of the record setting level experienced in 2000-2001 that resulted primarily from several high-rise office and hotel projects in the Downtown area. It is also down 16% from the 2002-2003 level of \$297 million. The 2003-2004 construction valuation estimate reflects the worsening market conditions in the office segment, including high vacancy rates, slow demand, and declining rents.

Commercial construction valuation is expected to stabilize over the next several years with anticipated valuations of \$275 million in 2004-2005 and \$350 million for the remaining four years of the forecast (see the chart in section D below). The total commercial valuation projected in this forecast is \$1.7 billion, which is only slightly below the previous five-year forecast total of \$1.8 billion.

C. Industrial Construction Activity

Industrial construction activity has experienced a dramatic decline since 2000-2001. In 2001-2002, permit valuation dropped almost 80% from 2000-2001 levels reaching only \$101 million. The decline continued in 2002-2003, when permit valuation fell to just \$76 million. Planning staff has forecasted only a slight recovery for industrial construction

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

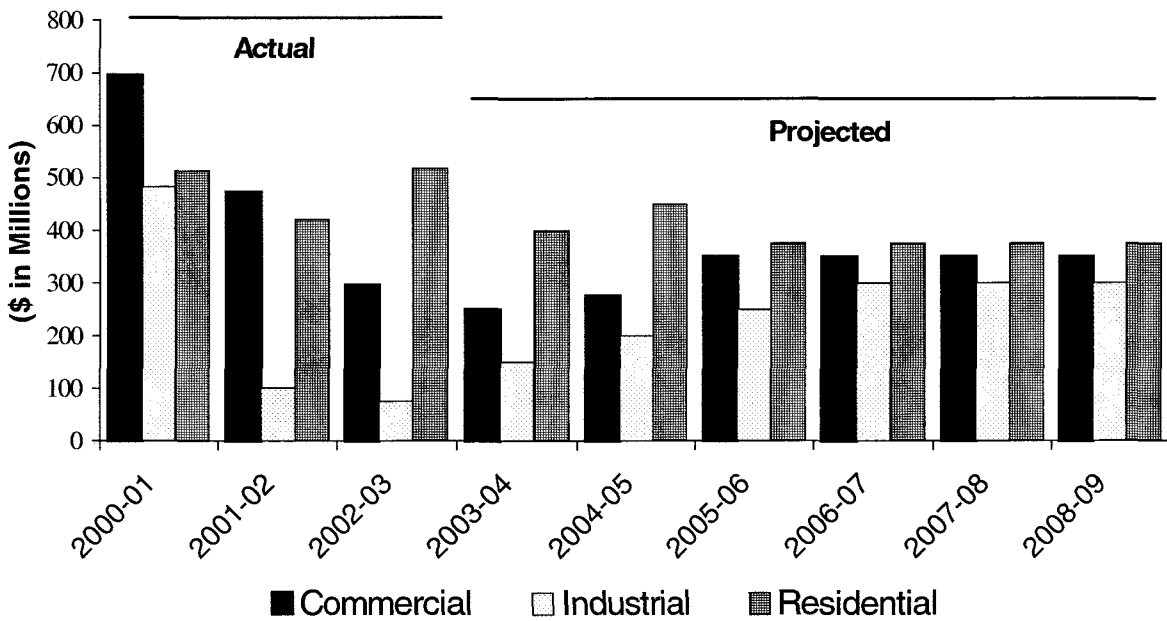
C. Industrial Construction Activity (Cont'd.)

activity during 2003-2004, with permit valuation projected to reach \$150 million. Industrial construction valuation is anticipated to increase from the extremely low levels experienced over the past two years to \$200 million in 2004-2005, \$250 million in 2005-2006, and then to \$300 million annually for the last three years of the forecast. The total industrial valuation over the forecast is estimated at \$1.35 billion and is quite close to the prior year forecast estimate of \$1.28 billion.

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 almost 27% 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).

Projected Construction Valuation, by Type



CAPITAL REVENUE FORECAST

MAJOR DEVELOPMENT ACTIVITY DATA

As part of the Development Activity Highlights and Five-Year Forecast (2004-2009) 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 not 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, 2000. 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.

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

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 \$41.2 million, with annual proceeds ranging from \$8.0 million to \$8.3 million. The 5-year revenue figure represents a drop of approximately \$2.5 million (6%) from the estimate included in the 2004-2008 Adopted CIP. Because collections had already declined significantly when the 2004-2008 CIP was developed, the current CIP assumed revenue levels that can only be considered, at best, very weak. However, the decline in collections has been more severe and prolonged than anticipated, resulting in further, moderate decreases in the revenue estimates. This forecast brings the annual revenue estimates down to levels last experienced in 1995-1996 and 1996-1997. To bring context to this drop in actual collections, the 2004-2005 revenue estimate of \$8.2 million is less than half the actual receipts in 2000-2001 of \$17.4 million.

CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX (CONT'D.)

Collections in this fund have also been negatively impacted by policy decisions that offer exemptions and reductions to the tax. During 2003-2004, the City Council voted to extend the Special Tenant Improvement fee exemption for an additional 18 months in order to continue incentives to business owners to occupy space in currently vacant buildings. It is anticipated that this decision will reduce revenues by \$275,000 over that period, which only impacts a portion of the first year of the five-year forecast period. In addition, the City Council has directed the City Attorney to draft modifications to the classification structure that distinguishes between commercial and industrial uses. These modifications are intended to bring the classification structure in line with quickly evolving technological changes. Because industrial uses are taxed at a lower rate than commercial uses, these modifications also have the impact of reducing the effective tax burden for "driving industries" thereby offering a potential stimulus to the San José economy. This reclassification is anticipated to reduce revenues by an additional \$310,000 annually.

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 a general fund that can be used for any purpose. The majority of the proceeds have generally been 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, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City's ability to obtain state and federal grants. A portion of these taxes have, however, also been regularly used to help balance General Fund problems during times of financial stress on that fund.

Based upon the construction projections provided by the Planning, Building and Code Enforcement Department, Construction Excise Tax collections are projected to total \$66.1 million over the five-year forecast period. This collection level represents an increase of \$7.1

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX (CONT'D.)

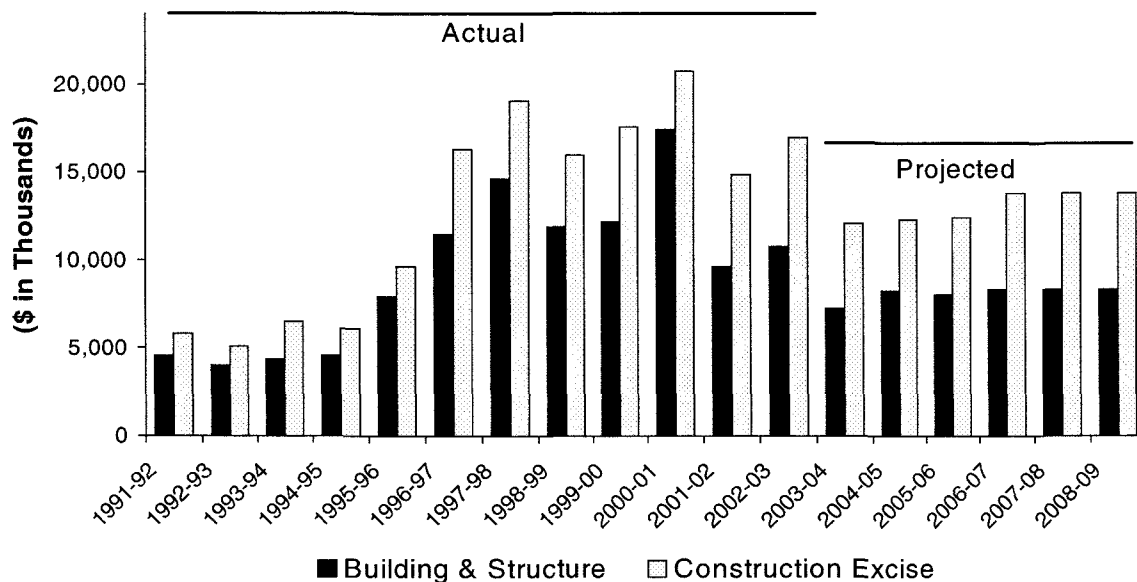
million (12%) from the 2004-2008 Adopted CIP. This increase is due to the relatively strong performance for residential activity that is anticipated. Because revenues in this fund are not derived from industrial activity, the prolonged weakness in that category does not drag down these revenues. In addition, although projected activity levels are decreasing slightly from the prior five-year forecast period, the revenue modeling assumptions used in this forecast have been adjusted to be slightly less conservative than the assumptions used in the prior forecast, based on latest information about actual construction activity and revenues.

While the 2005-2009 revenue estimates for the Construction Excise Tax reflect a moderate increase from the estimates included in the 2004-2008 CIP, collections in this category have, in fact, fallen significantly from the actual collection levels experienced in recent years. For instance, the estimated receipts of \$12.3 million in 2004-2005 reflect a drop of 41% from the peak of \$20.7 million in 2000-2001. Fortunately, the prior two CIPs were built on the assumption that receipts would fall significantly from the extremely high levels experienced over the past few years. Given these conservative estimates, very few programmed projects have subsequently had to be cancelled or deferred to accommodate actual revenue levels.

Collections in this fund are anticipated to be slightly depressed (\$456,000 over 18 months) by policy decisions to offer small businesses a 50% reduction in the tax rate beginning in mid-2003-2004. Collections in the current year and the first year of the five-year forecast will be impacted. This change is intended to offer incentives to small businesses to locate in San José, create jobs and revitalize the local economy.

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



CAPITAL REVENUE FORECAST

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.

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

Based upon construction estimates by the Planning, Building and Code Enforcement Department and the actual collection pattern for this tax, almost \$1.0 million in revenue is expected over the five-year period of this forecast. This is a significant increase (\$528,000) from the 2004-2008 CIP and reverses the substantial decline that had been built into the last forecast due to the poor performance in this category experienced in the first half of 2002-2003. Activity actually rebounded strongly in the second half of 2002-2003 and is expected to remain relatively strong in 2003-2004 and stabilize over the forecast period.

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 2005-2009 projection for this fee is \$5.0 million, which is a 15% increase from the 2004-2008 CIP estimate of \$4.3 million. While this forecast shows improvement, it is still well below the 2002-2006 CIP estimate of \$6.5 million. 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.

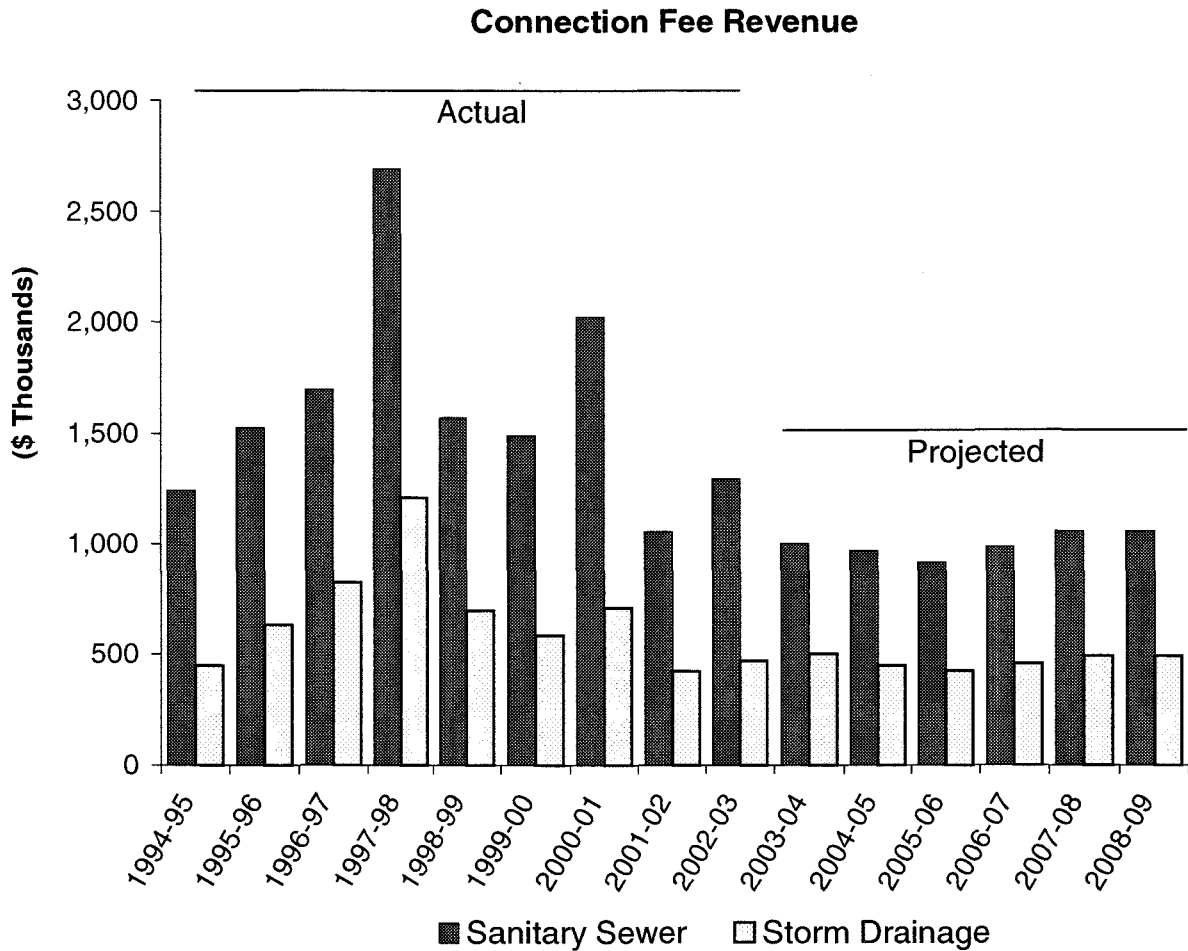
STORM DRAINAGE CONNECTION FEE

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.

CAPITAL REVENUE FORECAST

STORM DRAINAGE CONNECTION FEE (CONT'D.)

The five-year forecast for Storm Drainage Connection Fees is \$2.3 million. This is a 28% increase from the 2004-2008 CIP amount of \$1.8 million. Similar to the forecast for the Sanitary Sewer Connection Fee, the drop-off in receipts has not been as severe as anticipated when the last CIP was prepared. Collections are expected to stabilize at slightly less than \$0.5 million annually 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.



Construction-Related Revenue

2005 - 2009

(in \$ thousands)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 5 Yr Total |
|--|---------|---------|---------|---------|---------|---------|------------|
| Construction and Conveyance Tax | | | | | | | |
| 2004-2008 ADOPTED CIP | 16,000 | 16,000 | 16,000 | 16,000 | 16,000 | N/A | 80,000 |
| 2005-2009 FORECAST | 20,000 | 18,000 | 16,000 | 16,000 | 16,000 | 16,000 | 82,000 |
| Difference | 4,000 | 2,000 | - | - | - | N/A | 2,000 |
| Building and Structure Construction Tax | | | | | | | |
| 2004-2008 ADOPTED CIP | 7,273 | 9,068 | 9,210 | 9,054 | 9,054 | N/A | 43,659 |
| 2005-2009 FORECAST | 7,273 | 8,248 | 8,023 | 8,310 | 8,310 | 8,310 | 41,201 |
| Difference | - | (820) | (1,187) | (744) | (744) | N/A | (2,458) |
| Construction Excise Tax | | | | | | | |
| 2004-2008 ADOPTED CIP | 11,000 | 12,273 | 12,485 | 11,596 | 11,596 | N/A | 58,950 |
| 2005-2009 FORECAST | 12,100 | 12,302 | 12,410 | 13,789 | 13,789 | 13,789 | 66,079 |
| Difference | 1,100 | 29 | (75) | 2,193 | 2,193 | N/A | 7,129 |
| Residential Construction Tax | | | | | | | |
| 2004-2008 ADOPTED CIP | 91 | 97 | 80 | 80 | 80 | N/A | 428 |
| 2005-2009 FORECAST | 196 | 224 | 183 | 183 | 183 | 183 | 956 |
| Difference | 105 | 127 | 103 | 183 | 183 | N/A | 528 |
| Sanitary Sewer Connection Fee | | | | | | | |
| 2004-2008 ADOPTED CIP | 791 | 875 | 897 | 884 | 884 | N/A | 4,331 |
| 2005-2009 FORECAST | 1,000 | 969 | 917 | 986 | 1,060 | 1,060 | 4,993 |
| Difference | 209 | 94 | 20 | 102 | 176 | N/A | 662 |
| Storm Drainage Connection Fee | | | | | | | |
| 2004-2008 ADOPTED CIP | 327 | 399 | 385 | 355 | 352 | N/A | 1,818 |
| 2005-2009 FORECAST | 500 | 450 | 426 | 458 | 492 | 492 | 2,318 |
| Difference | 173 | 51 | 41 | 103 | 140 | N/A | 500 |
| TOTAL | | | | | | | |
| 2004-2008 ADOPTED CIP | 35,482 | 38,712 | 39,057 | 37,969 | 37,966 | N/A | 189,186 |
| 2005-2009 FORECAST | 41,069 | 40,193 | 37,959 | 39,726 | 39,834 | 39,834 | 197,547 |
| Difference | 5,587 | 1,481 | (1,098) | 1,757 | 1,868 | N/A | 8,361 |
| | 16% | 4% | -3% | 5% | 5% | N/A | 4% |

2005-2009

*Five-Year Forecast and
Revenue Projections*

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

**Development Activity Highlights
and Five-Year Forecast (2004-2009)**



Prepared by:

**City of San Jose
Department of Planning, Building and Code Enforcement
February 2004**

Development Activity Highlights and Five-Year Forecast (2004-2009)

For more information, please contact:

**City of San Jose
Department of Planning, Building and Code Enforcement
801 N. First Street, Room 400
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 (2004-2009)

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Development Activity Highlights and Five-Year Forecast (2004-2009)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2004-2009)* 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. However, while over the last two years the total value of building permits has fallen by over 50% from record-setting levels in fiscal year 2000/01, activity is not expected to decline much further due to a surprisingly strong housing market. Permit valuation is forecasted to "bottom out" at \$800 million in fiscal year 2003/04 (a 10% drop from the prior year) and then make a gentle recovery towards \$1 billion in future forecast years. The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2004-2009).

Residential Development

- *Residential construction activity in San Jose exhibited great variability on a monthly basis during fiscal year 2002/03. Building permit activity stalled during the first six months (with just 500 new dwelling units), but then came back in the second half, rising more than five-fold to finish the year at 3,646 units. This was a 22% increase from fiscal year 2001/02 and well exceeded the staff forecast (2,250 units). Multi-family construction remained strong, accounting for over three-quarters of the total unit count—the highest such ratio in a decade.*
- *Planning staff is forecasting that residential construction activity will remain relatively strong during fiscal year 2003/04, with the issuance of permits for 2,750 new dwelling units. While the pace of multi-family activity is expected to moderate somewhat due to concern over falling rents (down approximately 6 to 8 percent in the last twelve months), low housing affordability should fuel*

demand in the rental market. Meanwhile, continued home price appreciation in the Silicon Valley region and construction defect liability is encouraging the construction of single-family homes, which are more typically taking the form of a slightly higher density, attached townhome product.

- Residential construction activity is expected to stabilize at roughly 2,500 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 low interest rates are factors likely to encourage residential construction for some time to come. Future development is projected to consist primarily of higher density housing in strategic infill locations, such as Specific Plan areas, sites near existing or planned transit stations, and the Downtown area.

Commercial Development

- Commercial construction activity in San Jose witnessed its second consecutive year of dramatic decline, falling to \$297 million in permit valuation during fiscal year 2002/03. This amounted to a 60% drop from the level of activity just two years ago and matched the staff forecast (\$300 million). New construction mostly occurred at a few major regional shopping center projects, namely Santana Row and the Oakridge Mall.
- Planning staff is forecasting that commercial construction activity will remain weak, falling to an eight-year low of \$250 million in total permit valuation during fiscal year 2003/04. In any event, retail continues to be a bright spot, as yet another major regional shopping center renovation (Eastridge) is already underway. Further, development is expected to continue in less economically sensitive segments, such as hospitals and private schools.
- Commercial construction activity is expected to stabilize over the next several years. Recent, better-than-expected holiday sales figures were encouraging, especially for such high-profile retailers as Target, Lowe's, and Kohl's that are actively pursuing San Jose expansion plans. Also, targeted public investment in downtown and other neighborhoods is projected to continue in spite of the City's budget difficulties. As important, committed projects like the new Civic Center are brought to fruition, they should help set the stage for economic recovery.

Industrial Development

- Industrial construction activity in San Jose remained at a standstill for the second consecutive year, registering just \$76 million during fiscal year 2002/03. This activity level was more-or-less in line with the staff forecast

(\$100 million), and set 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 2003/04, with total permit valuation once again reaching just \$150 million. While the City has recently permitted some new warehouse and distribution condominium projects, most construction activity is expected to amount to tenant improvements to existing space.*
- *Activity levels for industrial construction will likely remain very slow for some time to come, with no significant new supply anticipated over the forecast period. Available research and development space in Silicon Valley now stands "at a historic high of 60 million square feet, about a third of which is deemed obsolete. With a long-term average gross absorption of 4 to 5 million square feet per year, the valley has at least 8 years of inventory and this assumes no new space enters the market." ¹ On a positive note, the City's Special Tenant Improvements Incentive Program is helping to expedite occupancy of some of this vacant industrial space.*

¹Cornish & Carey Commercial, "2004 Real Estate Review and Forecast", January 2004.

III. FIVE-YEAR FORECAST (2004-2009)

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 "bottom out" at \$800 million in fiscal year 2003/04 (a 10% drop from the prior year) and then make a gentle recovery towards \$1 billion in future forecast years.

Table 1
Construction Valuation: FY 98/99 to FY 08/09

| Fiscal Year | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 |
|--------------------------------|---|---------------|---------------|---------------|--------------|--|--------------|--------------|---------------|---------------|---------------|
| | <u>Actual Valuation¹ (in millions)</u> | | | | | <u>Projected Valuation (in millions)</u> | | | | | |
| <u>New Construction</u> | | | | | | | | | | | |
| Residential | \$529 | \$542 | \$430 | \$327 | \$405 | \$300 | \$350 | \$275 | \$275 | \$275 | \$275 |
| Commercial | \$241 | \$301 | \$493 | \$347 | \$162 | \$150 | \$175 | \$200 | \$200 | \$200 | \$200 |
| Industrial | \$339 | \$117 | \$240 | \$28 | \$3 | \$50 | \$100 | \$100 | \$150 | \$150 | \$150 |
| Subtotal | \$1109 | \$961 | \$1162 | \$702 | \$569 | \$500 | \$625 | \$575 | \$825 | \$625 | \$625 |
| <u>Alterations</u> | | | | | | | | | | | |
| Residential | \$96 | \$104 | \$120 | \$103 | \$113 | \$100 | \$100 | \$100 | \$100 | \$100 | \$100 |
| Commercial | \$148 | \$213 | \$251 | \$135 | \$135 | \$100 | \$100 | \$150 | \$150 | \$150 | \$150 |
| Industrial | \$96 | \$206 | \$276 | \$74 | \$73 | \$100 | \$100 | \$150 | \$150 | \$150 | \$150 |
| Subtotal | \$339 | \$523 | \$647 | \$312 | \$321 | \$300 | \$300 | \$400 | \$400 | \$400 | \$400 |
| GRAND TOTAL | \$1448 | \$1484 | \$1810 | \$1014 | \$890 | \$800 | \$925 | \$975 | \$1025 | \$1025 | \$1025 |
| <u>Tax Exemptions</u> | | | | | | | | | | | |
| Residential | * | * | * | * | * | \$(50) | \$(50) | \$(50) | \$(50) | \$(50) | \$(50) |
| Commercial | * | * | * | * | * | \$(25) | \$(25) | \$(25) | \$(25) | \$(25) | \$(25) |
| Industrial | * | * | * | * | * | \$(25) | \$(25) | \$(25) | \$(25) | \$(25) | \$(25) |
| Net Total (Taxable) | | | | | | \$700 | \$825 | \$875 | \$925 | \$925 | \$925 |

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

¹Valuation figures adjusted to 2003 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 98/99 to FY 08/09

| Fiscal Year | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 |
|--|---------------------------|--------------|--------------|--------------|--------------|------------------|--------------|--------------|--------------|--------------|--------------|
| | <u>Actual¹</u> | | | | | <u>Projected</u> | | | | | |
| <u>Residential (Units)</u> | | | | | | | | | | | |
| Single-Family | 1,838 | 1,302 | 1,053 | 604 | 736 | 750 | 1,000 | 750 | 750 | 750 | 750 |
| Multi-Family | 1,783 | 3,169 | 3,053 | 2,374 | 2,910 | 2,000 | 2,250 | 1,750 | 1,750 | 1,750 | 1,750 |
| TOTAL | 3,621 | 4,471 | 4,106 | 2,978 | 3,646 | 2,750 | 3,250 | 2,500 | 2,500 | 2,500 | 2,500 |
| <u>Non-Residential (sq.ft., in thousands)</u> | | | | | | | | | | | |
| Commercial | 2,250 | 3,000 | 3,750 | 2,250 | 500 | 750 | 1,000 | 1,500 | 1,500 | 1,500 | 1,500 |
| Industrial | 3,500 | 1,500 | 3,000 | 250 | 0 | 250 | 750 | 1,000 | 1,000 | 1,000 | 1,000 |
| TOTAL | 5,750 | 4,500 | 6,750 | 2,500 | 500 | 1,000 | 1,750 | 2,500 | 2,500 | 2,500 | 2,500 |

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

V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. 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 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet. This data collection effort has identified approximately 19,000 dwelling units and 40 million square feet of non-residential space submitted for Planning approval since January 1, 2000.

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

**Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/00***

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Housing Type | No. of Units | Proj. Mgr | Approval Date |
|------------------------------------|-------------|---|--------------|-------------------------------------|---------------|--------------|--------------|-----------|---------------|
| Projects Completed | | | | | | | | | |
| PDA00-033-01 | 8/24/00 | The Pines at North Park Apts ¹ | 097-07-003 | E/s N. 1st, 1000' nly River Oaks | North | MF | 478 | AC | 7/14/00 |
| PD01-082 | 7/26/01 | Markham Plaza Apts ² | 477-23-023 | NE/s Monterey, 600' nly Tully | South | MF | 305 | BS | 8/31/01 |
| 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 |
| 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 |
| PD01-068 | 6/5/01 | Tuscany Hills (Phase 1 & 2) ³ | 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 ⁴ | 660-22-009 | SE/c San Felipe & Delta | Evergreen | SF | 140 | R | 8/20/01 |
| PD00-040 | 4/27/00 | Willow Glen Senior Apts ⁵ | 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 |
| 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 |
| 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 |
| PD01-023 | 2/8/01 | El Paseo Apts | 307-12-014 | SE/c Campbell & Hamilton | West Valley | MF | 98 | DM | 5/25/01 |
| Total | | | | | | | 2,056 | | |
| 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 ⁶ | 676-01-001 | E/s Hwy 101, 1000' nly Hellyer | Evgrn/Ednvl | SF | 538 | JB | 7/24/02 |
| PD00-084 | 10/25/00 | The Laurels at North Park Apts | 097-07-003 | W/s Zanker, 700' sly Tasman | North | MF | 535 | EL | 9/14/01 |
| PD01-013 | 1/24/01 | Fruitdale Station | 284-02-008 | SE/c Southwest Expwy & Fruitdale | Willow Glen | SF/MF | 442 | AA | 8/31/01 |
| RPD00-003 | 12/1/00 | College Park | 259-20-049 | Ely Hwy 87, bet. Ryland & Basset | Central | SF/MF | 433 | RDV. | 5/2/01 |
| PD03-004 | 1/13/03 | Dairy Hill | 455-28-012 | S/s Curtner, 1000' ely Hwy 87 | South | SF/MF | 425 | DM | 5/16/03 |
| 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 |
| PD02-036 | 5/22/02 | Midtown Plaza Condos | 264-08-021 | SE/c Meridian & Auzerais | Central | MF | 257 | SP | 7/24/02 |
| PD00-017-01 | 8/29/03 | Santana Row (Parcel 7) | 277-33-004 | SE/c Winchester & Stevens Creek | West Valley | SF/MF | 248 | EM | 9/26/03 |
| PD02-068 | 9/4/02 | Evans Lane Apts | 455-20-063 | Term Almaden & Hwy 87 | South | MF | 239 | AA | 1/17/03 |
| PD01-030 | 3/8/01 | Oak Circle Senior/Kennedy Apts | 477-54-038 | NW/c Lucretia & Vintage | South | MF | 200 | BS | 5/16/01 |
| PD02-030 | 5/8/02 | Tuscany Hills (Phase 3) ⁷ | 455-09-049 | N/s Hillsdale, opp term Vista Park | South | MF | 180 | DM | 7/11/03 |
| PD99-044 | 7/12/99 | Ponderosa Highlands | 676-02-014 | S/s Yerba Buena, 1200' ely Hwy 101 | Evergreen | SF | 179 | JAC | 12/22/99 |
| PD02-075 | 10/11/02 | Fallen Leaves Apts | 497-23-013 | SW/c Lewis & Wall | South | MF | 176 | AA | 11/27/02 |
| 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 |
| PD03-015 | 2/27/03 | Branham Lane Apts | 684-46-104 | NE/c Branham & Monterey | Edenvale | MF | 175 | JR | 6/27/03 |
| PD01-105 | 10/11/01 | Mariani Square Townhomes | 249-36-032 | SW/c Jackson & N. 9th | Central | SF | 166 | JD | 3/8/02 |

**Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/00***

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Housing Type | No. of Units | Proj. Mgr | Approval Date |
|-------------|-------------|------------------------|--------------|--------------------------------|------------------|--------------|--------------|-----------|---------------|
| PD03-007 | 1/22/03 | Cherryview Senior Apts | 569-02-053 | SE/c Cherryview & Russo | Cambrian/Pioneer | SF/MF | 150 | TE | 5/16/03 |
| PD98-017 | 3/23/98 | Vintage Homes | 659-10-003 | N/s Aborn, 1000' ely Ruby | Evergreen | SF | 136 | ME | 7/1/99 |
| PD02-002 | 1/3/02 | Pollard Plaza Apts | 477-16-084 | E/s McLaughlin, 140' sly Story | South | MF | 130 | AA | 5/24/02 |
| RPD99-001 | 7/1/99 | Park Townsend Condos | 259-33-047 | SW/c W. Julian & N. 1st | Central | MF | 98 | RDV. | 6/29/00 |
| PD01-061 | 5/16/01 | Georgetown Townhomes | 261-36-012 | SE/c W. San Fernando & Sunol | Central | SF | 94 | BB | 7/27/01 |
| PD02-026 | 4/26/02 | Tierra Encantada Apts | 481-19-134 | SE/c Alum Rock & McCreery | Alum Rock | MF | 93 | SBW | 7/1/02 |
| PD01-007 | 1/18/01 | Cahill Park (Phase 1) | 261-36-017 | S/s The Alameda opp. Stockton | Central | MF | 60 | BB | 7/30/01 |

Total

6,730

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 | 755 | BB | 6/19/01 |
| PDC03-043 | 5/20/03 | North Park Apts | 097-07-003 | E/s N. 1st bet River Oaks & Baypointe | North | MF | 641 | EL | 9/30/03 |
| PD01-050 | 4/10/01 | The Redwoods at North Park Apts | 097-07-003 | W/s Zanker, 2000' sly Tasman | North | MF | 439 | EL | 12/20/02 |
| 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 |
| PDC02-089 | 11/4/02 | Vendome Place | 259-05-024 | NW/c N. 1st & Taylor | Central | MF | 333 | AD | 1/21/03 |
| PDC99-083 | 10/15/99 | Tuscany Hills | 455-10-033 | E/s Hwy 87, 1000' nly Hillsdale | South | MF | 327 | JAC | 3/27/01 |
| PDC98-027 | 3/20/98 | Cahill Park | 261-33-038 | S/s The Alameda opp. Stockton | Central | SF/MF | 300 | AD | 2/1/00 |
| PDC02-072 | 9/9/02 | Tamien Place Condos | 434-13-015 | NW/c W. Alma & Hwy 87 | Central | MF | 260 | AA | 9/30/03 |
| PD03-013 | 2/21/03 | Cinnabar Commons | 261-03-051 | W/s Stockton, bet Lenzen & Cinnabar | Central | MF | 245 | EM | 6/27/03 |
| PD01-010 | 1/19/01 | Almaden Road Apts | 434-26-012 | W/s Almaden, 850' sly Alma | Central | MF | 225 | AA | 4/25/03 |
| PD03-016 | 2/27/03 | Metcalf Road Housing | 678-01-016 | Nly side Metcalf, ely Hwy 101 | Edenvale | SF | 213 | JR | 7/11/03 |
| PD02-029 | 5/7/02 | Winchester Apts | 299-27-063 | W/s Winchester, opp Magliocco | West Valley | MF | 194 | DM | 7/11/02 |
| PDC03-022 | 3/17/03 | Virginia Terrace Townhomes | 472-18-051 | SW/c E. Virginia & S. 6th | Central | SF | 170 | JD | 11/4/03 |
| PD03-026 | 4/17/03 | Pinn Bros (Lands of Sorci) | 659-64-040 | N/s Aborn, 2000' ely Ruby | Evergreen | SF | 136 | JB | 8/15/03 |
| PD03-031 | 5/30/03 | Baton Rouge | 254-06-039 | SW/c N. Capitol & Baton Rouge | Alum Rock | SF | 92 | CG | 11/14/03 |
| PD03-030 | 5/20/03 | Bentley Park | 245-18-003 | E/s Flickinger, 600' sly Hostetter | Berryessa | SF | 84 | CG | 10/15/03 |
| RH03-002 | 5/30/03 | 2nd & Santa Clara Mixed Use | 467-22-134 | E/s 2nd, bet Santa Clara & San Fernando | Central | MF | 73 | RDV. | 9/9/03 |
| PD02-061 | 8/26/02 | Vendome Place (Phase 1) | 259-05-024 | SE/c Asbury & Miller | Central | MF | 67 | AD | 3/12/03 |

Total

4,889

Projects Pending City Approval

| | | | | | | | | | |
|-----------|---------|--------------------|------------|------------------------|--------|-------|-----|----|-----|
| PDC02-066 | 8/9/02 | Goble Lane Housing | 497-07-030 | SE/c Monterey & Fehren | South | SF/MF | 830 | DM | --- |
| PDC03-086 | 10/8/03 | Alviso Village | 015-44-011 | NE/c N. 1st & Nortech | Alviso | SF | 717 | CG | --- |

**Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/00***

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Housing Type | No. of Units | Proj. Mgr | Approval Date |
|-------------|-------------|---------------------------------|--------------|------------------------------------|---------------|--------------|--------------|-----------|---------------|
| PD03-006 | 1/16/03 | County Fairgrounds Housing | 497-38-001 | S/s Tully, 750' wly Senter | South | SF/MF | 561 | AA | --- |
| PD03-062 | 10/14/03 | The Sycamore at North Park Apts | 097-07-003 | W/s Zanker, 1000' sly Tasman | North | MF | 441 | EL | --- |
| PDC03-071 | 8/4/03 | Del Monte Housing | 264-15-005 | NE/c Auzerais & Sunol | Central | SF/MF | 400 | EM | --- |
| PDC02-046 | 5/14/02 | Delmas Housing | 259-38-036 | NW/c San Fernando & Delmas | Central | MF | 325 | AD | --- |
| PD03-038 | 6/27/03 | Hacienda Gardens | 442-44-018 | W/s Meridian, both sides Foxworthy | Willow Glen | SF | 299 | JB | --- |
| PDC03-057 | 7/1/03 | Senter Road Apts | 477-20-132 | E/s Senter, 600' sly Needles | South | MF | 248 | JR | --- |
| PDC03-036 | 5/6/03 | Jackson Square | 484-02-010 | SE/c S. Jackson & Madden | Alum Rock | MF | 160 | EL | --- |
| PDC03-029 | 4/10/03 | Art Ark Apts | 472-14-029 | NE/c S. 5th & Keyes | Central | MF | 148 | JD | --- |
| PDC03-056 | 6/25/03 | Ajisai Gardens Condos | 249-37-006 | SE/c E. Taylor & N. 7th | Central | MF | 135 | JD | --- |
| PDC03-084 | 10/6/03 | Harbor Crest at Willow Glen | 284-03-020 | SW/c Meridian & Curci | Willow Glen | MF | 130 | AA | --- |
| PDC02-102 | 12/6/02 | San Carlos Housing | 274-14-142 | NE/c San Carlos & Buena Vista | Central | SF/MF | 127 | EM | --- |
| RPD03-045 | 8/11/03 | City Heights Condos | 259-32-026 | NW/c San Pedro & St. James | Central | MF | 126 | RDV | --- |
| PD03-069 | 10/22/03 | Delmas Park Mixed Use | 264-20-123 | SE/c W. San Carlos & Bird | Central | MF | 123 | JD | --- |
| PD03-055 | 9/17/03 | Tuscany Hills (Phase 4) | 455-09-049 | N/s Hillsdale, opp term Vista Park | South | MF | 114 | DM | --- |
| PD03-063 | 10/14/03 | Lands of BFI (Summerhill Homes) | 237-15-185 | SW/c Oakland & Rock | Berryessa | SF | 107 | CG | --- |
| PD03-053 | 9/10/03 | Cahill Park (Phase 2) | 261-36-058 | S/s The Alameda opp. Stockton | Central | SF | 100 | EM | --- |
| PD03-051 | 8/28/03 | Keyes Apts | 477-04-029 | SE/c Keyes & S. 12th | Central | MF | 82 | JD | --- |
| PD03-060 | 10/8/03 | Saratoga Avenue Townhomes | 381-37-007 | SW/c Saratoga & Graves | West Valley | SF | 79 | DM | --- |
| PD03-048 | 7/28/03 | Lundy Housing | 254-17-018 | W/s Lundy, 1100' nly Mabury | Alum Rock | SF | 78 | CG | --- |

Total

5,330

GRAND TOTAL

19,005

- Footnotes:
- (1) Includes PD00-034 (233 units)
 - (2) Includes PD01-083 (152 units)
 - (3) Includes PD00-090 (17 units)
 - (4) Includes H01-010 (40 units)
 - (5) Includes PD00-041 (58 units)
 - (6) Includes PD02-051 (47 units)
 - (7) Includes PD02-021 (90 units)

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

*Note: Minimum project size criteria modified (from 100+ dwelling units) in May, 2003

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/00**

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Square Footage (approx.) | # of New Guest Rooms | Proj. Mgr | Approval Date |
|---------------------------|-------------|--------------------------------|--------------|-----------------------------------|------------------|--------------------------|----------------------|-----------|---------------|
| Projects Completed | | | | | | | | | |
| RH01-001 | 1/1/01 | 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 |
| 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 |
| H00-005 | 1/26/00 | Echelon ¹ | 264-08-050 | SE/c Meridian & Harmon | Central | 151,000 | | BB | 6/2/00 |
| 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 |
| PD00-085 | 11/6/00 | Santana Row (Parcel 13) | 277-33-004 | SE/c Winchester & Stevens Creek | West Valley | 141,000 | | JR | 2/2/01 |
| 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 |
| H00-091 | 10/23/00 | Cypress Semiconductor (Bldg 6) | 097-53-019 | NEly term Champion | North | 111,000 | | EL | 1/11/01 |
| 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 |
| H00-103 | 11/14/00 | Stevens Creek Honda | 296-38-011 | SE/c Stevens Creek & Richfield | West Valley | 58,000 | | DM | 8/24/01 |
| 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 |
| PD02-063 | 8/26/02 | Santana Row (Best Buy) | 277-33-004 | SE/c Winchester & Stevens Creek | West Valley | 48,000 | | SP | 11/15/02 |
| 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 |
| PD01-033 | 3/15/01 | Santana Row (Crate & Barrel) | 277-33-004 | SE/c Winchester & Stevens Creek | West Valley | 40,000 | | BB | 5/16/01 |
| PD02-074 | 10/8/02 | Santana Row (Container Store) | 277-33-004 | SE/c Winchester & Stevens Creek | West Valley | 34,000 | | BB | 11/27/02 |
| RSP01-005 | 6/1/01 | 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 |
| 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 |
| H00-054 | 7/10/00 | Archbishop Mitty High School | 381-21-021 | SE/c Lawrence & Mitty | West Valley | 29,000 | | DM | 1/5/01 |
| Total | | | | | | 2,826,000 | 293 | | |

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/00**

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Square Footage (approx.) | # of New Guest Rooms | Proj. Mgr | Approval Date |
|------------------------------------|-------------|------------------------------|--------------|--|------------------|--------------------------|----------------------|-----------|---------------|
| Projects Under Construction | | | | | | | | | |
| PDC03-075 | 9/3/03 | Oakridge Shopping Center | 458-13-017 | N/s Blossom Hill bet Santa Teresa & Winfield | Edenvale | 420,000 | | DM | 12/16/03 |
| 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 |
| 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 |
| 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 |
| PD02-053 | 7/24/02 | Smythe European | 296-38-012 | SW/c Stevens Creek & Palace | West Valley | 25,000 | | DM | 12/20/02 |
| Total | | | | | | 838,000 | - | | |

Approved Projects (Construction Not Yet Commenced)

| | | | | | | | | | |
|--------------|----------|---------------------------------|------------|---------------------------------------|------------------|---------|-----|------|----------|
| 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 | 5/1/00 | Plaza at Almaden | 264-28-167 | W/s Almaden bet San Carlos & Woz | Central | 860,000 | | RDV. | 6/4/01 |
| CP02-047 | 8/1/02 | Eastridge Shopping Center | 491-04-006 | SW/c Tully & Capitol | Evergreen | 307,000 | | JB | 8/13/03 |
| 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 |
| PD03-035 | 6/23/03 | Target Stores | 458-13-017 | SW/c Santa Teresa & Thornwood | Edenvale | 164,000 | | DM | 9/5/03 |
| RCPA00-12-01 | 2/1/01 | Marriott Courtyard | 259-39-111 | SE/c W. Santa Clara & Hwy 87 | Central | 159,000 | 254 | RDV. | 3/28/01 |
| PD01-088 | 8/8/01 | First United Methodist Church | 467-19-073 | NE/c E. Santa Clara & N. 5th | Central | 142,000 | | JD | 12/20/02 |
| PDC01-023 | 2/14/01 | Santana Row | 277-33-004 | SE/c Winchester & Stevens Creek | West Valley | 119,000 | 190 | BB | 6/19/01 |
| PD01-059 | 5/4/01 | Capitol Self Storage | 462-18-007 | NW/c Capitol & Monterey | South | 93,000 | | BS | 3/22/02 |
| PD02-055 | 7/31/02 | Samaritan Women/Children Center | 421-36-009 | NW/c Samaritan Dr & PI | Cambrian/Pioneer | 84,000 | | TE | 12/20/02 |
| RCP02-012 | 9/16/02 | Block 3 Mixed Use | 467-22-133 | S/s San Fernando bet 1st & 2nd | Central | 68,000 | | RDV. | 11/20/02 |
| CP02-026 | 5/10/02 | Friendly Ford | 459-04-003 | N/s Capitol, 200' ely Old Almaden | South | 65,000 | | DM | 1/22/03 |
| 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 |
| PD02-034 | 5/21/02 | Fairfield Inn & Suites (annex) | 230-29-041 | SW/c N. 1st & Hwy 101 | North | 54,000 | 91 | EL | 2/28/03 |
| 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 |
| 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 |
| H00-114 | 12/6/00 | Hudson Co. Office | 279-09-049 | SE/c S. Winchester & Neal | West Valley | 34,000 | | BB | 5/4/01 |
| PDC03-007 | 1/22/03 | Gold Street Office | 015-34-063 | SW/c Gold & Guadalupe River | Alviso | 32,000 | | CG | 9/2/03 |

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/00**

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Square Footage (approx.) | # of New Guest Rooms | Proj. Mgr | Approval Date |
|---------------------------------------|-------------|------------------------------------|--------------|------------------------------------|---------------|--------------------------|----------------------|-----------|---------------|
| H00-048 | 6/30/00 | Oakland Road Office | 237-03-044 | W/s Oakland, 410' nly Brokaw | Berryessa | 31,000 | | EL | 12/1/00 |
| PDC02-047 | 5/14/02 | South Bay Islamic Assoc. | 652-13-001 | E/s Ruby, 250' nly Murillo | Alum Rock | 28,000 | | JB | 10/21/03 |
| PD02-062 | 8/26/02 | Santana Row (Century Theatres) | 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 |
| Total | | | | | | 4,005,000 | 1,026 | | |
| Projects Pending City Approval | | | | | | | | | |
| PDC02-046 | 5/14/02 | Delmas Office | 259-38-131 | NE/c San Fernando & Delmas | Central | 1,009,000 | | AD | --- |
| PDC03-093 | 11/7/03 | Alexian Brothers Hospital | 481-05-021 | SW/c Mckee & N. Jackson | Alum Rock | 736,000 | | EL | --- |
| PD03-040 | 7/1/03 | Lowe's Home Improvement | 706-06-015 | SE/c Monterey & Cottle | Edenvale | 222,000 | | JR | --- |
| PD03-038 | 6/27/03 | Hacienda Gardens | 442-44-018 | W/s Meridian, both sides Foxworthy | Willow Glen | 167,000 | | JB | --- |
| PDC03-024 | 3/17/03 | Alviso Youth Foundation | 015-34-059 | W/s Gold term El Dorado | Alviso | 88,000 | | CG | --- |
| PDC00-091 | 9/18/00 | KNTV/WB20 Broadcast Facility | 261-35-014 | NW/c Park & Montgomery | Central | 73,000 | | EM | --- |
| PDC03-032 | 4/18/03 | Extended Stay America | 477-06-027 | E/s Monterey, 170' nwly Alma | Central | 53,000 | 122 | JD | --- |
| H03-041 | 7/17/03 | McKee Office | 481-05-024 | SW/c McKee & Jose Figueres | Alum Rock | 31,000 | | EL | --- |
| H01-008 | 1/31/01 | Stevens Creek Volkswagen | 296-38-008 | SE/c Stevens Creek & Palace | West Valley | 31,000 | | DM | --- |
| H03-048 | 9/16/03 | Gould Shopping Center | 499-36-048 | NW/c Capitol & McLaughlin | South | 27,000 | | AA | --- |
| CP02-045 | 7/30/02 | Holiday Inn Express (annex) | 497-38-004 | E/s Monterey, 650' nly Umbarger | South | 26,000 | 50 | AA | --- |
| PD03-037 | 6/25/03 | Congregation Sinai | 429-48-013 | SE/c Willowbrae & Willow Oaks | Willow Glen | 25,000 | | AA | --- |
| PD03-058 | 10/6/03 | Saint John Vianney Parish | 601-09-011 | W/s Alum Rock bet Maro & Marian | Alum Rock | 23,000 | | EL | --- |
| Total | | | | | | 2,511,000 | 172 | | |
| GRAND TOTAL | | | | | | 10,180,000 | 1,491 | | |

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

Projects of 75,000+ Square Feet, Submitted Since 1/1/00

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Square Footage (approx.) | Proj. Mgr | Approval Date |
|---|-------------|----------------------------------|--------------|--|---------------|--------------------------|-----------|---------------|
| Projects Completed | | | | | | | | |
| 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 |
| 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 |
| 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 ¹ | 237-15-178 | W/s O'Toole, 250' sly Rock | Berryessa | 278,000 | AC | 3/17/00 |
| H00-030 | 5/2/00 | ACT Manufacturing ² | 678-16-011 | E/s Hellyer opp. Branham East | Edenvale | 197,000 | JR | 10/25/00 |
| PD01-062 | 5/18/01 | Berryessa Industrial Center | 241-08-001 | N/s Berryessa, 50' ely Mabury | Berryessa | 86,000 | JN | 8/17/01 |
| Total | | | | | | 2,158,000 | | |
| Projects Under Construction | | | | | | | | |
| H03-021 | 4/15/03 | Venture Commerce Center | 244-18-009 | NE/c Ringwood & Concourse | Berryessa | 138,000 | CG | 9/24/03 |
| Total | | | | | | 138,000 | | |
| Approved Projects (Construction Not Yet Commenced) | | | | | | | | |
| PDC98-104 | 12/18/98 | FMC Site | 230-22-006 | NW/c Coleman & Newhall | North | 3,000,000 | AC | 8/19/03 |
| 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 |
| 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 |

**Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/00**

| File Number | Filing Date | Project Name | Tracking APN | Street Location | Planning Area | Square Footage (approx.) | Proj. Mgr | Approval Date |
|-------------|-------------|--------------------------------------|--------------|--|------------------|--------------------------|-----------|---------------|
| PD01-115 | 11/1/01 | Coyote Campus (Phase F) | 708-27-003 | NE/c Santa Teresa & Bailey | Coyote | 378,000 | JR | 12/21/01 |
| HA96-064-02 | 6/4/03 | eBay | 097-60-008 | SW/c Guadalupe & N. 1st | North | 331,000 | MM | 6/20/03 |
| 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 |
| H01-071 | 10/16/01 | Fox Properties Industrial | 237-03-070 | W/s Oakland, 400' sly Brokaw | Berryessa | 275,000 | CG | 1/31/03 |
| H00-063 | 8/3/00 | Creekside Plaza Industrial Park | 237-05-050 | SE/c Hwy 880 & 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 |
| H00-042 | 5/31/00 | MPS-LLC Corporate Campus | 244-16-029 | SE/c Qume & Fortune | Berryessa | 162,000 | JN | 12/6/02 |
| 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

24,711,000

Projects Pending City Approval

| | | | | | | | | |
|-----------|----------|----------------------------------|------------|-----------------------------------|-----------|-----------|----|-----|
| PDC99-098 | 12/22/99 | Berg & Berg (Evergreen) | 659-02-007 | NE/c Fowler & Altia | Evergreen | 1,238,000 | JB | --- |
| H03-039 | 7/3/03 | eBay | 097-60-008 | SW/c Guadalupe & N. 1st | North | 1,135,000 | MM | --- |
| PD03-034 | 6/18/03 | Skyport Plaza (Phase 2) | 230-29-056 | W/s N. 1st bet Skyport & Sonora | North | 555,000 | MM | --- |
| PD01-009 | 1/18/01 | Highlands Corp. Centre (Phase 1) | 660-19-005 | E/s Murillo, 300' nly Villa Vista | Evergreen | 296,000 | JB | --- |
| H00-100 | 11/8/00 | Tully Road Data Center | 477-22-032 | S/s Tully, 250' ely Monterey | South | 78,000 | EM | --- |
| PDC03-079 | 9/9/03 | Ringwood Court | 244-19-029 | N/s Ringwood, 900' nly McKay | Berryessa | 72,000 | CG | --- |

Total

3,374,000

GRAND TOTAL

30,381,000

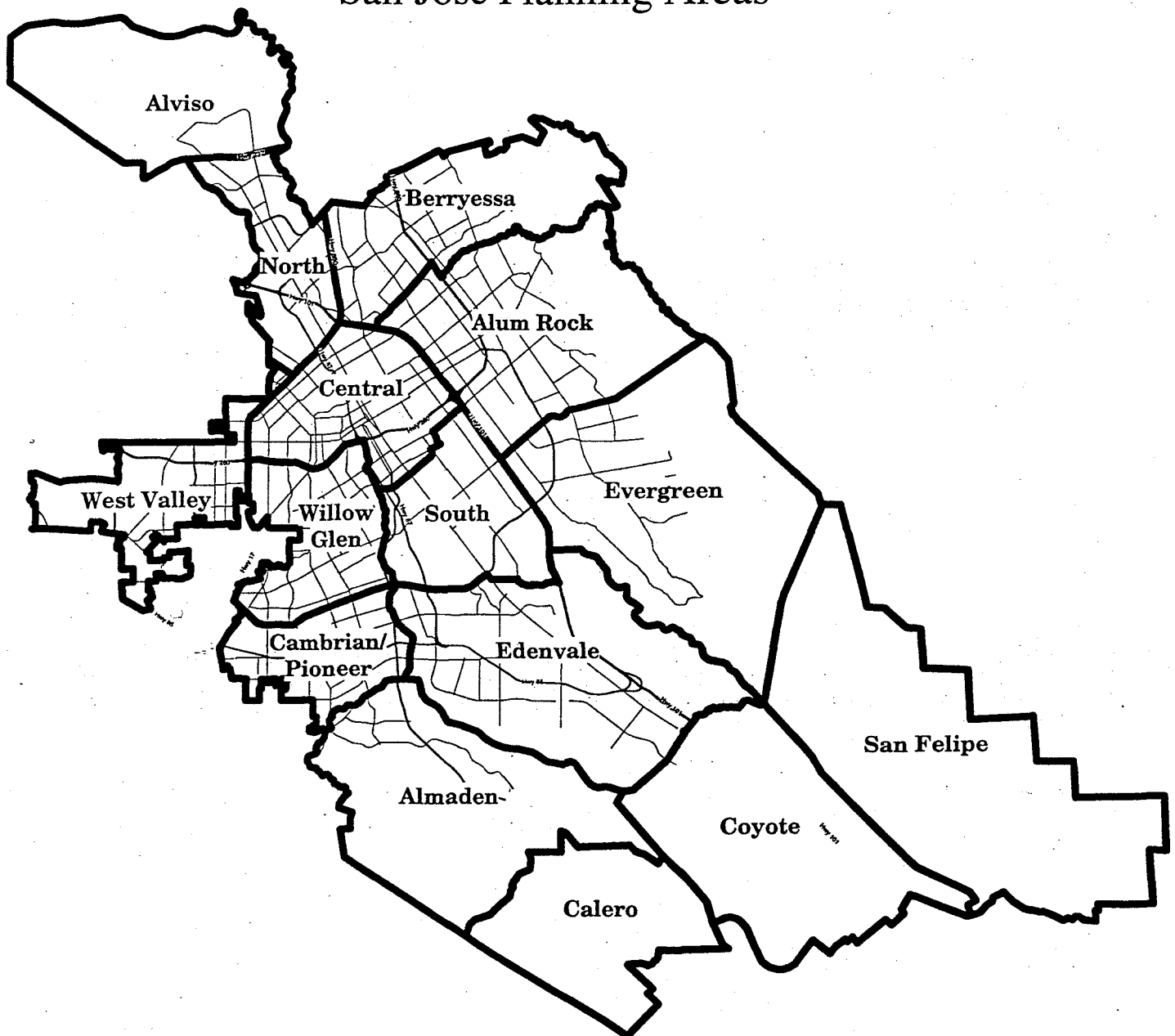
Footnotes: (1) Includes H98-038 (44,000 sq.ft.)
(2) Includes H95-093 (118,000 sq.ft.)

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

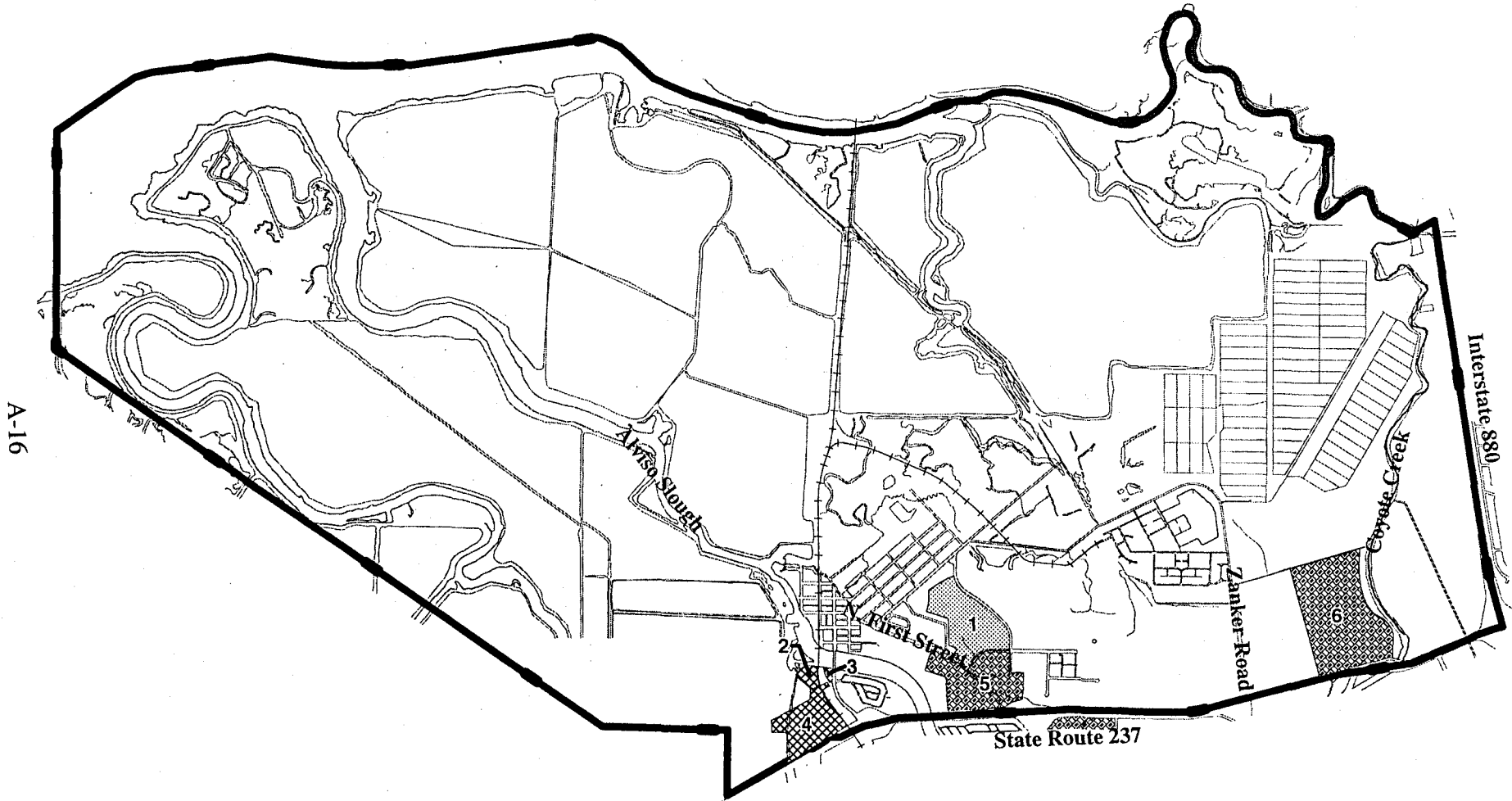
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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, 2000. 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-16

 **Residential Projects**

- 1 Alviso Village
- Total Dwelling Units= 717

 **Commercial Projects**

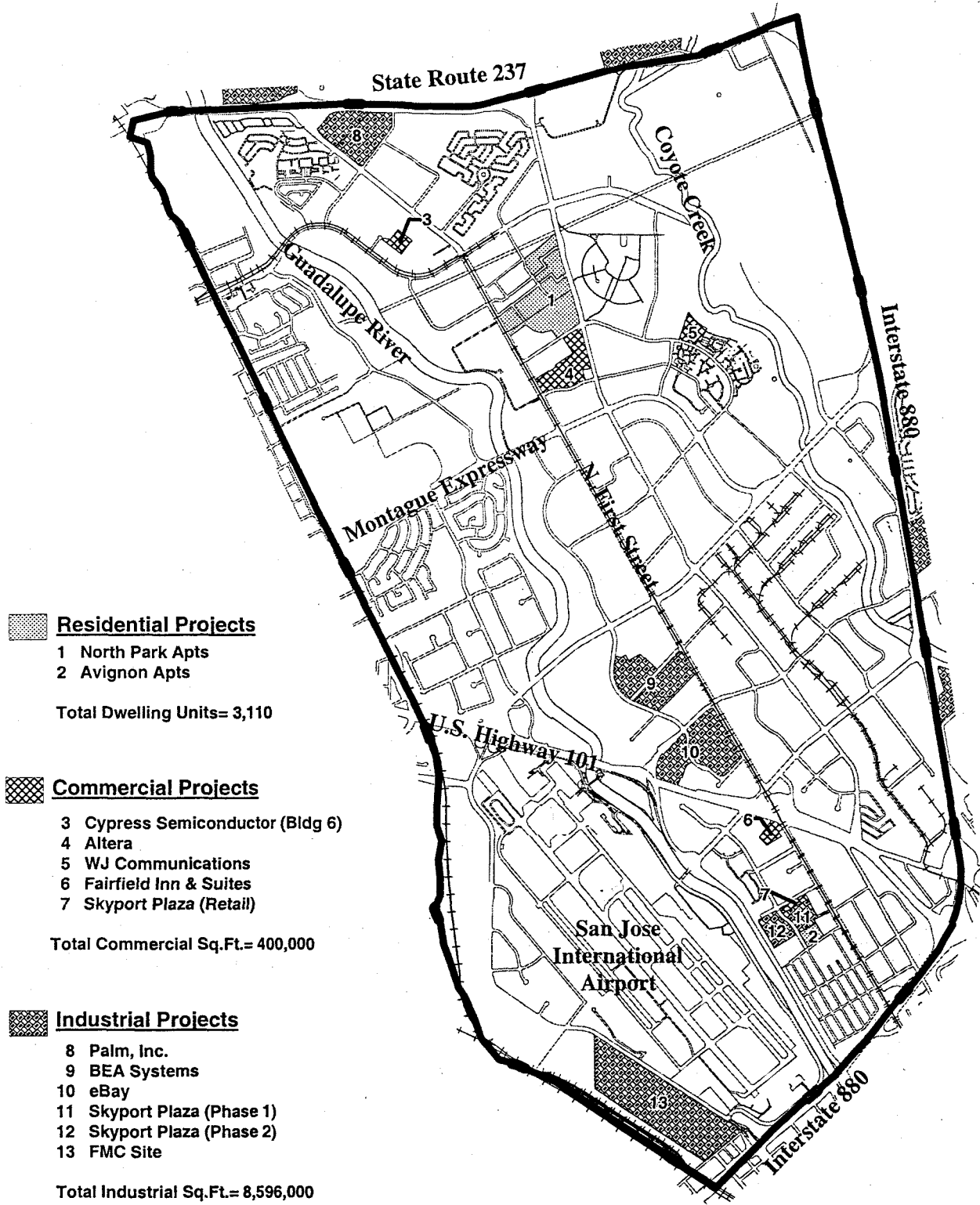
- 2 Alviso Youth Foundation
- 3 Gold Street Office
- 4 America Center (Legacy)
- Total Commercial Sq.Ft.= 1,110,000

 **Industrial Projects**

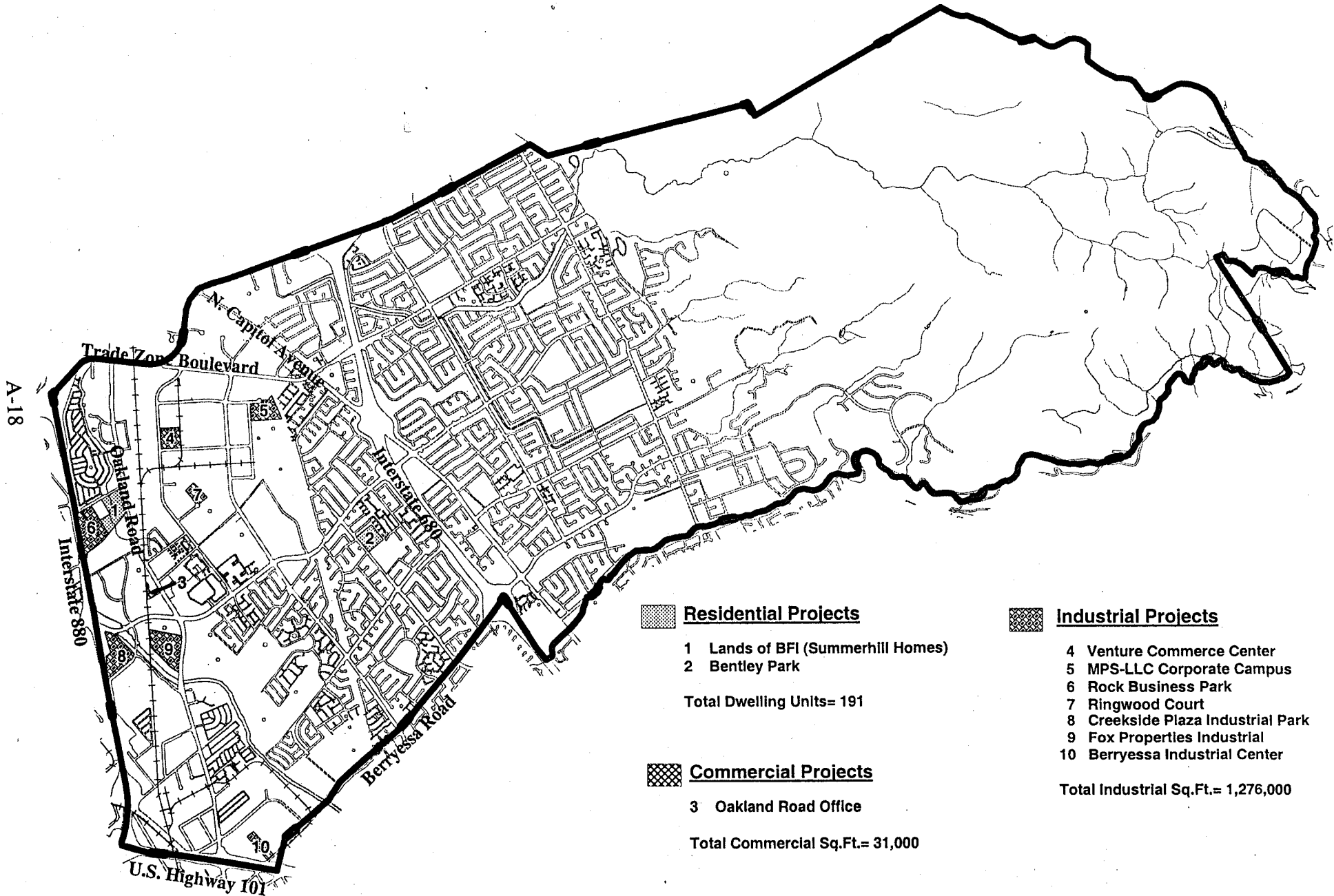
- 5 Cisco Systems (Site 6)
- 6 U.S. Dataport
- Total Industrial Sq.Ft.= 4,500,000



North Planning Area Major Development Activity



Berryessa Planning Area Major Development Activity



Central Planning Area Major Development Activity



 **Residential Projects**

- | | |
|-------------------------------|-------------------------------|
| 1 Ajisai Gardens Condos | 13 San Carlos Housing |
| 2 Vendome Place | 14 Legacy at Museum Park |
| 3 Mariani Square Townhomes | 15 Virginia Terrace Townhomes |
| 4 College Park | 16 Keyes Apts |
| 5 Park Townsend Condos | 17 Midtown Plaza Condos |
| 6 City Heights Condos | 18 Del Monte Housing |
| 7 Cinnabar Commons | 19 Delmas Park Mixed Use |
| 8 2nd & Santa Clara Mixed Use | 20 Brickyard Place Apts |
| 9 Block 3 Mixed Use | 21 Art Ark Apts |
| 10 Georgetown Townhomes | 22 Tamien Place Condos |
| 11 Cahill Park | 23 Almaden Road Apts |
| 12 Delmas Housing | |

Total Dwelling Units= 4,975

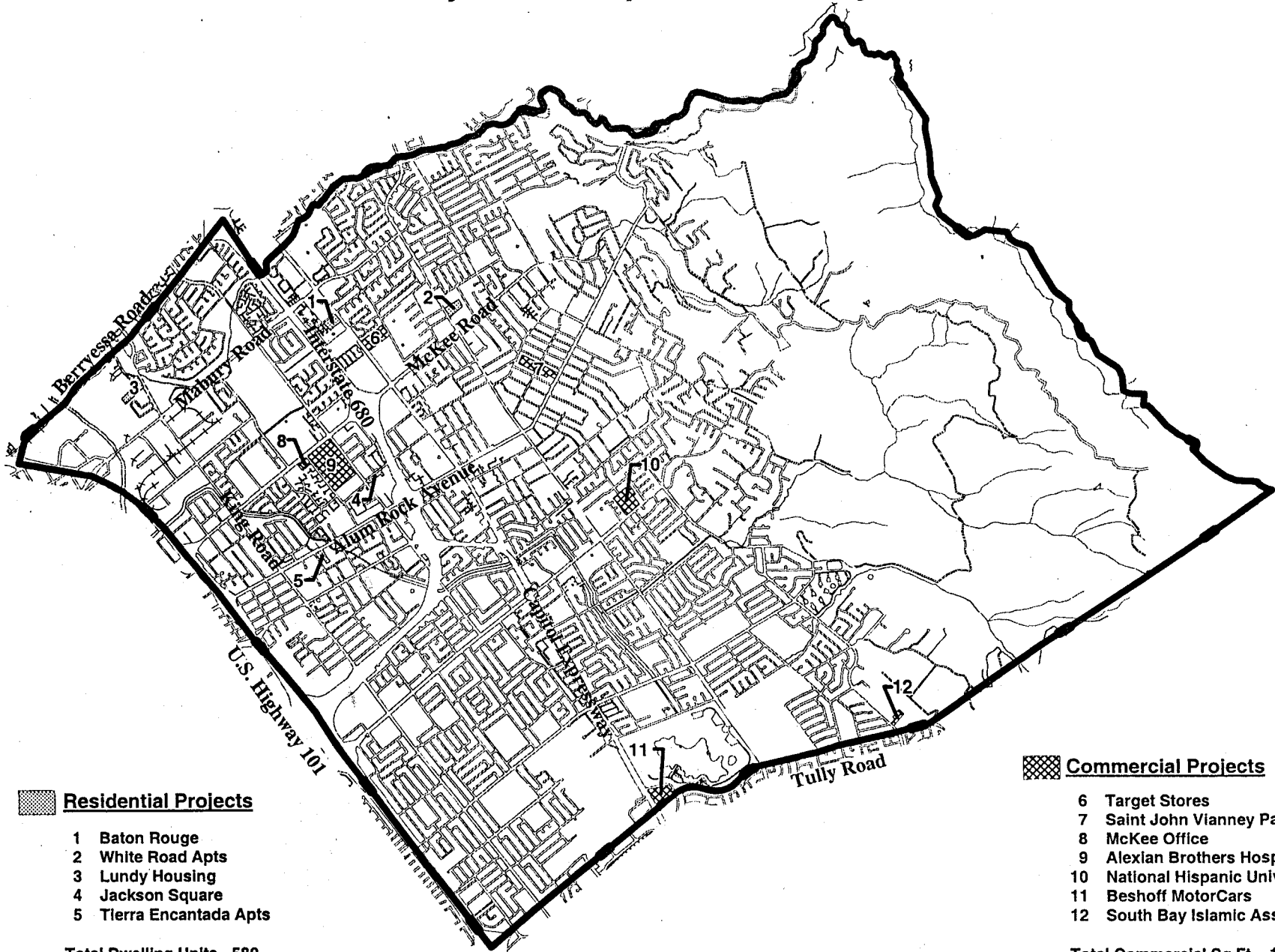
 **Commercial Projects**

- | |
|----------------------------------|
| 24 First United Methodist Church |
| 25 Block 3 Mixed Use |
| 26 Marriott Courtyard |
| 27 Delmas Office |
| 28 Adobe Systems III |
| 29 KNTV/WB20 Broadcast Facility |
| 30 Plaza at Almaden |
| 31 Notre Dame High School |
| 32 Echelon |
| 33 Extended Stay America |
| 34 Monterey Road Motel |

Total Commercial Sq.Ft.= 2,861,000

Alum Rock Planning Area Major Development Activity

A-20



Residential Projects

- 1 Baton Rouge
- 2 White Road Apts
- 3 Lundy Housing
- 4 Jackson Square
- 5 Tierra Encantada Apts

Total Dwelling Units= 580

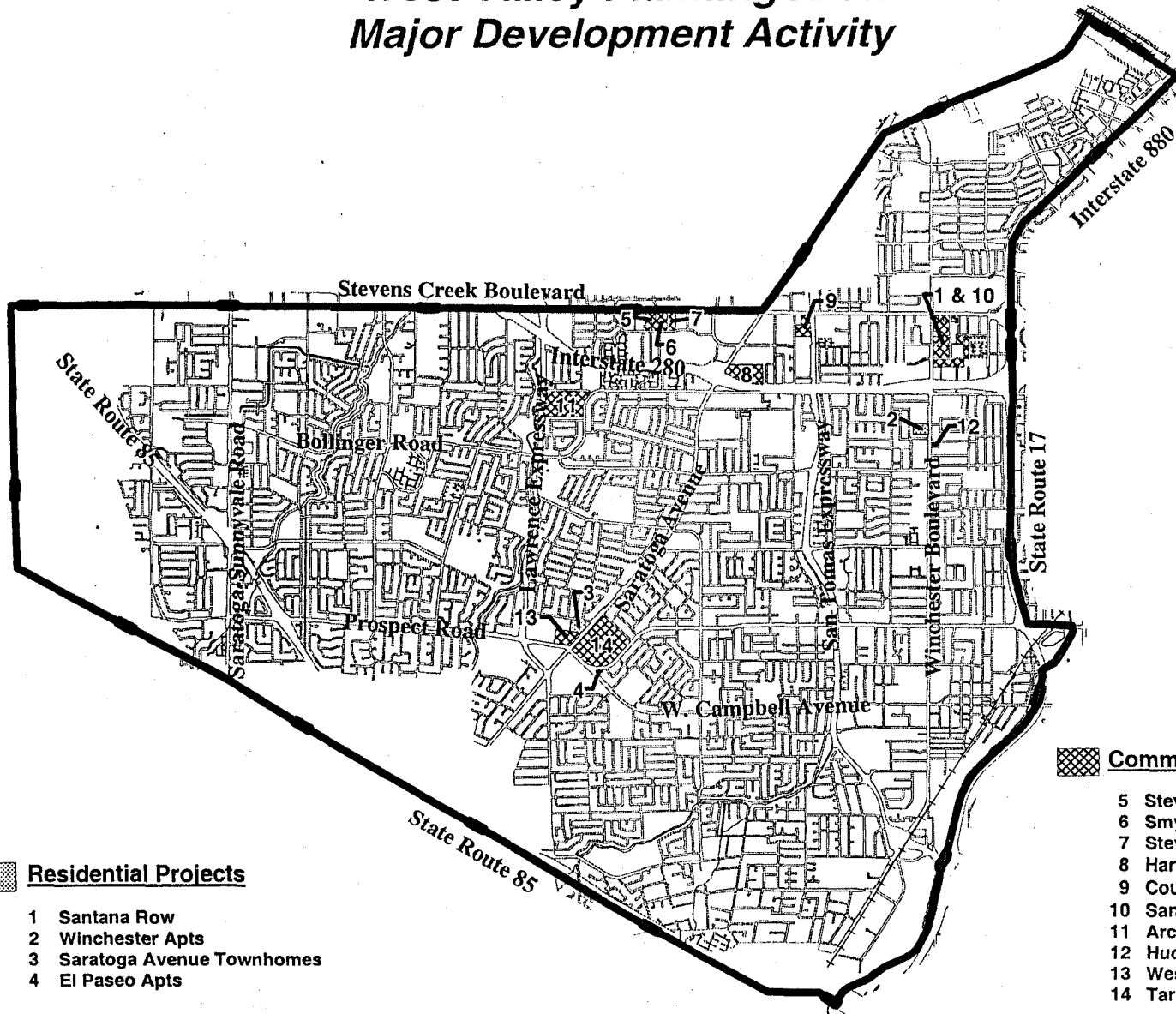
Commercial Projects

- 6 Target Stores
- 7 Saint John Vianney Parish
- 8 McKee Office
- 9 Alexian Brothers Hospital
- 10 National Hispanic University
- 11 Beshoff MotorCars
- 12 South Bay Islamic Assoc.

Total Commercial Sq.Ft.= 1,113,000



West Valley Planning Area Major Development Activity



Residential Projects

- 1 Santana Row
- 2 Winchester Apts
- 3 Saratoga Avenue Townhomes
- 4 El Paseo Apts

Total Dwelling Units= 1,472

Commercial Projects

- 5 Stevens Creek Honda
- 6 Smythe European
- 7 Stevens Creek Volkswagen
- 8 Harker School (Main Campus)
- 9 Courtesy Chevrolet
- 10 Santana Row
- 11 Archbishop Mitty High School
- 12 Hudson Co. Office
- 13 West Valley Shopping Center
- 14 Target Stores

Total Commercial Sq.Ft.= 1,300,000

Willow Glen Planning Area Major Development Activity



Residential Projects

- 1 Fruitdale Station
- 2 Harbor Crest at Willow Glen
- 3 El Parador Senior Apts
- 4 Hacienda Gardens

Total Dwelling Units= 996

Commercial Projects

- 5 SJ City College High Tech Center
- 6 Fruitdale Station
- 7 Valley Christian Elementary School
- 8 Congregation Sinai
- 9 The Home Depot
- 10 Target Stores
- 11 Hacienda Gardens

Total Commercial Sq.Ft.= 722,000

South Planning Area Major Development Activity



Residential Projects

- 1 Pollard Plaza Apts
- 2 Oak Circle Senior/Kennedy Apts
- 3 Senter Road Apts
- 4 Willow Glen Senior Apts
- 5 Markham Plaza Apts
- 6 County Fairgrounds Housing
- 7 Evans Lane Apts
- 8 Dairy Hill
- 9 Goble Lane Housing
- 10 Fallen Leaves Apts
- 11 Tuscany Hills
- 12 Bella Villagio

Total Dwelling Units= 4,369

Commercial Projects

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

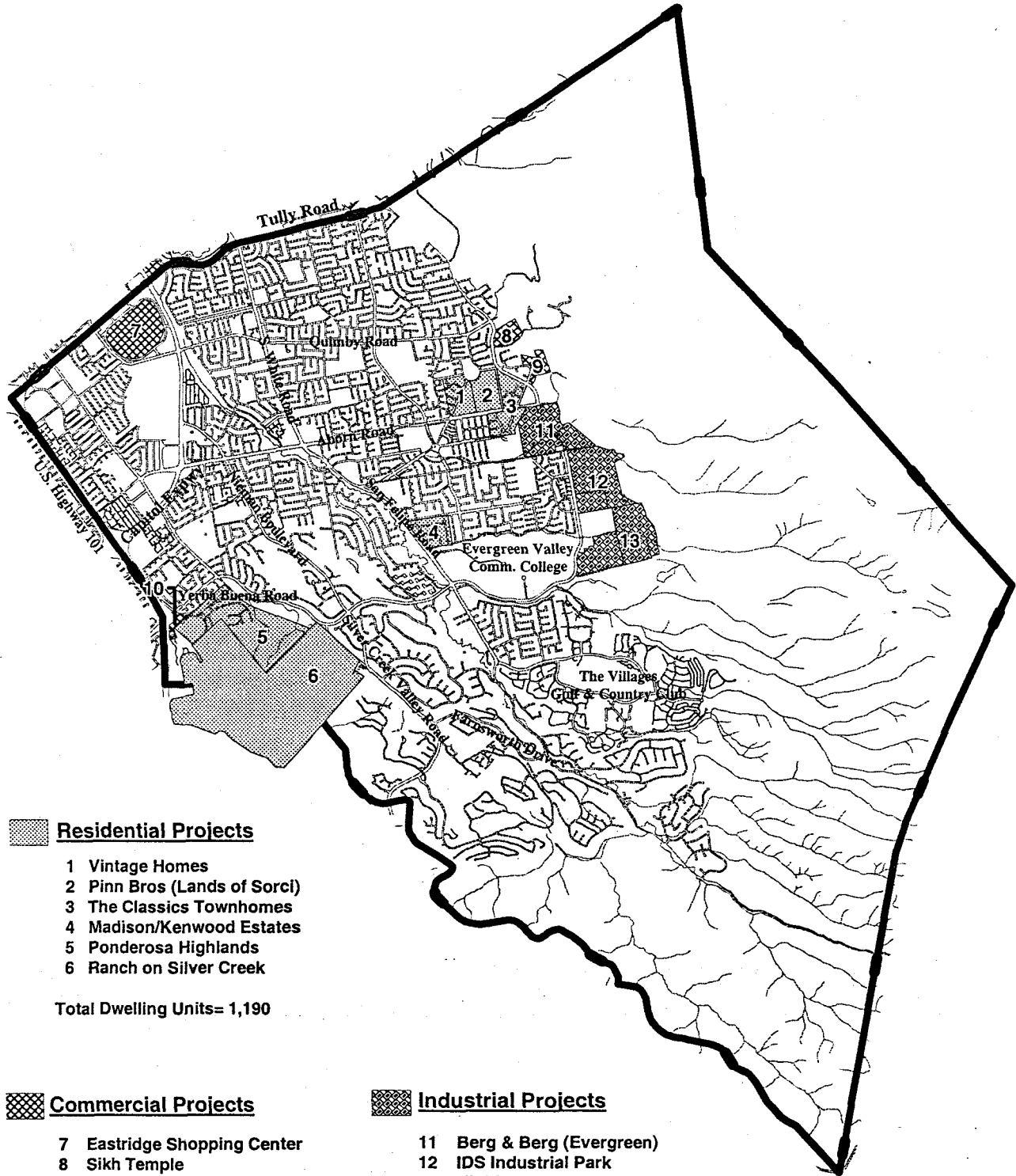
Total Commercial Sq.Ft.= 260,000

Industrial Projects

- 18 Stone Avenue Industrial
- 19 Tully Road Data Center

Total Industrial Sq.Ft.= 157,000

Evergreen Planning Area Major Development Activity



Residential Projects

- 1 Vintage Homes
- 2 Pinn Bros (Lands of Sorci)
- 3 The Classics Townhomes
- 4 Madison/Kenwood Estates
- 5 Ponderosa Highlands
- 6 Ranch on Silver Creek

Total Dwelling Units= 1,190

Commercial Projects

- 7 Eastridge Shopping Center
- 8 Sikh Temple
- 9 Church of the Nazarene
- 10 Church of the Crossroads

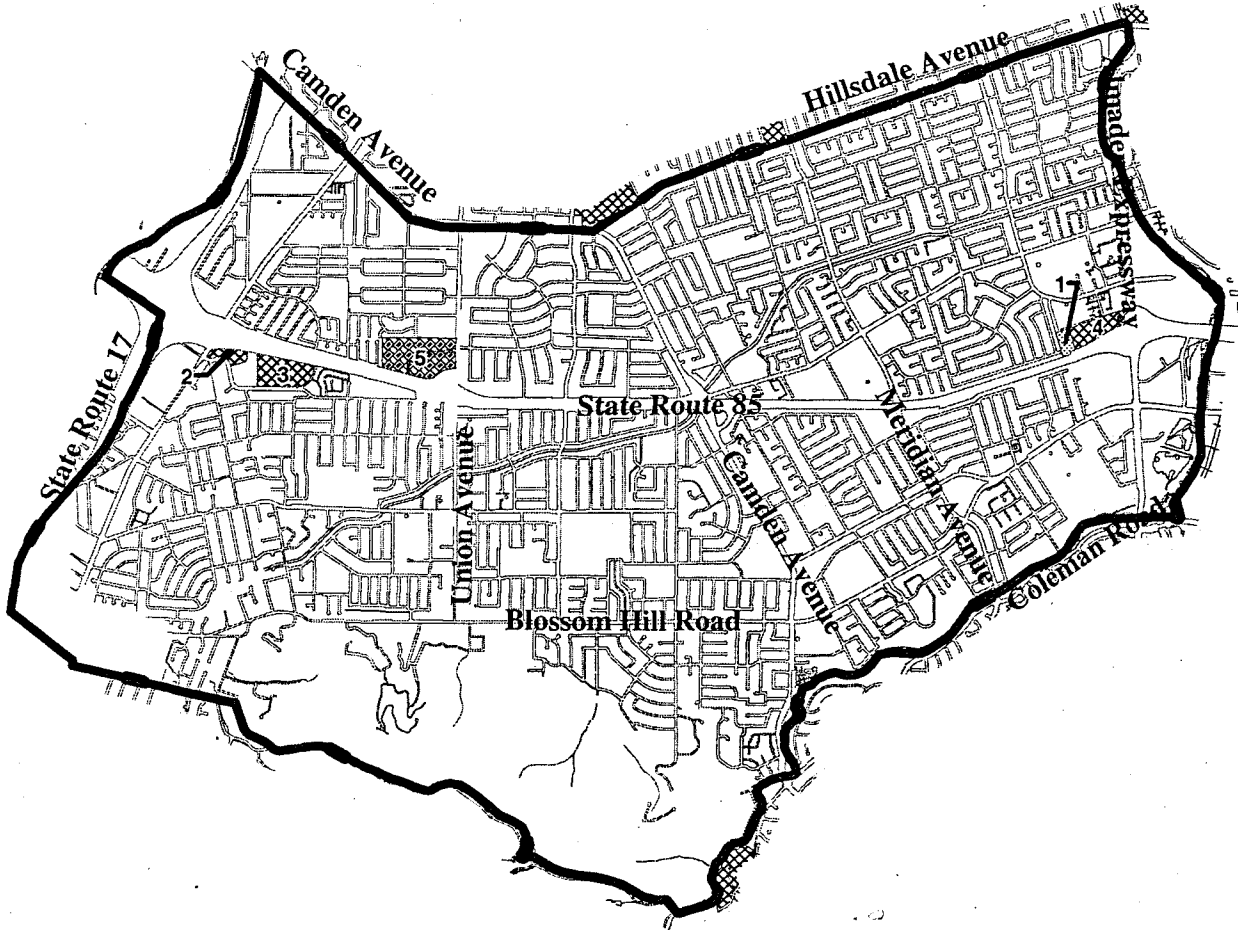
Total Commercial Sq.Ft.= 511,000


Industrial Projects

- 11 Berg & Berg (Evergreen)
- 12 IDS Industrial Park
- 13 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

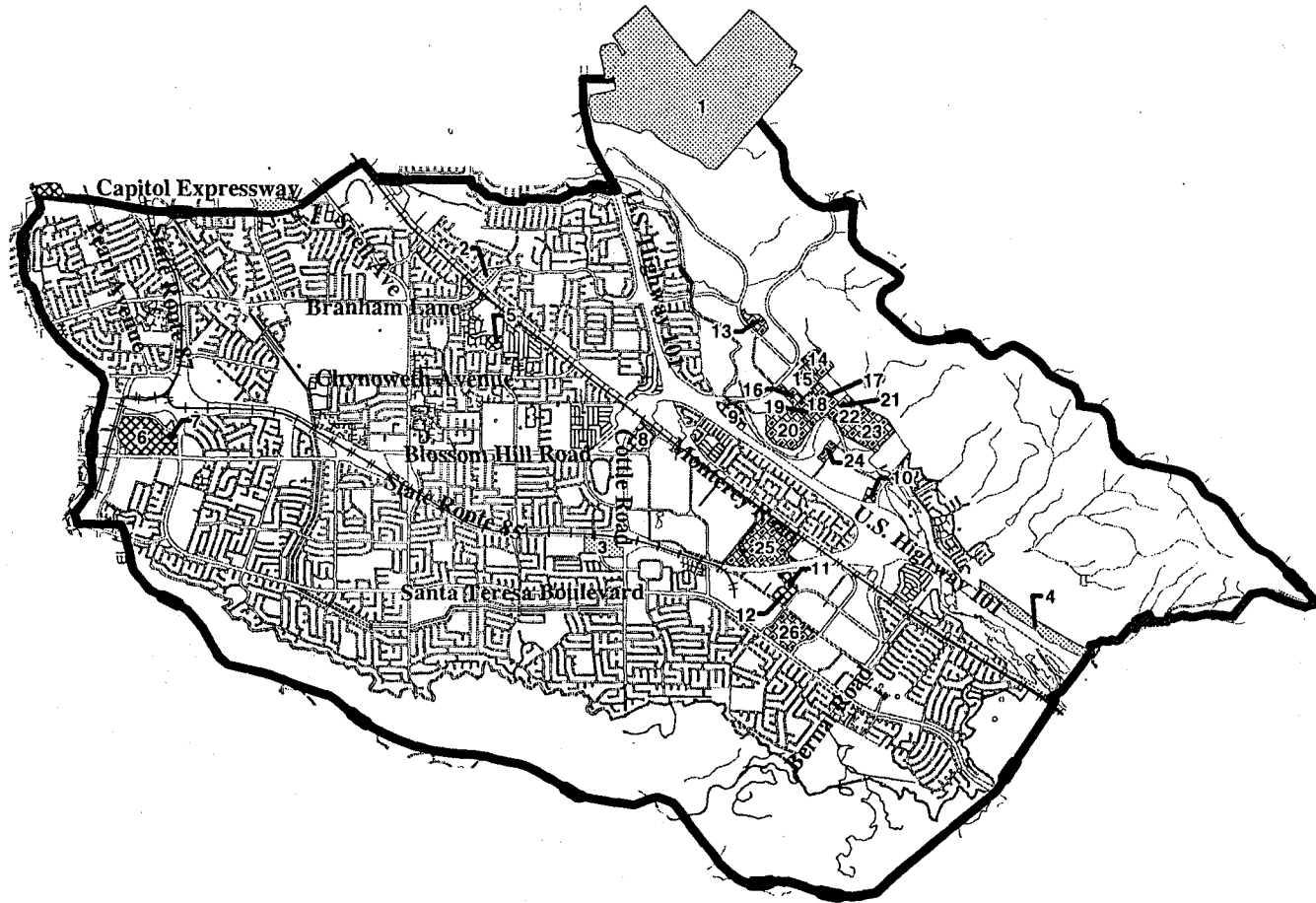
 **Commercial Projects**

- 2 Samaritan Medical Center
- 3 Samaritan Women/Children Center
- 4 Expo Design Center/Best Buy
- Total Commercial Sq.Ft.= 295,000

 **Industrial Projects**

- 5 Xilinx
- Total Industrial Sq.Ft.= 120,000

Edenvale Planning Area Major Development Activity



A-26

Residential Projects

- 1 Ranch on Silver Creek
- 2 Branham Lane Apts
- 3 Santa Palmia Apts
- 4 Metcalf Road Housing

Total Dwelling Units= 1,255

Commercial Projects

- 5 Hayes Mansion (Phase 3)
- 6 Oakridge Shopping Center
- 7 Target Stores
- 8 Lowe's Home Improvement
- 9 Silver Creek Valley Place
- 10 Holiday Inn Silicon Valley
- 11 Nortel Networks
- 12 Valley Oak Tech. Campus

Total Commercial Sq.Ft.= 1,532,000

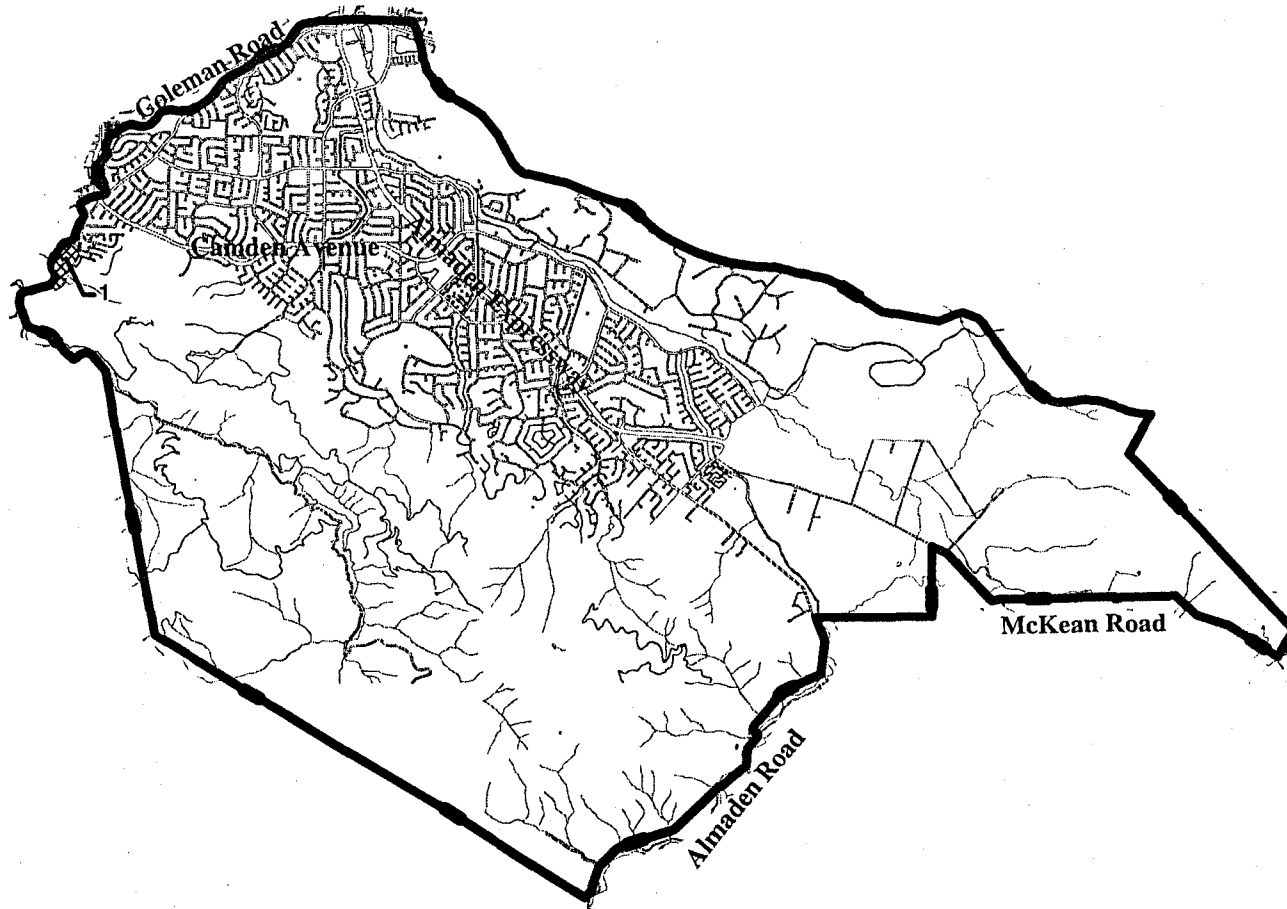
Industrial Projects

- 13 ACT Manufacturing
- 14 Edenvale Business Park
- 15 Silver Creek Valley Corp. Center
- 16 Silver Creek Valley Business Park
- 17 Piercy Industrial (English Property)
- 18 Piercy/Hellyer Business Park
- 19 Piercy Industrial (Mellow Property)
- 20 Piercy Business Park
- 21 Edenpark (Phase III)
- 22 Edenpark (Phase II)
- 23 Foxconn Intl
- 24 Pepper Lane-Ferrari Office
- 25 Equinix
- 26 Synopsys

Total Industrial Sq.Ft.= 4,814,000



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.

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 2004*, Joint Venture's *2003 Index of Silicon Valley*, the Association of Bay Area Governments' (ABAG) *Regional Economic Outlook 2004-05*, Cornish & Carey Commercial Oncor International's *2004 Review and Forecast*, 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).

2005-2009
*Five-Year Forecast and
Revenue Projections*

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 | 0.75% |
| Santa Clara County Transit District | 0.50% |
| Public Safety Fund (Proposition 172) | <u>0.50%</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 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) that assessed a franchise fee equal to 28.28% of gross receipts in excess of \$250,000. With that change, fees were set at \$1.64 per cubic yard per collection for cubic yards in excess of 43,000 (the cubic yard basis is tripled if the waste has been compacted) in a fiscal year, and were assessed on any

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 three year gradual shift in the revenue distribution between the CSW and AB 939 fees (also known as the "commercial source reduction and recycling fee" collected and deposited in the Integrated Waste Management Fund) was approved, that will increase the amount collected for CSW to \$3.34 per cubic yard by 2004-2005. 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
 \div **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
 \div **b** Total Assessed Value in County
 x c County Allocation

Individual City Allocation: **a** Population in City
 \div **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; HP Pavilion 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 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.