2012-2013
City Manager's Budget Request

&

2013-2017
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2012

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CITY MANAGER'S BUDGET REQUEST
&
2013-2017
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS

For the
General Fund and Capital Improvement Program

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

Prepared by
Office of the City Manager
February 2012

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: **2012-2013 CITY MANAGER'S BUDGET REQUEST AND 2013-2017 FIVE-YEAR FORECAST**

DATE: February 29, 2012

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2012-2013 City Manager's Budget Request (Budget Balancing Strategy Guidelines and Principles for Restoring City Service Levels) and the 2013-2017 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. Following are the major highlights of this report:

- As shown in the chart below, a small General Fund surplus of $10.0 million is projected for 2012-2013. This projection is derived by comparing the estimated revenues with the cost of delivering existing services as well as the services for which the City has already committed, such as the operation of new facilities. In the remaining years of the Forecast, General Fund shortfalls are projected for the following two years, while surpluses are projected for the final two years. The shortfalls and surpluses range from -$22.5 million to $19.0 million annually. These margins are very narrow when put into context of the size of the projected General Fund budget, ranging from -1.3% to 1.1% of the projected annual budget (revenues and expenditures). Over the five-year period, a total surplus of $15.9 million is anticipated, or approximately $3.2 million annually. This average surplus figure equates to only approximately 0.2% of the projected General Fund annual budget.

2013-2017 General Fund Forecast
Incremental General Fund Surplus/(Shortfall)

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
$10.0 M	($22.5 M)	($1.3 M)	$19.0 M	$10.7 M

- This Forecast reflects the Administration's best estimates on the projected revenues and expenditures over the next five years based on the information currently available. It <u>does not</u>, however, incorporate several elements that would impact the General Fund over the Forecast period, including: 1) salary increases, which are not included for any employee in any year of the Forecast, with the exception of salary steps for eligible non-management employees and management performance pay; 2) costs associated with fully funding the annual required contributions for police and fire retiree healthcare; 3) impacts associated with the implementation of the Fiscal Reform Plan (cost savings, such as retirement reform, and additional revenues); 4) costs associated with the restoration of key services to January 1, 2011 levels; 5) costs associated with services that were funded on a one-time basis in 2011-2012; 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) one-time revenue sources or expenditure needs.

- As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. As seen in the recent changes in projections, retirement costs have been fluctuating and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial assumptions (demographic and investment returns) approved by the Federated and Police and Fire Retirement Boards. Also, impacts related to the dissolution of the San Jose Redevelopment Agency will change as more is known regarding the legislation and the wind-down. Consistent with past practice, as part of the preparation for the 2012-2013 Proposed and Adopted Budgets, the Administration will continue to update the City Council on both the revenue and expenditure estimates as new information becomes available.

- While the projected 2012-2013 General Fund surplus is small (0.6%), it is welcomed news after ten consecutive years of General Fund shortfalls. Over the past decade, the City has addressed General Fund budget shortfalls totaling $680 million and eliminated over 2,000 positions (all funds), with staffing now at 1988-1989 levels. The difficult cuts experienced over the past several years have played a critical role in bringing revenues and expenditures into closer alignment in this Forecast. These reductions, however, have come at a significant price, with deep service reductions impacting our community, employee layoffs and demotions, a large reduction in employee total compensation, and an increasing backlog of unmet/deferred infrastructure and maintenance needs.

- As shown in the chart on the following page, when comparing next year's Forecast to the 2011-2012 Adopted Budget, the projected surplus of $10.0 million for 2012-2013 is the result of improved revenues of $23.7 million, decreased costs of $21.2 million, offset by the carryover of a shortfall from the 2011-2012 Adopted Budget of $34.9 million. In 2011-2012, the General Fund budget gap of $115 million was solved with ongoing solutions of $80 million and one-time solutions of $35 million. Therefore, the portion of the shortfall solved with one-time solutions ($34.9 million) is carried forward to 2012-2013.

2012-2013 General Fund Forecast
Reconciliation from 2011-2012 Adopted Budget

2012-2013 General Fund Forecast Components (Ongoing)	$ in Millions
Carry-Over from 2011-2012 Adopted Budget	**($ 34.9)**
Major Revenue Changes	
- Sales Tax Increase	11.7
- Utility Tax/Franchise Fees Increase	5.5
- Beginning Fund Balance Increase	5.0
- Property Tax Increase	3.3
- Business Tax Increase	1.7
- Transient Occupancy Tax Increase	1.5
- San Jose Redevelopment Agency Reimbursement Elimination	(6.2)
- Revenue from the State of California Decrease	(3.4)
- Other Revenue Net Increases	4.6
Total Revenue Changes (Increase)	**$ 23.7**
Major Expenditure Changes	
- Convention Center Lease Payment Elimination	15.4
- Retirement Contributions Net Savings* (Federated/Other ($7.7 million), Police (-$9.7 million), Fire (-$9.7 million)	11.7
- Sick Leave Payments Upon Retirement Savings	5.3
- Unemployment Insurance Savings	2.9
- Debt Service/Subsidy Net Savings	2.1
- Worker's Compensation Claims Savings	1.4
- Successor Agency to the Redevelopment Agency Transfer	(8.6)
- 2012-2013 Committed Additions (capital projects scheduled to come on-line)	(4.3)
- Salary Step/Performance Pay Increases	(2.0)
- Health Care Increase	(0.2)
- Other Expenditure Net Costs	(2.5)
Total Expenditure Changes (Savings)	**$ 21.2**
Total 2012-2013 Projected General Fund Surplus	**$ 10.0**

* Reflects $4.5 million in savings from the final reconciliation of the 2011-2012 Adopted Budget (brought forward in the 2010-2011 Annual Report) and $7.2 million in savings from the 2011-2012 Modified Budget to the 2012-2013 General Fund Forecast.

- The 2012-2013 projected surplus of $10.0 million reflects an improvement from both the $25 million budget shortfall projected in December 2011 and the $80.5 million shortfall projected in the Preliminary General Fund Forecast that was issued in early November 2011. The improvement from November 2011 to December 2011 reflected lower projected Police and Fire pension contributions based on updated information provided by Cheiron, the actuary for the Police and Fire Retirement Board. The improvement in this Forecast reflects 1) a reduced impact from the dissolution of the San Jose Redevelopment Agency ($10.6 million); 2) improved revenue projections ($7.5 million); 3) a reduction in estimated retirement costs, primarily retiree healthcare-related ($7.0 million); 4) a reduction in estimated sick leave payments upon retirement, health care, and workers' compensation costs (7.0 million); 5) and other miscellaneous changes ($2.9 million). The improved revenue projections and the lower costs for sick leave payments upon retirement, health care, and workers' compensation costs were discussed as part of the 2011-2012 Mid-Year Budget Review.

- Retirement costs (pension and retiree healthcare) remain a major cost driver in this Forecast. In fact, the primary reason for the shortfall in the second year of the Forecast is due to a $29.5 million increase in retirement expenses alone. For 2012-2013, retirement costs are projected to be $185.6 million in the General Fund representing a decrease of $7.2 million from the 2011-2012 Modified Budget level of $192.8 million. This net decrease is due to retirement cost increases in the Federated Retirement System that are more than offset by retirement cost reductions in the Police and Fire Retirement Plan. During the forecast period, General Fund retirement contributions will increase by $48.3 million, or 26%, from $185.6 million in 2012-2013 to $233.9 million in 2016-2017. For all funds, the City retirement contribution will increase by $68.2 million, or 28%, from $245.8 million in 2012-2013 to $314.0 million in 2016-2017. Over the five-year period for the Federated Retirement System, budgetary City contribution rates are projected to increase from 50.5% in 2012-2013 to 66.2% in 2016-2017; for the Police Retirement Plan, rates are projected to increase from 65.7% in 2012-2013 to 78.8% in 2016-2017; and for the Fire Retirement Plan, rates are projected to increase from 64.0% in 2012-2013 to 78.1% in 2016-2017. It should be noted that retirement contribution costs and rates for the Police and Fire Retirement Plans do not reflect full funding of the annual required contribution for retiree healthcare.

- As is customary in the Forecast, two alternative forecasts have been developed to model the range of financial scenarios possible under varying economic conditions. "Optimistic" and "Pessimistic" Cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case". In 2012-2013, the Optimistic Case results in a projected surplus of $13.5 million, while the Pessimistic Case results in a surplus of $1.9 million.

- In approaching the 2012-2013 budget, the Administration proposes the use of the budget balancing strategy guidelines as well as the principles for restoring service levels (2012-2013 City Manager's Budget Request) outlined in this memorandum. The City Council priorities identified in prior policy sessions will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review process.

- Looking forward, the Administration's goal is to build capacity to meet the City's basic service delivery needs, maintain competitiveness as an employer, and address the significant backlog of unmet/deferred infrastructure and maintenance needs. For reference, estimated funding of $33 million would be necessary to meet the Fiscal Reform Plan goal to restore key services to the January 1, 2011 level, a 1% increase in total compensation granted to all employees would result in a $5.8 million increase (General Fund only), and the annual funding needed to address unmet/deferred infrastructure needs is currently estimated at $105 million ($474 million one-time backlog; General Fund only; figures will be updated in March 2012). This will require continued diligence on controlling the City's costs and pursuing increased revenues to support City services. The Fiscal Reform Plan issued in May 2011 and approved by the City Council as part of the adoption of the 2011-2012 Adopted Budget outlined cost reduction and revenue strategies to help build this capacity. As discussed at the February 13, 2012 Budget Study Session, a total of $122 million could be generated over a three-year period from the various cost reduction ($72.5 million) and revenue strategies ($49.5 million).

- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total $228 million over the five-year period and are up 23% from the $186 million included in the 2012-2016 Adopted CIP. Significant growth is anticipated for the Building and Structure Construction Tax (65% increase) and the Construction Excise Tax (49% increase) primarily due to expected housing developments in North San José. Construction and Conveyance (C&C) Tax receipts, however, are projected to remain at the 2012-2016 Adopted CIP levels.

BACKGROUND

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2012-2013 City Manager's Budget Request (Budget Balancing Strategy Guidelines and Principles for Restoring City Service Levels) and the 2013-2017 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and critical steps in developing both the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program (CIP).

The City Manager's Budget Request includes budget balancing strategy guidelines and principles for restoring City services that the Administration recommends be used in developing the 2012-2013 Proposed Budget. These guidelines and principles are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated fiscal status for 2012-2013 is an integral part of the Administration's proposed approach to preparing the 2012-2013 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2012-2013, and the subsequent four years, is provided as part of this document.

ANALYSIS

This overview includes the following: a discussion of the 2012-2013 City Manager's Budget Request, including a description of the proposed budget balancing guidelines and principles for restoring City service levels; an overview of the 2013-2017 General Fund Five-Year Forecast and Revenue Projections; a summary of the Capital Revenue Forecast; and a description of the next steps in the 2012-2013 budget process.

2012-2013 CITY MANAGER'S BUDGET REQUEST

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines as well as guiding principles for restoring City service levels. The Budget Request is used in preparing the 2012-2013 budgets for the General Fund and selected Capital Funds. The proposed guidelines and principles contained in the 2012-2013 City Manager's Budget Request have been formulated in the context of projections for small General Fund surpluses and deficits over the Forecast period. The over-arching goal of these strategies and principles is to reach fiscal and operational stability, delivering the services our community deserves in a cost-effective manner while compensating our employees appropriately. As outlined in the Fiscal Reform Plan approved by the City Council with the adoption of the 2011-2012 Budget, this includes addressing the General Fund structural deficit as well as restoring service levels in high priority service areas that have been impacted by the budget balancing actions required in recent years.

In accordance with the City Charter, the City is required to adopt a balanced budget each year, addressing any projected shortfall or allocating any surplus. In 2012-2013, a General Fund surplus of $10.0 million is projected, representing 0.6% of the General Fund annual budget (revenues and expenditures). However, in the out years of the Forecast, General Fund shortfalls and surpluses range from -$22.5 million to $19.0 million annually. These surplus and shortfall amounts are very small when put into context of the size of the projected General Fund budget, ranging from -1.3% of the budget to 1.1% of the projected annual budget. For the first time in recent history, over the five-year period, an overall General Fund surplus of $15.9 million is projected, with an average surplus of approximately $3.2 million annually (0.2% of the annual budget).

With a small surplus projected next year, the City is not anticipated to have to endure another year of painful service reductions in 2012-2013. However, the organization will continue to pursue cost reduction strategies and more efficient ways to provide City services while evaluating operations for potential restructuring and reprioritizing of services to more effectively meet service needs and avoid risk based on actual experience. Changes in service delivery may, on a case-by-case basis result in some position reductions and layoffs. Although overall service levels are not at adequate levels for our community, the administration cautions against adding ongoing new service commitments until the General Fund structural deficit is resolved and fiscal reforms are in place. Given the projected shortfall in the second year (2013-2014) of the Forecast of $22.5 million, the $10.0 million surplus will likely be recommended by the Administration to be set-aside to partially address that year's deficit. In addition, the one-time 2012-2013 Future Deficit Reserve should be strategically invested, with at least half reserved in order to also address the 2013-2014 projected shortfall. Some of the areas to consider for the remaining one-time funding anticipated to be available is the continuation of services that were restored on a one-time basis in 2011-2012, infrastructure and maintenance needs, the pay down of debt, and a small number of critical service needs.

Moving forward, challenges remain in achieving long-term fiscal stability and the City's service level goals. When evaluating the annual General Fund shortfalls or surpluses projected in this Forecast, it is important to keep in mind that these figures do not include the following:

- With the exception of salary step increases related to eligible non-management employees and management pay for performance, there are no salary increases assumed in any year of the Forecast. The labor agreements for the various employee groups specify no general salary increase for 2012-2013. For 2013-2014 through 2016-2017, there are no negotiated agreements covering those years. The consideration of salary increases is being treated as a resource allocation policy decision. This decision will need to be made in the context of what is affordable given the competing demands for resources and the need to retain an effective workforce that is compensated appropriately. For reference, a 1% increase in total compensation granted to all employees would result in a $5.8 million increase in the General Fund only.

- The costs associated with fully funding retiree healthcare in the out years of the forecast period for the Police and Fire Retirement Plan. Per the Memoranda of Agreements (MOAs) with the San Jose Police Officers' Association and the San José Fire Fighters, IAFF Local 230, the City and employee retiree healthcare contribution percentage has a limit which, if reached, results in the meet and confer process. Retiree medical costs are shared 50/50 between City and employees and these MOAs expire on June 30, 2013. Per Cheiron, the Board's actuary, in order to fully fund the annual retirement contribution for police and fire retiree healthcare benefits, preliminary results indicate that the City's annual contribution would be in excess of the current limit of the percentage contribution of 11%. In order to fully understand the out year projections, the Administration recently requested that the Board's actuary prepare the annual required contribution for retiree healthcare so that the full amount can be analyzed.

- The results associated with the implementation of the Fiscal Reform Plan that are currently underway. The Fiscal Reform Plan, issued in May 2011 and approved by the City Council as part of the adoption of the 2011-2012 Adopted Budget, outlined cost reduction and revenue strategies to eliminate the General Fund structural deficit, restore selected services to January 1, 2011 levels, and open facilities that have been recently completed or are under construction. As discussed at the February 13, 2012 Budget Study Session, a total of $122 million could be generated over a three-year period from the various cost reduction ($72.5 million) and revenue strategies ($49.5 million).

- The costs to restore service levels in critical service areas, including police, fire, libraries, and community centers as outlined in the Fiscal Reform Plan. The net cost to restore those services to January 1, 2011 levels is estimated at $33 million.

- The costs to continue services funded on a one-time basis in 2011-2012. Services that fall in this category include: Safe School Campus Initiative, School Crossing Guard Program, Senior Wellness activities, Police Officer staffing, Code Enforcement activities, Park Ranger services, Sign Ordinance planning support, and legal support.

- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were last calculated in April 2011 at $105 million annually in the General Fund ($114 million in all funds) are not factored into the Forecast. In addition, there is a one-time backlog of infrastructure needs totaling $474 million in the General Fund ($754 million in all funds). These figures will be updated in March 2012 and presented to the Transportation and Environment Committee in April 2012.

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

2012-2013 Budget Balancing Strategy Guidelines

The 2012-2013 Budget Balancing Strategy Guidelines on the following page provide direction on the general approaches to use in the development of the 2012-2013 Proposed Budget. While these guidelines are similar to those adopted by the Mayor and City Council last year as part of the 2011-2012 Mayor's March Budget Message, they have been modified to address City Council direction, such as implementation of the Fiscal Reform Plan, and incorporate the latest information on the status of the General Fund.

2012-2013 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management.
3. Focus on protecting vital core City services for both the short- and long-term. Analyze existing service levels and focus on delivering those services that are most essential.
4. As outlined in the Principles for Restoring City Service Levels, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery.
5. Explore personal services cost savings, including overtime, subject to the meet and confer process where applicable. The Fiscal Reform Plan approved by the City Council with the adoption of the 2011-2012 budget outlined a number of cost reduction strategies, including several retirement-related reforms, that continue to be pursued.
6. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
7. Engage employees in department budget balancing idea development.
8. Focus on business process redesign in light of the severe staff reductions during the last three fiscal years in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
9. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
10. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
11. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources as outlined in the Fiscal Reform Plan.
12. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
13. Make every effort, if operationally feasible and needed for cost-effective service delivery, to eliminate vacant positions, rather than filled positions, to minimize the number of employee layoffs. As service levels change, ensure that management and administration are re-sized as appropriate.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.

Guiding Principles for Restoring City Service Levels

In addition to the Budget Balancing Strategy Guidelines, the Administration developed preliminary Guiding Principles for Restoring City Service Levels that were presented to the City Council at the Budget Study Session on February 13, 2012. As the City brings the General Fund revenues and expenditures into balance and continues its cost reduction and revenue strategies, there is expected to be some capacity to restore City service levels in the future. With limited funds, a key consideration for the Mayor and City Council will be "how do we invest in the City we want?" Important policy questions revolve around what kinds of services the City should restore and how should services be provided. As discussed above, one of the goals of the Fiscal Reform Plan is to restore services to January 1, 2011 levels and open facilities that have been recently completed or are under construction (see Appendix A for Baseline Services as of January 1, 2011). The Guiding Principles for Restoring City Service Levels broaden that approach to include considerations such as infrastructure maintenance, technology improvements, and alternative service delivery models.

The preliminary Principles for Restoring City Service Levels were revised slightly based on City Council feedback from the February 13, 2012 Budget Study Session. The revised principles below fall into three general categories: ensure the fiscal soundness of the City, choose investments that achieve significant outcomes, and improve the efficiency and effectiveness of service delivery. These principles provide a solid guide to help the City determine not only the appropriate service levels and most cost-effective method for service delivery, but also the critical areas for investment needs.

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

Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

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

Choose Investments that Achieve Significant Outcomes

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

Improve the Efficiency and Effectiveness of Service Delivery

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

Incorporating Strategies into the 2012-2013 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines and the guiding principles for restoring City services outlined above to approach the 2012-2013 budget development process. In December 2011, the Administration directed the City departments to develop 2012-2013 budget proposals using a draft version of the 2012-2013 Budget Balancing Strategy Guidelines. For planning purposes, General Fund budget reduction targets were set at levels to generate approximately $15 million in General Fund proposals to address a portion of the $25 million General Fund shortfall projected at that time. While a deficit is no longer projected for 2012-2013, the budget balancing strategy guidelines and budget proposals generated from departments will still provide a good starting point for developing the 2012-2013 budget. The Administration will continue to pursue cost reductions and service delivery efficiencies that make sense, but will strive to avoid any further direct service reductions in 2012-2013.

As part of the 2012-2013 Mayor's March Budget Message, the Administration requests confirmation of the budget balancing guidelines as well as the guiding principles for restoring service levels, with any desired revisions. These guidelines and principles incorporate both short-term and long-term approaches to budget balancing efforts and service level restoration and reflect the City's sound fiscal principles.

City Council priorities and goals identified in prior policy sessions will also guide the City's budget balancing efforts. Input from the community through community surveys, various City Councilmember and stakeholder outreach activities, and the San José Neighborhood Association/Youth Commission 2012-2013 Priority Setting Session will serve as an important tool in this process.

The Mayor is scheduled to issue a proposed March Budget Message on March 9, 2012, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide specific guidance for the preparation of the City Manager's 2012-2013 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 25, 2012 and May 1, 2012, respectively. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Proposed Budget Study Sessions and Public Hearings to discuss the budget proposals and the associated impacts on performance measures and service delivery. The Administration will also work with the City Council to provide informational meetings on the Proposed Budget in each City Council District in April and May 2012. Additional input by the City Council and community will be incorporated into the budget through these Proposed Budget Study Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2012.

2013-2017 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2013-2017 Five-Year Forecast and Revenue Projections portion of this document is divided into five sections.

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

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

   - *Base Case without Committed Additions* – This section describes projections associated with existing expenditures only.
   - *Base Case with Committed Additions* – This section describes the existing expenditures (Base Case) along with those expenditures to which the City is committed by previous City Council direction and has less discretion, such as maintenance and operating costs for capital projects scheduled to come on-line during the next five years.

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

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

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

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

6. **Appendices –** Three appendices are also included in this document. Appendix A provides the City of San Jose Budget Principles that were initially developed as part of the General Fund Structural Deficit Elimination Plan work. These principles were approved as part of the City Council's approval of the Mayor's March Budget Message for Fiscal Year 2008-2009, and subsequently amended on September 9, 2008. This appendix also includes a listing of baseline services as of January 1, 2011 that were presented in the Fiscal and Service Level Emergency Report issued in November 2011. Appendix B provides descriptions of the City's major General Fund revenue categories. Appendix C, prepared by the Planning, Building and Code Enforcement Department, documents the basis for that department's five-year projections for construction activity.

2013-2017 General Fund Five-Year Forecast

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

2013-2017 GENERAL FUND FIVE-YEAR FORECAST*
($ in Millions)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Projected Revenues	$807.3	$828.7	$853.0	$879.0	$905.0
Projected Expenditures	$797.3	$841.2	$866.8	$873.8	$889.1
Total Cumulative Surplus/(Shortfall)	$10.0	-$12.5	-$13.8	$5.2	$15.9
Total Incremental Surplus/(Shortfall)	**$10.0**	**($22.5)**	**($1.3)**	**$19.0**	**$10.7**

* Does not incorporate salary increases, with the exception of salary steps for eligible non-management employees and management performance pay; costs associated with fully funding the annual required contributions for police and fire retiree health care; impacts associated with the implementation of the Fiscal Reform Plan; costs associated with restoration of key services to January 1, 2011 levels; costs associated with services funded on a one-time basis in 2011-2012; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

In the 2013-2017 Forecast, incremental General Fund surpluses are anticipated for three of the five years. In contrast to the Forecasts issued in recent years, overall revenue growth is generally in line with expenditure growth over the forecast period. However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast, including salary increases, the full funding of police and fire retiree healthcare, the restoration of key services to January 1, 2011 levels; services funded on a one-time basis in 2011-2012; and unmet/deferred infrastructure and maintenance needs. The Forecast also does not reflect the Fiscal Reform Plan cost reduction and revenue generation strategies that have not yet been implemented.

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

The fiscal outlook for the City reflected in this Forecast is significantly better when compared to both the Preliminary 2012-2013 General Fund Forecast released in November 2011 and the final 2012-2016 General Fund Forecast that was issued in February 2011. The largest single factor contributing to this improvement is the reduction in retirement costs projected over the next five years. Retirement costs in the last five year forecast were projected to reach $304.5 million in the General Fund ($400.7 million all funds) by 2015-2016. In this updated Forecast, retirement costs are now estimated by Cheiron, the Retirement Boards' actuary, to reach $233.9 million in the General Fund ($314.0 million all funds) by 2016-2017.

When comparing the General Fund shortfall of $25 million that was projected in December 2011 to this February Forecast, the following major factors have contributed to the resulting $10.0 million surplus now estimated for 2012-2013: 1) a reduced impact from the dissolution of the San Jose Redevelopment Agency ($10.6 million); 2) improved revenue projections ($7.5 million); 3) a reduction in estimated retirement costs, primarily retiree healthcare-related ($7.0 million); 4) a reduction in estimated sick leave payments upon retirement, health care, and workers' compensation costs ($7.0 million); 5) and other miscellaneous changes ($2.9 million). The improved revenue projections and the lower costs for sick leave payments upon retirement, health care, and workers' compensation costs were discussed as part of the 2011-2012 Mid-Year Budget Review.

When reconciling next year's Forecast to the 2011-2012 Adopted Budget, the projected surplus of $10.0 million for 2012-2013 is the result of improved revenues of $23.7 million, decreased costs of $21.2 million, offset by the carryover of a shortfall from the 2011-2012 Adopted Budget of $34.9 million. In 2011-2012, the General Fund budget gap of $115 million was solved with ongoing solutions of $80 million and one-time solutions of $35 million. Therefore, the portion of the shortfall solved with one-time solutions ($34.9 million) is carried forward to 2012-2013.

General Fund revenues are estimated to improve $23.7 million when compared to the ongoing revenue performance assumed in the 2011-2012 Adopted Budget. Revenue performance in 2011-2012 continues to reflect moderate growth and is estimated to at least meet current budgeted levels. Revenue categories that have improved year-over year include: Sales Tax to reflect improved growth rates ($11.7 million); Utility Tax and Franchise Fees ($5.5 million) due to approved rates increases and new calculation methodologies; Beginning Fund Balance based on updated estimates for year-end expenditure savings ($5.0 million); Property Tax based on the most recent information provided by the County of Santa Clara ($3.3 million); Business Tax based on improved Cardroom Tax and Marijuana Tax collections ($1.7 million); Transient Occupancy Tax receipts based on current year activity levels ($1.5 million); and miscellaneous categories that have experienced a net increase based on actual collections experience ($4.6 million). A few revenue categories have experienced declines, including San Jose Redevelopment Agency reimbursements ($6.2 million) to reflect the dissolution of the Agency; Revenue from the State of California ($3.4 million) due primarily to the loss of Motor Vehicle In-Lieu payments and an estimated reduction in the Tobacco Settlement funds.

On the expenditure side, several upward and downward adjustments have been incorporated into this Forecast resulting in a net decrease of $21.2 million in 2012-2013. The most significant expenditure changes are Convention Center Lease Payment savings ($15.4 million), reflecting the assumption that funding from the Successor Agency to the San Jose Redevelopment Agency will directly pay for this debt service payment and City's retirement contribution year-over-year savings ($11.7 million) primarily due to cost revisions by the Retirement Boards' actuary, as approved by the two Retirement Boards. Other savings are expected in sick leave payments upon retirement ($5.3 million), unemployment insurance ($2.9 million), debt service/subsidy payments ($2.1 million), and workers' compensation claims ($1.4 million).

Other major expenditure increases include a transfer to the Successor Agency of the San Jose Redevelopment Agency ($8.6 million) based on the current estimated impact to provide for the current cost level for enforceable obligations, the inclusion of Committed Additions ($4.3 million) that reflect the cost of new or renovated facilities scheduled to come on-line in 2012-2013, salary step and pay for performance increases ($2.0 million), increases to health premiums ($0.2 million), and other net expenditure costs ($2.5 million).

In the four out years of the General Fund Forecast, retirement costs (pension and retiree healthcare) remain a major cost driver. These costs assume the pre-payment of the annual required City contribution to the retirement funds. As detailed in the table below, General Fund retirement contributions will increase by $48.3 million, or 26%, from $185.6 million in 2012-2013 to $233.9 million in 2016-2017. For all funds, the City retirement contribution will increase by $68.2 million, or 28%, from $245.8 million in 2012-2013 to $314.0 million in 2016-2017. Over the five-year period for the Federated Retirement System, budgetary City contribution rates are projected to increase from 50.5% in 2012-2013 to 66.2% in 2016-2017; for the Police Retirement Plan, rates are projected to increase from 65.7% in 2012-2013 to 78.8% in 2016-2017; and for the Fire Retirement Plan, rates are projected to increase from 64.0% in 2012-2013 to 78.1% in 2016-2017.

2013-2017 CITY RETIREMENT CONTRIBUTION COSTS
AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES
($ in Millions and with Pre-Payment Discount)

Retirement Plan	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**
Federated Ret. System – Pension	$44.3	$54.5	$58.1	$61.2	$61.1	$61.7
Fed. Ret. System – Retiree Healthcare	$10.9	$9.7	$20.8	$22.3	$23.1	$23.8
Federated Retirement Plan - Total	**$55.2**	**$64.2**	**$78.9**	**$83.5**	**$84.2**	**$85.5**
Budgetary Contribution Rates	*43.7%*	*50.5%*	*61.8%*	*65.2%*	*65.4%*	*66.2%*
Police Retirement Plan – Pension	$74.8	$66.8	$74.6	$79.9	$78.6	$79.2
Police Ret. Plan – Retiree Healthcare	$11.5	$10.5	$12.2	$13.4	$13.8	$14.3
Police Retirement Plan – Total	**$86.3**	**$77.3**	**$86.8**	**$93.3**	**$92.4**	**$93.5**
Budgetary Contribution Rates	*75.1%*	*65.7%*	*73.5%*	*78.9%*	*78.1%*	*78.8%*
Fire Retirement Plan – Pension	$46.0	$39.2	$43.6	$46.6	$45.9	$46.3
Fire Ret. Plan – Retiree Healthcare	$4.7	$4.4	$5.3	$6.4	$7.6	$8.1
Fire Retirement Plan - Total	**$50.7**	**$43.6**	**$48.9**	**$53.0**	**$53.5**	**$54.4**
Budgetary Contribution Rates	*74.0%*	*64.0%*	*71.3%*	*76.9%*	*77.2%*	*78.1%*
Other Retirement Costs	$0.6	$0.5	$0.5	$0.5	$0.5	$0.5
Total General Fund	**$192.8**	**$185.6**	**$215.1**	**$230.3**	**$230.6**	**$233.9**
Total All Funds	**$245.5**	**$245.8**	**$288.9**	**$308.4**	**$309.3**	**$314.0**

Source: 2011-2012 Modified Budget; Cheiron Letters dated February 8, 2012 and February 21, 2012 with applied pre-payment discount

In order to begin to addressing the significant unfunded actuarial liability for retiree healthcare costs, at the direction of the City Council, the Administration worked with employee bargaining groups to begin a five-year phase-in to fully fund the annual required contribution (ARC). In 2009, the City and bargaining units in the Federated Retirement System reached an agreement to begin a five-year phase-in to fully fund the ARC for retiree healthcare benefits. The last year of the phase-in is 2012-2013 with the full funding of the ARC starting with 2013-2014. Based on Cheiron's projections, in order to fully fund the ARC for retiree healthcare benefits in 2013-2014, the City's contribution will more than double from $9.7 million in 2012-2013 to $20.8 million in 2013-2014, from a 7.9% to 16.8% contribution rate. The employees' contribution rate is projected to more than double as well from 7.3% in 2012-2013 to 15.5% in 2013-2014. For the Police and Fire Retirement Plan, the last year for the Police phase-in of the ARC is 2014-2015 and for Fire it is 2016-2017. It should be noted that in the out years of the Forecast period, the retiree healthcare contribution percentage for the Police and Fire Retirement Plan has a limit of 11%, which, if reached, results in the meet and confer process per the Memoranda of Agreements with the San Jose Police Officers' Association and the San José Fire Fighters, IAFF Local 230. Retiree medical costs are shared 50/50 between City and employees and these MOAs expire June 30, 2013. Per Cheiron, in order to fully fund the ARC for retiree healthcare benefits, preliminary results indicate that the City's annual contributions would be in excess of the current limit of the percentage contribution of 11%. In order to fully understand the out year projections, the Administration recently requested that the Board's actuary prepare the annual required contribution for retiree healthcare so that the full amount can be analyzed.

It is important to note that the projected General Fund shortfall for 2012-2013 does not factor in impacts from the four Development Fee Programs (Building, Fire, Planning, and Public Works). These programs are designed to be 100% cost recovery and have been programmed to have a neutral impact on the Forecast by adjusting the revenue and costs to be equal. In the Fire and Public Works Fee Programs, revenues are sufficient to cover the Base Budget costs. In the Planning and Building Fee Programs, however, small budget gaps are currently projected for 2012-2013. Sufficient Fee Program Reserves are available in each of these programs to address these small variances.

General Fund Committed Additions

Cost estimates for a number of specific "Committed Additions" that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2012-2016 Adopted Capital Improvement Program or for projects approved by the City Council during 2011-2012. The costs of the additions total $4.3 million in 2012-2013 and increase to approximately $11.0 million by the end of the Forecast period.

2013-2017 GENERAL FUND COMMITTED ADDITIONS

	2012-2013	2013-2014	2014-2014	2015-2016	2016-2017
Police Maintenance & Operations	$0	$335,000	$438,000	$461,000	$376,000
New Parks and Recreation Facilities Maintenance & Operations	49,000	131,000	234,000	294,000	521,000
New Traffic Infrastructure Assets Maintenance & Operations	49,000	82,000	107,000	124,000	127,000
Measure O (Library) Maintenance & Operations	1,185,000	3,106,000	3,160,000	3,851,000	3,962,000
Measure P (Parks) Maintenance & Operations	653,000	712,000	720,000	774,000	810,000
Measure O (Public Safety) Maintenance & Operations: Fire	0	0	2,503,000	2,474,000	2,618,000
Measure O (Public Safety) Maintenance & Operations: Police	2,393,000	2,465,000	2,504,000	2,545,000	2,585,000
Total	$4,329,000	$6,831,000	$9,666,000	$10,523,000	$10,999,000

Some of the larger facilities expected to come on-line during this forecast period include: Bascom Branch Library, Calabazas Branch Library, Educational Park Branch Library, Seven Trees Branch Library, Southeast Branch Library, Softball Complex, Soccer Complex, Bascom Community Center, Fire Station 37 (South Willow Glen), and the South San José Police Substation. A detailed listing of all capital project operating and maintenance costs included in this 2013-2017 General Fund Forecast can be found in the Committed Additions Section of this document.

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

General Fund Capital Operating and Maintenance/Budget Principle #8 requires City Council certification that funding will be made available in the General Fund for capital projects with an estimated operating budget impact greater than $100,000 at the time of taking beneficial use of the facility or project. Capital projects with operating and maintenance costs over $100,000 and previously certified are included in the Capital Improvement Program and displayed in Chart A in Section III. There are no potential projects where operating and maintenance funding has not yet been certified. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast that have not been approved by the City Council may be recommended for certification as part of the 2013-2017 Proposed Capital Improvement Program. If certified by the City Council, the operating and maintenance costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

Alternative Forecast Scenarios

In order to model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2012-2013 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

The Base Case scenario is built on the assumption of a continued slow recovery from the deep global recession on a national level. At the local level, positive near term growth is estimated in the Silicon Valley as a result of the strength in the technology industry. Local employment levels are expected to continue to experience moderate growth and the unemployment rate is expected to decrease, but ultimately remain above the historical normal levels. Home values are anticipated to improve at a slow pace over the five years. In the Base Case forecast, General Fund revenue collections are anticipated to experience moderate growth over the forecast period.

The Optimistic Case assumes a much faster and more robust recovery than currently anticipated. When compared to the Base Case scenario, Gross Domestic Product (GDP) increases substantially and much greater job creation is anticipated. In turn, the real estate market improves significantly with increases not only in the price of housing but also the volume of homes sales, outpacing the growth rates assumed in the Base Case. This vigorous recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax. By the end of the five-year period, revenues under this scenario would be $50.3 million higher than in the Base Case. In the Optimistic Case, the City would experience annual surpluses ranging from $10.0 million to $34.5 million in four years of the Forecast, but would have a shortfall of $15.8 million in the 2013-2014.

The Pessimistic Case assumes that a combination of adverse factors interact to impede the moderate recovery underlying the Base Case and potentially lead the economy into another recession. Under this scenario, looming impacts in the world economy in areas such as Europe and China are anticipated to ripple through to the U.S. economy at a national level as well as at the State and local levels. A contraction in State and local government spending is anticipated that will impede job growth and increase unemployment levels. Housing prices are also anticipated to remain stagnant as the inventory of bank-owned properties enters the for-sale housing market. In this scenario, the City's revenues, particularly Property Tax and Sales Tax, would be severely impacted by an economic slowdown. By the end of the five-year period, revenues under this scenario would be $58.9 million lower than in the Base Case. In the Pessimistic Case, there are annual deficits in three of the five years of the Forecast ranging from $36.0 million in 2013-2014 to $3.7 million in 2016-2017. Surpluses are projected in two years, including a $1.9 million surplus in 2012-2013 and a $10.2 million surplus in 2015-2016.

Capital Revenue Forecast

Section V of this report describes the 2013-2017 Capital Budget Revenue Forecast that will be used to develop 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 (PBCE) Department and an analysis of actual collection patterns. The projections and their basis are described in a report prepared by the PBCE Department, which is included as Appendix C of this document (Development Activity Highlights and Five-Year Forecast [2013-2017]). This activity forecast includes a review of specific projects that are in progress as well as a general prediction of expected levels of new construction.

The following table compares the estimates for the economically sensitive capital revenue categories included in this Five-Year Forecast with those included in the 2012-2016 Adopted CIP. As can be seen, there are significant improvements expected during this Forecast period.

CAPITAL FORECAST COMPARISON SUMMARY
($ in Thousands)

	2012-2016 CIP	2013-2017 Forecast	Difference	% Change
Construction and Conveyance Tax	$109,000	$109,000	$0	0%
Building and Structure Construction Tax	31,500	52,000	20,500	65%
Construction Excise Tax	41,500	62,000	20,500	49%
Municipal Water System Fees	600	750	150	25%
Residential Construction Tax	200	500	300	150%
Sanitary Sewer Connection Fee	2,700	3,000	300	11%
Storm Drainage Connection Fee	530	700	170	32%
TOTAL	**$186,030**	**$227,950**	**$41,920**	**23%**

Real estate activity (primarily housing resales) determines the collection level of one of the major capital revenue sources, the Construction and Conveyance Tax. As projected in the last Forecast, Construction and Conveyance Tax revenues appear to have stabilized as collections have leveled off from the sharp declines experienced after the collapse of the financial market. Construction and Conveyance Tax revenues are currently expected to meet or slightly exceed budgeted estimates for 2011-2012. This category is projected to generate $109 million over the next five years, which is consistent with the estimates assumed in the 2012-2016 Adopted Capital Improvement Program. The average annual collection level of $21.8 million projected in 2013-2017 Forecast is, however, well below the actual collection levels in the mid-2000's that reached a peak of $49 million in 2005-2006.

The remaining economically sensitive capital revenue categories are directly linked to development activity. Based on projections provided by the Planning, Building and Code Enforcement Department, construction activity valuation is projected to continue at slightly lower levels than experienced last year ($675 million for 2011-2012 or a 3% decrease compared to $699 million in 2010-2011). This level of activity is expected to remain flat for 2012-2013 through 2014-2015 and then increase slightly to $700 million in 2015-2016 and 2016-2017. These assumptions show a slight improvement of 7% or $225 million from the levels presented in the 2012-2016 Forecast where activity ranged from $600 million in 2011-2012 and 2012-2013 and increase to $675 million in 2015-2016.

Based on the construction activity estimates and a review of revenue collection patterns, a significant increase in construction-related taxes and fees of $42.0 million, or 23%, is expected when comparing the 2013-2017 Forecast to the 2012-2016 Adopted CIP estimates. Significant increases over the 2012-2016 Adopted CIP are expected for the Building and Structure Construction Tax ($20.5 million) and the Construction Excise Tax ($20.5 million) primarily due to expected housing developments in North San José.

NEXT STEPS IN THE 2012-2013 BUDGET PROCESS

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

March 2012

- 2012-2013 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2012

- 2012-2013 Proposed Capital Budget and 2013-2017 Capital Improvement Program Released

April-May 2012

- Community Budget Meetings in Each City Council District

May 2012

- 2012-2013 Proposed Operating Budget and 2012-2013 Proposed Fees and Charges Released
- City Council Study Sessions and Initial Public Hearing on 2012-2013 Proposed Operating Budget, 2013-2017 Proposed Capital Budget and Capital Improvement Program, and 2012-2013 Proposed Fees and Charges

June 2012

- 2012-2013 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2012-2013 Operating Budget, 2012-2013 Capital Budget and 2013-2017 Capital Improvement Program, and 2012-2013 Fees and Charges adopted by City Council

CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. In 2012-2013, a small General Fund surplus of $10.0 million is projected. In the remaining years of the Forecast, General Fund shortfalls are projected for the following two years, while surpluses are projected for the final two years. The shortfalls and surpluses range from -$22.5 million to $19.0 million annually. These margins are very narrow when put into context of the size of the projected General Fund budget, ranging from -1.3% to 1.1% of the projected annual budget (revenues and expenditures).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document and it is important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the Forecast period, including: 1) salary increases, which are not included for any employee in any year of the Forecast, with the exception of salary steps for eligible non-management employees and management performance pay; 2) costs associated with fully funding the annual required contributions for police and fire retiree healthcare; 3) impacts associated with the implementation of the Fiscal Reform Plan (cost savings, such as retirement reform, and additional revenues); 4) costs associated with the restoration of key services to January 1, 2011 levels; 5) costs associated with services that were funded on a one-time basis in 2011-2012; 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) one time revenue sources or expenditure needs.

The revenue and expenditure projections for 2012-2013 will continue to be refined over the next several months as additional information becomes available. This is particularly important in the areas of Sales Tax and Property Tax. Sales Tax data for the second quarter of 2011-2012, which covers the 2011 holiday period will be received in March 2012. Based on this additional data, any necessary adjustments will be incorporated into the 2012-2013 Proposed Operating Budget. Similarly, as additional Property Tax data becomes available, it may be necessary to adjust the 2012-2013 revenue estimates.

This document also provides the recommended 2012-2013 City Manager's Budget Request (Budget Balancing Strategy Guidelines and Principles for Restoring City Service Levels) for consideration by the City Council as part of its review of the Mayor's March Budget Message. With a small surplus projected next year, the City is not anticipated to have to endure another year of painful service reductions in 2012-2013. However, the organization will continue to pursue cost reduction strategies and more efficient ways to provide City services while evaluating operations for potential restructuring and reprioritizing of services to more effectively meet service needs and avoid risk based on actual experience. Changes in service delivery may, on a case-by-case basis result in some position reductions and layoffs. Although overall service levels are not at adequate levels for our community, the administration cautions against adding ongoing new service commitments until the General Fund structural deficit is resolved and fiscal reforms are in place.

Debra Figone
City Manager

Five-Year Economic Forecast and Revenue Projections

2013-2017

Section 1

Elements of the General Fund Forecast

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three alternative Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2012-2013 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast, however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment.

- **Base Case** – The Base Case Forecast is built on the assumption of a continued slow recovery from the deep global recession on a national level. At the local level, positive near term growth is estimated in the Silicon Valley as a result of the strength in the technology industry. Local employment levels are expected to continue to experience moderate growth and the unemployment rate is expected to decrease, but ultimately remain above the historical normal levels. Home values are anticipated to improve at a slow pace over the five years. In the Base Case Forecast, General Fund revenue collections are anticipated to experience moderate growth over the forecast period.

- **Optimistic Case** – The Optimistic Case assumes a much faster and more robust recovery than currently anticipated. When compared to the Base Case scenario, Gross Domestic Product (GDP) increases substantially and much greater job creation is anticipated. In turn, the real estate market improves significantly with increases not only in the price of housing but also the volume of homes sales, out pacing the growth rates assumed in the Base Case. This vigorous recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.

- **Pessimistic Case** – The Pessimistic Case assumes that a combination of adverse factors interact to impede the moderate recovery underlying the Base Case and potentially lead the economy into another recession. Under this scenario, looming impacts in the world economy in areas such as Europe and China are anticipated to ripple through to the U.S. economy at a national level as well as at the State and local levels. A contraction in State and local government spending is anticipated that will impede job growth and increase unemployment levels. Housing prices are also anticipated to remain stagnant as the inventory of bank-owned properties enters the for-sale housing market. In this scenario, the City's revenues, particularly Property Tax and Sales Tax, would be severely impacted by an economic slowdown.

Base Case Forecast

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 reached after reviewing the projections included in a number of economic forecasts. The economic conditions and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the City Manager's 2012-2013 Proposed Operating Budget, scheduled to be published on May 1, 2012.

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

Current National Conditions

U.S. Gross Domestic Product (GDP) picked up in the fourth quarter of 2011, growing at an annual rate of 3.0%. This is up from the annual growth rate of 1.8% experienced in the third quarter. The Bureau of Economic Analysis attributes the fourth quarter increase in GDP to positive contributions from personal consumption expenditures, private inventory investment, exports, and residential and non-residential fixed investment, that was partially offset by negative contributions in government spending (federal, State, and local). Imports also increased, which are a subtraction in the calculation of GDP. Overall, GDP increased 1.7% in 2011, which is down from the 3.0% increase experienced in 2010.[1]

Consumer confidence has also shown improvement in recent months as reflected by The Conference Board Consumer Confidence Index, 70.8 in February 2012, which experienced increases in three of the last four months. According to Lynn Franco of The Conference Board, "Consumer Confidence, which had declined last month, posted a sizeable improvement in February. The index is now close to levels last seen a year ago (Feb, 2011, 72.0). Consumers are considerably less pessimistic about current business and labor market conditions than they were in January. And despite further increases in gas prices, they are more optimistic about the short-term outlook for the economy, job prospects and their financial situation."

Housing remains weak and the U.S. economy is not anticipated to truly begin to recover until the housing market begins to show substantial increases as housing continues to be a major contributing factor to the economy. Though housing has begun to show these signs of improvement, the housing sector is still at a level approximately one third of what would normally be considered healthy. Much of the struggle in the housing market stems from the residual effects of the significant decline and high foreclosure rates, and much of the market continues to be saturated with existing housing rather than new housing developments. One

[1] Bureau of Economic Analysis, U.S. Department of Commerce, News Release: Gross Domestic Product, February 29, 2012

positive note is that mortgage rates continue to hit all time lows and are expected to remain relatively low into the future.

The National Economic Outlook

A moderate economic recovery appears likely for the next three to four years, with momentum in the early years of the forecast driven by pent-up demand. According to the UCLA Anderson Business School Forecast, the near and mid-term outlook for the U.S. economy is good but not great. Looming over the national economy are near term risks, namely the debt crisis in Europe as well as a slowdown in China and potential impacts of Iran. In addition, after the November 2012 election, the pace of growth may be dampened somewhat by attempts to address the increasingly large federal deficit.

Events in Europe have the potential for dramatically altering the U.S. economic outlook. The Europeans, like the Americans, are facing the prospect of having to cut their domestic budget deficits. A big difference between the U.S. deficits and European deficits is that the European debts are mostly held by their own banks. The holding of this debt by European banks means that the Europeans are facing a banking crisis along with the government deficit crisis. Despite this situation, the UCLA Forecast anticipates that Europe will drop into a mild recession beginning in 2012 and extending through 2013 but will avoid a collapse of equal magnitude as the recession felt in the United States in 2008-2009.

Per the UCLA Forecast, the Chinese economy is anticipated to slow in the coming year though the rate of this reduction in pace is unknown given the difficulty in interpreting data regarding the Chinese economy. Given the size of the Chinese economy, even a dampening of the growth rate is likely to ripple through the national and State economy.

Lastly, the U.S. has its own Federal budget deficit to address which is anticipated to begin after the November 2012 election. The process to confront this deficit and the growing debt will be difficult and arduous process, which will put constant pressure on the U.S. economy throughout the term of this Forecast.

Current Santa Clara County Economic Conditions

The 2011-2012 revenue estimates were built on the assumption that the economy would continue its slow recovery from the recent recession. Economic indicators and actual revenue performance support this general assumption, with some improvement in recent months. Beacon Economics described Silicon Valley as a bright spot in a grey economy. "The South Bay/Silicon Valley continues to be one of the regions leading California's economic recovery. This is not surprising due to the strong demand for the area's technology products at the state, national and international levels."[2] This region continues to experience solid job growth and improvement in the unemployment rate which still remains high. Construction activity is increasing at a good pace and the housing market appears to be stabilizing.

[2] Beacon Economics, The Regional Outlook – South Bay, Quarterly Update – December 2011

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Although still well below the recent peak of 930,500 jobs experienced in December 2007, employment in the San José Metropolitan Statistical Area (MSA) continues to experience solid growth. The December 2011 employment level of 894,500 was (2.9%) above the December 2010 employment level of 868,900.

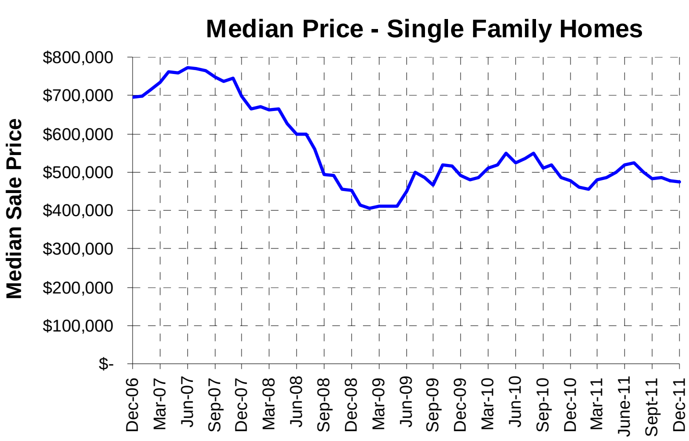
Unemployment Rate (Unadjusted)

	Dec. 2010	Nov. 2011	Dec. 2011
San José Metropolitan Statistical Area*	10.6%	9.2%	8.9%
State of California	12.3%	10.9%	10.9%
United States	9.1%	8.2%	8.3%

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

The unemployment rate in the San José metropolitan area continues to remain high, but has dipped below the double digit levels that had been experienced in recent years. The December 2011 unemployment rate of 8.9% decreased from the November rate of 9.2% and is lower than the 10.6% rate experienced a year ago. The December 2011 unemployment rate in this region is less than the unadjusted rate for the State (10.9%), but continues to track above the nation, which has an unadjusted unemployment rate of 8.3%.

Through January, the level of construction permit activity compared with the prior year at this time varies significantly across the three types of construction. Industrial construction remained significantly above prior year levels, with the valuation of industrial permits issued this year totaling $75.1 million, up 64.4% from the prior year valuation of $28.4, and is only 1.2% below the $76.0 million in 2009-2010. The total valuation of commercial permits issued is $131.5 million, which is only 1.4% below the prior year valuation of $133.4 million. The 1,186 residential permits issued through January, however, fell below the prior year level of 2,186 by almost 50.0%. In 2010-2011, there was a dramatic spike in residential activity due almost entirely to two very large development projects in late 2010 in North San José. In 2011-2012, there has been relatively steady growth in activity. This permit activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.



The housing market appears to be somewhat stable. The December 2011 median single-family home price of $474,500 was within 1% of the December 2010 price of $478,000. The number of property transfers (sales) for all types of residences totaled 713 in December 2011, which was also within 1% of the December 2010 figure of 718. The average days-on-market for single-family and multi-family dwellings totaled 84 days in December 2011, which is a slight drop from the 87 days experienced in December 2010.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Economic conditions will continue to be closely monitored and factored into the development of the 2012-2013 Proposed Budget, due to be released May 1, 2012.

Santa Clara County Economic Outlook

The outlook for Silicon Valley is positive in the near term with growth levels likely to slow in the out years of this Forecast. Due to the unique nature of the Silicon Valley, this region is heavily influenced by the technology sector. The strength in this sector in particular as well as improvement in other areas is anticipated to drive the growth of the economy through 2013.

In the near term, the strength in the technology industry will keep employment levels increasing. Currently, a number of record breaking Initial Public Offerings (IPO's) of large technology and social networking companies are anticipated to occur over the next year or so. These IPO's are estimated to create a significant and rapid influx of wealth in this region. Following that, capital investments in social media and networking sites in addition to software for the rapidly expanding mobile computing trend will continue. Continued improvement in the real estate market is also expected over the Forecast period.

In the out years of this Forecast, the strong growth associated with technology is anticipated to level off and growth will begin to temper in 2013-2014 and beyond. As the future of the nation remains uncertain both on a political front and monetary front, it is anticipated the growth rates will be dampened. As politics and policies are developed around the Federal Budget and the U.S. debt, the residual effects are anticipated to be felt as they ripple through state and local economies.

The economically sensitive revenues, such as Sales Tax and Property Tax receipts, are expected to experience moderate growth over the forecast period. Utility Tax and Franchise Fee revenues will also benefit from the economic growth projected through the forecast period.

In summary, the recovery from the economic recession is expected to continue to impact the City's economic performance in 2012-2013 and beyond. The deep decline in the City's revenue collections over the past few years have shown signs of recovery in 2011-2012 and are anticipated to continue to grow through 2012-2013 and the out years of this Forecast.

Optimistic and Pessimistic Scenarios

As discussed above, 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: an Optimistic Case and a Pessimistic 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. Following is a discussion of these scenarios.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Optimistic Case

In the Optimistic Case, the economy is assumed to rebound at a much faster and more robust recovery than assumed in the Base Case. In this scenario, the real estate market rebounds much more quickly than in the Base Case, with increases in property values as well as in the volume of home sales. The major economic drivers in sectors other than the housing market react more vigorously to the monetary and fiscal policy than assumed in the Base Case.

This Optimistic Case forecasts that development activity, employment, and inflation are all well above levels assumed in the Base Case. With these higher levels, the economy will quickly gain significant forward momentum propelling the growth through the five years of the Forecast. Growth in real gross national product and employment levels are much stronger in this Optimistic Case. Mortgage rates remain low over the forecast period and both the quantity of home sales and housing prices out pace the growth rates assumed in the Base Case.

Under the Optimistic Case, the economically sensitive revenues are expected to experience much stronger performance as general increases in inflation, employment, and consumer attitudes promote increased spending, which generate Sales Tax for the City. Improvement in the real estate market will result in higher Property Tax revenues. Development activity is also expected to improve as well as business tax collections and Transient Occupancy Tax receipts. Conversely, Gas taxes are slightly lower as a result of higher oil prices and continued increases in mandated fuel economy, which is anticipated to cause the number of taxable gallons consumed to fall. By the end of the Forecast period, revenues are $50.3 million above the Base Case.

Pessimistic Case

The Pessimistic Case assumes that a combination of adverse factors interact to impede the recovery underlying the Base Case. These factors include: the realization of the current debt and potential banking problem Europe is facing; a prolonged contraction in state and local government; and continuing weakness in housing markets as foreclosed properties serve to dampen any price recovery.

In the Pessimistic Case, one of the most significant changes is the anticipated impact of the European debt crisis. The Pessimistic Case assumes that the European economy will sink into a much deeper recession, and given the current fragile state of the U.S. economy, the effects would reverberate through the U.S. and potentially result in another recession. As such, home prices are expected to fall and resale activity is forecasted to drop significantly compared to those assumed in the Base Case. The contracting national economy triggers state and local governments to lapse back into deficits, once again contracting the labor market. With the declining economy, unemployment rates are projected to increase and employment growth rates are expected to fall.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

The housing market continues to show volatility as the persistent addition of bank-owned properties to the for-sale housing inventory holds housing values at their current suppressed levels. With a struggling economy, housing prices start to fall and decreases in re-sale levels are experienced once again. Conversely, the Base Case assumes that despite this dampened market, other economic drivers will push home prices to improve by late 2012 or early 2013.

As a result of these negative impacts to the economy, revenue collections in categories such as Property Tax and Sales Tax collections are lower in this scenario than in the Base Case, driven by the lack of job creation which slows demand for residential and commercial property and business and consumer goods. Utility Tax and Franchise Fee revenue are slightly lower and economically sensitive revenues and activities such as Transient Occupancy Tax and development activity are expected to be suppressed in this Pessimistic Case as well. Conversely, Gas Taxes are slightly up due to projected reductions in oil prices which typically results in increases in gas consumption. By the end of the Forecast period, total revenues are $58.9 million below the Base Case.

Impact of Forecasted Economic Conditions on Revenue Collections

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

An in-depth analysis of the General Fund revenue categories was completed to develop 2012-2013 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2011-2012 and, building upon those projections, to develop the 2012-2013 revenue estimates. These estimates are based on the Base Case Forecast economic scenario described in this section. These revenue estimates will be closely examined and updated again during the preparation of the 2012-2013 Proposed Operating Budget that will be released on May 1, 2012.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

As displayed in the Forecast below, revenues (exclusive of Beginning Fund Balance) are shown to increase from $760.0 million in 2012-2013 to $855.3 million in 2016-2017, for an average growth rate of 3% per year.

February 2012 Forecast Revenue Summary	Modified Budget 2011-2012	Forecast 2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
General Revenues						
Property Tax	$ 200,095,000	$ 204,720,000	$ 214,424,000	$ 224,930,000	$ 235,412,000	$ 245,111,000
Sales Tax	150,450,000	151,705,000	159,214,000	165,551,000	172,223,000	178,630,000
Transient Occupancy Tax	8,300,000	8,715,000	9,151,000	9,517,000	9,802,000	10,096,000
Franchise Fees	42,625,000	44,740,000	45,760,000	47,160,000	48,797,000	50,651,000
Utiltiy Tax	90,245,000	91,855,000	94,363,000	97,646,000	101,357,000	105,381,000
Telephone Line Tax	20,525,000	20,525,000	20,628,000	20,731,000	20,834,000	20,939,000
Business Tax	40,174,000	40,450,000	40,612,000	40,762,000	40,909,000	41,052,000
Other Licenses and Permits	35,287,770	36,622,000	39,112,000	40,247,000	40,810,000	41,545,000
Departmental Charges	29,970,872	29,290,000	31,282,000	32,189,000	32,639,000	33,227,000
Fines, Forfeitures & Penalties	16,971,000	16,709,000	16,962,000	17,175,000	17,389,000	17,607,000
Money and Property	2,474,000	2,733,000	2,713,000	2,827,000	2,940,000	3,058,000
Revenue From Local Agencies	17,479,415	11,360,000	11,768,000	12,154,000	12,438,000	12,734,000
Revenue from the State	14,514,319	9,751,000	9,716,000	9,716,000	9,716,000	9,716,000
Federal Revenue	24,378,072	10,266,000	2,930,000	36,000	37,000	37,000
Other Revenue	116,147,022	14,609,000	14,877,000	15,107,000	15,311,000	15,531,000
Gas Tax	15,667,000	15,300,000	15,147,000	14,996,000	14,982,000	14,967,000
Total General Revenues	825,303,470	709,350,000	728,659,000	750,744,000	775,596,000	800,282,000
Transfers and Reimbursements						
Overhead Reimbursements	31,823,543	32,908,000	35,146,000	36,165,000	36,672,000	37,332,000
Transfers	23,555,867	17,049,000	16,405,000	16,739,000	16,814,000	16,955,000
Reimbursements for Services	846,452	662,000	707,000	727,000	737,000	751,000
Total Transfers and Reimbursements	56,225,862	50,619,000	52,258,000	53,631,000	54,223,000	55,038,000
Total General Fund Revenues	881,529,332	759,969,000	780,917,000	804,375,000	829,819,000	855,320,000
Beginning Fund Balance	137,536,794	47,362,000	47,829,000	48,609,000	49,225,000	49,670,000
Grand Total Sources	$ 1,019,066,126	$ 807,331,000	$ 828,746,000	$ 852,984,000	$ 879,044,000	$ 904,990,000

Understanding the basis for the revenue estimates included in this Forecast requires a discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2012-2013 General Fund Forecast.

Property Tax

Property Tax receipts of $199.7 million (adjusted for the recategorization of Airplane Property Tax in 2011-2012) are projected for 2011-2012, which represents 1.2% growth from the prior year and is only slightly below the modified budget estimate. This projected increase is the first growth seen since 2008-2009 and reflects increases in the Secured, SB 813 (property resales), Unsecured, and Airplane Property Tax categories. In 2012-2013, collections are expected to continue to increase 2.5% to $204.7 million primarily due to a 2% CPI increase, which will be assessed. Additional information about each of the Property Tax sub-categories is provided below.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Secured Property Taxes account for over 90% of the revenues in this category. In 2011-2012, Secured Property Tax receipts are expected to increase slightly to $182.9 million, an increase of 0.7% from the prior year. This slight increase marks the first positive performance after two years of declines in this category. In 2012-2013, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2012, are expected to increase by 2.5%. This projected increase is related to two factors: the change in the California Consumer Price Index (CCPI) and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership or new construction. The CCPI adjustment for the 2012-2013 tax roll is an increase of 2.0% compared to 0.75% last year. In addition to the CCPI adjustment, it is anticipated that the 2012-2013 valuation will increase slightly. In calendar year 2011, residential real estate experienced gains through the first seven months of the year, but then declined during the last five months. Overall, little change occurred during the year as the December 2011 median sales price of $474,500 for single family homes was within 1% of the December 2010 level of $478,000. The impact of reassessments of commercial property will not be known until the end of the fiscal year.

It should be noted that final data on the actual tax levy for 2012-2013 is not available as adjustments are made through June 30, 2012. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Many of the adjustments, however, are not reflected until the latter months of a given fiscal year (April-June). As this information becomes available, refinements to the Property Tax estimates may be brought forward in the 2012-2013 Proposed Budget or during the Proposed Budget review process in May and June.

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections, receipts in this category are expected to reach $11.5 million in 2011-2012, which is 5.2% above the 2010-2011 collection level of $10.9 million. Collections are expected to increase 3.0% in 2012-2013 to $11.9 million based on improving business conditions and increasing employment.

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. Over the past few years, collections in this category have fallen significantly, due, in part, to a substantial number of returns that were due to property owners as a result of declining home values. Based on the most recent estimate from the County of Santa Clara Controller's Office, the backlog of refunds has been resolved and receipts in this category are expected to total $1.8 million in 2011-2012, an increase of 58.8% from the 2010-2011 level. In 2012-2013, collections in this category are projected to normalize at $2.0 million, a 13.8% increase from 2011-2012, though still below the collection level of $3.0 million experienced during 2009-2010.

REVENUE FORECAST

The Homeowners Property Tax Relief category is projected at $1.1 million for 2012-2013, which is consistent with the 2011-2012 revenue estimate. Through the remaining years of the Forecast, annual Sales Tax growth ranging from 3.7% to 5.0% is projected.

In the out-years of the Forecast, annual Property Tax performance is expected to range from growth of 4.7% in 2013-2014 to an increase of 4.1% in 2016-2017. Moderate annual growth is expected throughout the Forecast period, with a portion of this growth due to an estimated 2% CPI increase annually.

Sales Tax

The Sales Tax category includes General Sales Taxes and Proposition 172 Sales Taxes. Overall, collections are expected to increase 9.4% in 2011-2012 to $150.9 million from prior year levels. In 2012-2013, year over year growth of 0.5% is expected, bringing the projected revenue to $151.7 million. It is important to note that the total revenue anticipated for 2011-2012 includes a number of one-time adjustments. After adjusting for those one time payments, year-over-year growth of 4.7% is expected in 2011-2012 and additional growth of 3.0% is expected in 2012-2013.

For the General Sales Tax revenue category, only one quarter of current fiscal year data is available. Based on this limited information, year-over-year growth of 9.4% is projected in 2011-2012, resulting in collections of $146.5 million. This increase from the $133.9 million collected in 2010-2011, however, factors in a substantial value of one-time accounting adjustments to reflect prior-year collections and the “Triple Flip” true-up payment from the State for 2011-2012. Excluding those adjustments, year-over-year growth is estimated to be approximately 4.7% from the 2010-2011 collection level. This reflects actual growth of 8.4% in the first quarter and estimated growth of 3.5% in the remaining three quarters. This gain marks the second year of growth after two years of declines. With continued improvement in the economy, sales tax growth is expected to continue.

For 2012-2013, the General Sales Tax revenue projection of $147.2 million assumes modest growth of 3.0% in taxable sales from 2011-2012 levels. Because there are a number of one-time accounting adjustments to reflect prior-year collections and the “Triple Flip” true-up payment from the State in 2011-2012 that are not reflected in 2012-2013, the year-over-year growth in 2012-2013 is estimated to be approximately 0.4%. To put the 2012-2013 estimate into perspective, the projected revenue of $147.2 million is only $2.3 million (1.5%) below the $149.5 million collected in 2007-2008, bringing revenues close to pre-recession levels.

The Sales Tax revenue projections for the 2011-2012 fiscal year will continue to be refined over the next couple of months as additional information becomes available. Sales Tax data for the second quarter of 2011-2012, which covers the 2011 holiday period, will be received in March 2012. Based on this additional data, any necessary adjustments to the estimate will be incorporated into the 2012-2013 Proposed Operating Budget.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total $4.4 million in 2011-2012, which represents a 7.7% increase from the actual 2010-2011 collections of $4.1 million based on activity through the first seven months of 2011-2012. In 2012-2013, collections are projected to increase 3.0% to $4.5 million.

Transient Occupancy Tax

It is currently estimated that Transient Occupancy Tax (TOT) receipts for 2011-2012 will total $8.3 million, reflecting an increase of 14.9% from the 2010-2011 collection level. Although the estimated current year receipts mark the second year of growth in this category, this growth is in stark contrast to the prior year declines of 11.5% and 18.5% in 2009-2010 and 2008-2009 respectively. Projected 2011-2012 receipts fall short of the $9.6 million collected in 2007-2008 by approximately 13.2%.

In 2012-2013, growth of 5.0% from the 2011-2012 estimate is anticipated. Despite the renovation and expansion construction activity at the Convention Center and the expected adverse impact on those hotels most reliant on convention-related business, the hotel industry appears to be experiencing a period of stabilization and emerging growth with increases in occupancy levels and average daily room rates. The 2012-2013 assumed growth of 5.0% in TOT receipts is slightly lower than the 6.0% to 8.0% growth range cited in the consultant study by Conventions Sports and Leisure (CSL) for 2012-2013 to allow for potential disruption associated with the Convention Center renovation and expansion project.

Based on the CSL consultant estimates, growth ranging from 3% to 5% is estimated for the out years of the Forecast. By 2016-2017, collections are projected to reach $10.1 million, which is above pre-recessionary levels. The completion of the renovation and expansion project, which will add 125,000 square feet of new flexible space, as well as improvements to the existing space, in late 2013, is expected to drive additional room night activity in the market.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at $42.4 million in 2011-2012, an increase of 2.6% from the 2010-2011 actual receipts of $41.3 million. The projected increase in 2011-2012 is due to higher collections anticipated in the Electric and Gas Franchise Fee category, partially offset by declines in the Tow and Commercial Solid Waste categories. In 2012-2013, Franchise Fees are expected to increase 5.6% to $44.7 million due primarily to growth in the Commercial Solid Waste (CSW) (19.6%) and the Electricity (2.6%) Franchise Fee categories.

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 2011-2012 are based on the calendar year 2011). Year-end estimates are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories. The reconciliation of annual receipts from PG&E for 2011-2012 will be received in April 2012.

In the Electric Franchise Fee category, collections in 2011-2012 are expected to reach $19.0 million, up from $17.7 million received in 2010-2011, due primarily to the full year implementation of the 0.3% surcharge, which was implemented during the last four months of 2010. In 2012-2013, growth of 2.6% from 2011-2012 estimates is anticipated reflecting the rate increase of 2.9% approved in January 2011. It should be noted that there are a number of proposed rate cases for electric rates, though due to the uncertainty regarding the outcome of these cases, no rate increases associated with these outstanding rate cases have been assumed in 2012-2013.

In the Gas Franchise Fee Category, the 2011-2012 estimated collections of $4.8 million reflect growth of 7.2% from the $4.5 million received in the prior year. This growth is also primarily due to the full year implementation of the 0.3% surcharge which was implemented during the last four months of 2010. In 2012-2013, Gas Franchise Fee collections are projected to remain flat based on the assumption that rates will remain relatively constant in 2012. It should be noted that there are also rate cases for gas rates, though due to the uncertainty regarding the outcome of these cases, no rate increases associated with these outstanding rate cases have been assumed in 2012-2013.

In City Generated Tow, revenues are significantly below prior year levels and are estimated to reach $700,000 in 2011-2012, a drop of 28.5% from the $979,000 received in 2010-2011. This significant reduction reflects the change in Police Department procedure, which reduced the number of tows and impounds for persons with violations that are not related to serious driving offenses. In 2012-2013, revenues are anticipated to remain flat at 2011-2012 levels as no changes in this new procedure or fee levels are anticipated.

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of $9.2 million in 2011-2012, a 3.2% decline from the $9.5 million received in 2010-2011 reflecting current tracking of this revenue. In 2012-2013, collections in this category are expected to increase 19.6% to $11.0 million based on a new methodology for assessing this fee that becomes effective July 1, 2012. On October 19, 2010 the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The new fee structure is $5 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District.

Remaining categories, including Cable, Water, and Nitrogen Gas Pipeline, are estimated to end the year slightly below ($190,000) budgeted levels of $8.8 million. Activity levels in 2012-2013 are expected to increase slightly compared to 2011-2012 levels, with 1.0% growth in Cable, 2.4% growth in Water, no growth in the Nitrogen Gas Pipeline categories.

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase from 2.3% to 3.8% annually. Over the next five years, there is a potential for fluctuations in growth rates depending the outcomes rate cases for both gas and electric rates. In addition, the City's current Cable Franchise Fee agreement is scheduled to sunset in 2016.

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2011-2012 are anticipated to total $91.8 million, representing an increase of 4.5% from the 2010-2011 collection level. A portion of this increase from the prior year is the result of a one-time settlement of $1.6 million from PG&E. This settlement corrected for underpayments and related penalties and interest of Gas an Electric franchise fees, surcharges and utility users taxes from January 1, 2007 through December 21, 2010 that were not coded as San José properties in PG&E's billing system. After adjusting for this one-time settlement, revenues are estimated to increase 2.7% from 2010-2011 levels. This 2.7% growth reflects approved rate increases beginning in January 2012 for Water (5% rate increase) and Electric (2.9% rate increase) and changes in consumption levels.

In 2012-2013, Utility Tax collections are projected to increase 0.1% to $91.9 million. After adjusting for the one-time settlement funding received in 2011-2012, growth of 1.8% is estimated for 2012-2013. Overall, a number of proposed rate cases have been filed that would affect electricity, gas, and water rates and consequently revenues. Due to the uncertainty regarding the outcome of these rate cases, the Forecast generally does not assume revenue increases associated with these outstanding rate cases. Rate cases will continue to be monitored and adjustments will be bought forward as appropriate based on the final outcomes.

The Electricity Utility Tax is anticipated to generate $39.8 million in 2011-2012, a 1.8% increase from 2010-2011 levels. The estimated 2011-2012 collections reflect the approved 2.9% rate increase beginning January 2012. In 2012-2013, revenues are estimated to increase 1.5% based on the annualization of the January 2012 rate with minimal to no change in consumption levels. Gas Utility Taxes are anticipated to reach $8.8 million in 2011-2012, a 1.7% increase from the prior year levels based on current collection trends. In 2012-2013, revenues are anticipated to remain flat at 2011-2012 levels. No changes in rates or consumption levels are assumed.

Water Utility Tax receipts of $9.2 million are anticipated to be received in 2011-2012, a 7.1% increase from 2010-2011. This growth reflects approved rate increases, including a 5% rate increase in January 2012. In 2012-2013, receipts are expected to increase 7.6% based on the annualization of the January 2012 rate increase, a 5% increase projected in July 2012, and an additional 5% in January 2013. No change in consumption levels is assumed.

In the Telephone Utility category, revenues are collected on landlines, wireless, and VoIP. Based on current tracking, receipts in 2011-2012 are anticipated to reach $32.4 million, a 2.9% increase from 2010-2011. In 2012-2013, revenues are estimated to increase an additional 1.0%.

In the out years of the Forecast, growth ranging from 2.7% to 4.0% annually is expected in the Utility Tax category. Due to the number of rate cases currently proposed, consistent with recommendations from the City's Utility Tax Consultant, larger growth is anticipated in the latter years of the Forecast. As discussed above, there is uncertainty regarding the performance in this category based on the number of outstanding rate cases. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts in both 2011-2012 and 2012-2013 are anticipated to total $20.5 million, unchanged from the 2009-2010 and 2010-2011 collection levels. Minimal growth of 0.5% annually is anticipated in the out years of the Forecast for this category.

Business Tax

This category includes General Business Tax, Disposal Facility Tax, Cardroom Tax, and Marijuana Business Tax. In 2011-2012, Business Taxes are estimated to reach $40.5 million, a 6.7% increase from 2010-2011 levels. This increase is primarily due to the full year receipt of the Marijuana Business Tax, which began in March 2011. In 2012-2013, revenues are estimated to decrease 0.1% to $40.45 million due to a decrease in Disposal Facility Tax, partially offset by an increase in Cardroom Tax.

In 2011-2012 General Business Tax proceeds are expected to reach $11.0 million, a 0.5% increase from the 2010-2011 level. In 2012-2013, consistent with the historical trend, no growth is anticipated in this category.

In the Disposal Facility Tax category, collections are estimated at $10.9 million in 2011-2012 based on current collection trends, which reflect a decline of 1.8% from the 2010-2011 collection level. Receipts are expected to continue to decline at the 1.8% annual rate to $10.7 million in 2012-2013 as waste diversion is expected to continue to negatively impact this revenue source.

Based on current performance, collections in the Cardroom Tax category are estimated at $15.1 million in 2011-2012, an increase of 2.3% from the 2010-2011 collection level. This increase from the prior year reflects, in part, the impact of the Cardroom Tax ballot measure that was approved by the voters in June 2010. The ballot measure increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98. The new rates went into effect on August 13, 2010, therefore the increase was not reflected in the first two months of the prior fiscal year. Though this accounts for some of the upward growth, the continued economic recovery is also a contributing factor in the additional activity. In 2012-2013, 1.0% growth is anticipated, bringing collections to $15.3 million.

On November 2, 2010, San Jose voters approved Ballot Measure U, which allows the City to tax all marijuana businesses (medical and non-medical; legal and illegal) at a rate of up to 10% of gross receipts. The City Council approved a 7% rate and the tax became effective on March 1, 2011. In 2011-2012, collections are anticipated to reach $3.5 million, or 203.7% of the prior year collection level, to reflect the full year implementation of the tax. As a result of the continued uncertainty surrounding this tax and the Marijuana Regulatory Program, 2012-2013 estimates are anticipated to remain flat at the 2011-2012 level until more information is known.

REVENUE FORECAST

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

Licenses and Permits and Departmental Charges

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

For 2012-2013, the development-related revenues are expected to continue to build on the growth experienced in 2011-2012. In cases where the development-related costs are projected to exceed revenues, the impacted 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. For 2012-2013, the Building Fee Program and Planning Fee program expenditures are projected to exceed the base revenue estimates. It is important to note that Fee Program Reserves are available to address shortfalls in these programs. In the Fire Fee Program and Public Works Fee Program, revenues are projected to be above the base program costs. Budget actions will be brought forward in each of these fee programs to maintain cost-recovery and ensure resources are available to address service needs.

For the non-development-related fees and charges, the 2012-2013 estimates are based on current collection trends. In the out years of the forecast, both the Licenses and Permits and Departmental Charges categories are expected to experience growth ranging from 1.4% to 6.8%. The growth rates in the out years are tied to the expected increases in costs which the fees are designed to recover, including increased retirement and health costs. It should be noted that cost-of-living salary adjustments have not been factored into the out years of the Forecast. There are currently no negotiated agreements for that period.

Fines, Forfeitures and Penalties

In 2011-2012, the Fines, Forfeitures and Penalties category is expected to generate $16.5 million. The largest component of this revenue category is Parking Fines, which are currently expected to generate approximately $11.0 million in 2011-2012, a decrease of 3.0% from the 2010-2011 receipts of $11.4 million as a result of vacancies in the unit. In 2012-2013, total revenue collections of $16.7 million are projected in the Fines, Forfeitures, and Penalties category. This includes $11.0 million from Parking Fines, which assumes no growth from 2011-2012. In the out years of the Forecast, annual growth of approximately 1.3% to 1.5% is projected.

Money and Property

This category consists of interest income and revenue associated with the rental of City-owned property. The 2012-2013 estimate for interest earnings in the General Fund assumes an average interest rate of only 0.35% applied to an average cash balance of approximately $50 million for a total collection level of $175,000. This anticipated collection level is close to the 2011-2012 projected interest earnings of $161,000. An additional $2.6 million is expected to be generated from the remaining sources in this category, primarily rental of City-owned facilities. In the out years of the Forecast, growth rates range from a decrease of 0.7% to growth of 4.2% annually.

Revenue from Local Agencies

In 2012-2013, revenue of $11.4 million is projected from other local agencies, such as the Central Fire District and the County of Santa Clara to reimburse the City for services provided. This is significantly lower than levels of approximately $36.6 million estimated in the February 2011 Forecast and Adopted 2011-2012 Budget levels of $19.3 million. This reduction is due to the loss of reimbursement from the San Jose Redevelopment (SJRA) for certain City services that supported the Agency as well as the reimbursement for the Convention Center debt service payment.

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. For 2011-2012, Central Fire District payments are expected to end the year at $4.6 million, reflecting a significant drop of 10.2% from 2010-2011. In 2012-2013, collections are expected to increase 2.5%, to $4.7 million, consistent with the increase in Secured Property Tax assumed in this forecast.

In 2012-2013, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed to total $2.3 million. In addition, payments of $2.9 million from other local agencies are expected to reimburse the City for the Police Department CAL-ID program.

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately 2.3% to 3.6%.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach $14.0 million in 2012-2013 and drop to $9.8 million in 2012-2013. This drop reflects the loss of Motor Vehicle In-Lieu revenue, the elimination of on-time grants, and lower estimated Tobacco Settlement revenues. Tobacco Settlement payments are anticipated to total $9.0 million in 2011-2012 and $8.5 million in 2012-2013, reflecting the downward trend in collection in this category. In June 2011, Motor Vehicle In-Lieu collections were eliminated by the State legislature's approval of SB 89, which shifted over $130 million in annual General Fund Motor Vehicle In-Lieu revenue from cities to support State law enforcement grants effective July 1, 2011. In 2011-2012, revenues of $2.1 million were received to reflect a true-up payment for four prior fiscal years. No Motor Vehicle In-Lieu revenue estimate is included for 2012-2013 or beyond.

The following State grants and reimbursements are expected in 2012-2013: Abandoned Vehicles Abatement Program ($600,000); Auto Theft reimbursement ($370,000); Highway Maintenance

Charges reimbursement ($105,000); Waste Tire Enforcement Grant ($141,000); and Pesticide Management Grant ($35,000). No annual growth is projected in the out years of the Forecast.

Revenue from the Federal Government

The Revenue from the Federal Government category, including the American Recovery and Reinvestment Act (ARRA) revenue, consists of grant revenues. The following grants are anticipated in 2012-2013: Staffing For Adequate Fire & Emergency Response Grant (SAFER) ($7.5 million); Community Oriented Policing Services (COPS) Hiring Grants ($2.4 million); Clean Creeks and Healthy Community Grant ($33,000); and American Recovery and Reinvestment Act (ARRA) Retrofit California Program grant ($26,000). In the out years of the Forecast, the SAFER grant and the ARRA Retrofit California Program Grant are set to sunset at the end of 2012-2013, while the COPS grants extend to 2013-2014 and the Clean Creeks and Healthy Community Grant is assumed throughout the five years of the forecast.

Other Revenue

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, and Arena Rental, Suite, Parking, and Naming revenues. In 2011-2012, this category is expected to generate $116.5 million. The 2011-2012 estimate includes $100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits. Factoring out the TRANs issuance, 2011-2012 collections for this category are estimated to total $16.5 million.

In 2012-2013, the revenue estimate of $14.6 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2012-2013 costs or agreements and the elimination of one-time funding sources. This figure excludes revenues associated with the issuance of the TRANs that will be brought forward in 2012-2013 with an offsetting expenditure based on estimated cash flow needs. In 2012-2013, the proceeds from the Sale of Surplus Property category has been set at $1.4 million based on the anticipated assets that will be sold next fiscal year and is down from the $1.8 million assumed in the 2011-2012 Adopted Budget. The cost reimbursement for the Investment Program is estimated at $2.1 million based on the current allocation of staff to this function. In addition, $5.3 million is projected from Arena Rental, Suite, Parking, and Naming revenues.

In the out years of the Forecast, annual increases range from 1.4% to 1.8%. According to the contract with the San Jose Arena Management, the Arena Parking revenue is scheduled to end in 2012-2013 and the Arena Naming revenue is schedule to end in 2014-2015. In this Forecast, it is assumed that the contract for these items will be extended and these revenues will continue through the full five years of this forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2011-2012 are projected to reach $15.3 million, a drop of 2.4% from the 2010-2011 level of $15.7 million. Collections are expected to remain flat at $15.3 million in 2012-2013. These collection levels remain below historical tracking patterns for this category. Several factors may be impacting collections in this category, including volatile gas prices, the lingering impacts of the economic downturn, and a move to more energy efficient automobiles. In the out years of the Forecast, collections are expected to decline by between 0.1% and 1.0% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2012-2013, a total of $32.9 million in reimbursements are projected based on 2012-2013 overhead rates prepared by the Finance Department applied against the projected 2012-2013 salaries for those positions for which an overhead rate is applied.

In the remaining years of the Forecast, annual increases ranging from 1.4% to 6.8% are assumed, reflecting increases in costs which the overhead rate is designed to recover, including increased retirement and health contribution costs. It should be noted that cost-of-living salary adjustments have not been factored into the out years of the Forecast as there are currently no negotiated agreements for that period.

Transfers

The Transfers category is projected at $23.9 million for 2011-2012 and $17.0 million in 2012-2013. The largest component of this category ($7.0 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs. In 2012-2013, these reimbursements have been set to cover the base 2012-2013 costs, with the fire SAFER Grant covering a portion of the costs for firefighting services at the Airport as reflected in the Revenue from the Federal Government category. Additional large transfers programmed for 2012-2013 include the Construction and Conveyance Tax Fund transfer ($2.1 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($2.8 million); the FMC Bond close-out fund transfer ($1.7 million); and the Workforce Investment Act Fund transfer ($615,000) for use of various community centers and Workforce Investment Act program services.

Adjustments to these transfer amounts are reflected in the remaining years of the Forecast. A net decrease of $638,000 is expected in 2013-2014 to reflect the elimination or reduction of transfers budgeted in 2012-2013, including: FMC Bond Close-Out ($1.7 million); Construction Excise Tax Fund ($1.0 million); Camden Debt Service ($202,000); and an inter-fund loan from the Public Works Support Services Fund ($63,000). These downward adjustments are partially offset by a $1.7 million increase to the transfer from the Airport Operations and Maintenance Fund to reflect the full reimbursement of costs associated with delivering firefighting services at the Airport that were temporarily supported by the SAFER Grant. After these one-time adjustments are accounted for in 2012-2013 and 2013-2014, annual increases in the last three years range from 0.4% to 2.0%. The reimbursement from the Airport Maintenance and Operations Fund for police and fire services is expected to increase in the out years based on the increased costs for those services, including increased retirement and health contribution costs. As discussed above, cost-of-living salary adjustments have not been factored into the out years of the Forecast as there are currently no negotiated agreements for that period.

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2012-2013 of $662,000. In the remaining years of the Forecast, annual increases are expected to recover the projected cost increases, including increased retirement and health contribution costs. As discussed above, cost-of-living salary adjustments have not been factored into the out years of the Forecast as there are currently no negotiated agreements for that period.

Beginning Fund Balance

The $47.4 million forecast estimate of available 2012-2013 Beginning Fund Balance is based on the following assumptions:

- The 2012-2013 Contingency Reserve, $29.3 million, is projected at the current level based on the assumption that this amount will not be used in 2011-2012 and will be carried over to 2012-2013. This reserve level complies with the City Council policy to maintain a minimum 3% Contingency Reserve. The Contingency Reserve is approximately enough to cover General Fund payroll costs for two and one-half weeks.

- A total of $18.0 million will be achieved from a combination of excess revenues ($3.7 million, expenditure savings ($12.3 million) and the liquidation of prior-year carryover encumbrances ($2.0 million). This figure is based on the 2011-2012 Ending Fund Balance Reserve established as part of the 2011-2012 Mid-Year Budget Review actions, a review of actual revenues and expenditures through January, and a review of liquidation of prior-year carryover encumbrance performance in 2011-2012.

- An additional $53,000 from the Wellness Program Reserve to support Wellness Program costs programmed in 2012-2013.

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue of 1.0% and expenditure savings of 1.5% would be generated annually and that the Contingency Reserve of $29.3 million would be carried over each year. This Contingency Reserve level in the out years of the Forecast complies with the City Council approved policy to maintain a minimum 3% Contingency Reserve level. The combination of expenditure savings and Contingency Reserve would generate beginning fund balance ranging from $47.8 million in 2013-2014 to $49.7 million in 2016-2017.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

An in-depth analysis of the General Fund expenditure categories was completed to develop the 2012-2013 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2012-2013 Proposed Operating Budget.

As displayed in the Forecast and the chart below, expenditures are shown to increase from $797.4 million in 2012-2013 to $889.1 million in 2016-2017, for an average growth rate of 2.8% per year.

February 2012 Forecast	Modified Budget	Forecast				
Expenditure Summary	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Personal Services						
Salaries and Other Compensation	$ 349,630,761	$ 349,950,000	$ 351,187,000	$ 352,430,000	$ 353,678,000	$ 354,931,000
Retirement	192,789,713	185,609,000	215,081,000	230,279,000	230,593,000	233,920,000
Health and Other Fringe Benefits	56,916,636	48,664,000	53,107,000	57,956,000	63,248,000	69,023,000
Total Personal Services	599,337,110	584,223,000	619,375,000	640,665,000	647,519,000	657,874,000
Total Non-Personal/Equipment	83,727,100	79,055,000	80,047,000	81,286,000	82,044,000	84,039,000
City-Wide						
City-Wide Expenses	201,493,789	57,252,000	58,667,000	61,580,000	66,638,000	68,224,000
Capital Projects	11,295,937	7,500,000	7,970,000	7,968,000	7,963,000	7,966,000
Transfers	30,210,250	35,089,000	38,424,000	35,677,000	29,176,000	29,904,000
Earmarked Reserves	63,692,940	600,000	600,000	600,000	600,000	750,000
Contingency Reserve	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000
Total City-Wide	336,001,916	129,750,000	134,970,000	135,134,000	133,686,000	136,153,000
Committed Additions						
New Parks and Recreation Facilities Maint. & Operations		49,000	131,000	234,000	294,000	521,000
New Traffic Infrastructure Assets Maint. & Operations		49,000	82,000	107,000	124,000	127,000
Police Automated Field Reporting/Records Mgmt. System			335,000	438,000	461,000	376,000
Measure O (Library) Maint. & Operations		1,185,000	3,106,000	3,160,000	3,851,000	3,962,000
Measure P (Parks) Maint. & Operations		653,000	712,000	720,000	774,000	810,000
Measure O (Public Safety) Maint. and Operations - Fire				2,503,000	2,474,000	2,618,000
Measure O (Public Safety) Maint. & Operations - Police		2,393,000	2,465,000	2,504,000	2,545,000	2,585,000
Total Committed Additions		4,329,000	6,831,000	9,666,000	10,523,000	10,999,000
Total Base Exp. w/ Committed Additions	$ 1,019,066,126	$ 797,357,000	$ 841,223,000	$ 866,751,000	$ 873,772,000	$ 889,065,000

It is important to note that adjustments are made to each department's budget to eliminate one-time additions/deletions and annualize partial year allocations included in the 2011-2012 Adopted Budget. This Forecast does not assume various one-time additions included in the 2011-2012 Mayor's June Budget Message as approved by the City Council that are scheduled to expire in June 2012. These include positions that impact police field patrol and crossing guards, Lake Cunningham Skate Park and marina, code enforcement, Safe School Campus Initiative staff, City Attorney's Office support, and senior wellness activities.

This Forecast assumes the continuation of expenditures related to the Staffing for Adequate Fire and Emergency Response (SAFER) Grants and Community Oriented Policing Services (COPS) Grants after the expiration of grant funding. This includes SAFER expenditures in 2012-2013 of $7.5 million for 49 Fire Fighter positions and COPS expenditures of $2.4 million for 19 Police Officers after the grant funding period ends. Without the continuation of these positions, significant service level reductions would occur.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

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

Personal Services

As is the usual practice, the first year (2012-2013) projection for personal services costs in this Forecast has been calculated at a detailed level. An extract of payroll system information as of August 2011 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 reallocations. Also, 2011-2012 ongoing position reductions (cost savings) and additions (cost increases) were annualized and all categories of benefit costs in the coming year were projected.

For the 2012-2013 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the General Fund's total costs. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $584.2 million projected personal services total for 2012-2013, salaries and other compensation costs amount to $350.0 million (59.9% of projected personal services), retirement costs amount to $185.6 million (31.8% of projected personal services), and health and other fringe benefits costs amount to $48.7 million (8.3% of projected personal services). Despite no negotiated salary increases for any employee group, growth in retirement costs and other personnel cost components (e.g., scheduled non-management step increases, management pay for performance, health and other fringe benefits) impact personal services costs and continue to be responsible for a growing element of the major increases in this category.

Below is a discussion of the specific factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit adjustments. For this Forecast, the out years are projected to inflate at a composite rate of approximately 3.0%. This projected rate of growth is well below the 5.2% presumed in February 2011 due primarily to revisions by the Retirement Boards' actuary for contribution amounts for the City's two retirement plans and caps on the City's contribution rate for Police and Fire Retiree Healthcare as discussed further in this section.

Salaries and Other Compensation:

- Salary step increases for current non-management employees and pay for performance for management employees for 2012-2013 is projected at $2.0 million, or an increase of 0.35%. With the exception of employees represented by the POA and IAFF, non-management step increases have been calculated at a 2.5% step increase rate. For POA and IAFF, a 5% step increase rate was applied in this forecast. The out years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

- No salary increases for any employees are included in this Forecast reflecting the fact that there are no negotiated agreements covering the five-year period. Agreements for the Association of Building, Mechanical and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA), Association of Maintenance Supervisory Personnel (AMSP), International Association of Firefighters (IAFF), and the San Jose Police Officers Association (SJPOA) were approved in 2011 and reflect no approved wage increase in 2012-2013. The imposition of terms by the City Council in June 2011 for the International Union of Operating Engineers, Local No. 3 (OE#3), Municipal Employees' Federation (MEF), International Brotherhood of Electrical Workers (IBEW), and Confidential Employees' Organization (CEO) expire June 30, 2012. The Agreement with the Association of Legal Professionals (ALP) also expires June 30, 2012. The approval of any negotiated salary or benefit increases in those years, without any offsetting increase in revenues or reduction in costs, will obviously have the effect of increasing the City's shortfall or reducing any projected surplus. Each 1% of total compensation increase granted to all employees would increase the General Fund cost in 2012-2013 dollars by approximately $5.8 million. In this regard, consideration of salary increases is being treated as a resource allocation policy decision and any decision will be made in the context of what is affordable in light of the City's many service delivery priorities after a decade of service and position reductions.

- Overtime expenditures in the General Fund total $18.6 million for 2012-2013, with the majority of the expenditures for Police Department ($11.9 million) and Fire Department ($5.2 million) operations. The out years of the Forecast continue these costs, with small adjustments for salary step growth.

Retirement:

For 2012-2013, retirement costs total $185.6 million for the General Fund assuming the pre-payment of the annual required contribution, or 23.3% of the total base expenditure budget. This represents a decrease of $7.2 million from the 2011-2012 Modified Budget of $192.8 million. Based on the Federated and Police and Fire Retirement Boards' actions regarding interest earnings assumptions and/or demographic assumption changes, of the $185.6 million of the General Fund's annual required contribution (ARC), $64.2 million is projected to be paid to the Federated Retirement System and $120.9 million to the Police and Fire Retirement Plan ($77.3 million for the Police Retirement Plan and $43.6 million for the Fire Retirement Plan). Please note that the Police and Fire Retirement Board's actuary indicated that for the June 30, 2012 Valuation it may recommend to the Board to consider reducing the investment return assumption from the current 7.50% to 7.25%. All things being equal, reducing the investment return assumption will increase the City's annual required contribution starting with 2013-2014. The remaining $0.5 million in retirement costs are associated with part-time benefited employees and the Mayor and City Council who do not participate in the City's retirement plans.

EXPENDITURE FORECAST

In 2010-2011, the Retirement Boards adopted an annual required contribution methodology, which requires the City to pay a minimum ARC or a percentage of payroll, whichever is greater. Therefore, for this forecast period, the minimum ARC and the percentage of payroll are discussed in detail below. Please note that due to the independent estimated payroll projections by the Retirement Boards' actuary and the City Manager's Budget Office, the City calculations for the City retirement contributions are based on the minimum ARC or the ARC based on the budgeted payroll, whichever is greater. Due to this funding methodology for the ARC, if the City's pensionable payroll amount changes due to staffing reductions, the retirement cost will not change unless the ARC is above the minimum.

As stated previously and detailed in the table on the next page, for 2012-2013, the General Fund's retirement costs decreased by $7.2 million from the 2011-2012 Modified Budget. This net reduction of $7.2 million is due to retirement cost increases in the Federated Retirement System that are more than offset by retirement cost reductions in the Police and Fire Retirement Plan. Further, based on projections received from Cheiron, the Retirement Boards' actuary, the table below details the General Fund's retirement costs by the Federated System and the Police and Fire Retirement Plan and the respective pension and retiree healthcare costs for the forecast period. These figures assume the pre-payment of the ARC over the five-year period. Additionally, the retirement costs associated with part-time employees and the Mayor and City Council are in the table below. During the forecast period, General Fund retirement contributions will increase by approximately $48.3 million or 26% from $185.6 million in 2012-2013 to $233.9 million in 2016-2017. For 2016-2017, projected Retirement costs are estimated to be 26.0% of the General Fund. During the same period, as indicated in the table below, the City retirement contribution for all funds will increase by $68.2 million in $245.8 million in 2012-2013 to $314.0 million in 2016-2017.

EXPENDITURE FORECAST

2013-2017 CITY RETIREMENT CONTRIBUTION COSTS AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES
($ in Millions and with Pre-Payment Discount)

Retirement Plan	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Federated Ret. System – Pension	$44.3	$54.5	$58.1	$61.2	$61.1	$61.7
Fed. Ret. System – Retiree Healthcare	$10.9	$9.7	$20.8	$22.3	$23.1	$23.8
Federated Retirement Plan - Total	**$55.2**	**$64.2**	**$78.9**	**$83.5**	**$84.2**	**$85.5**
Budgetary Contribution Rates	*43.7%*	*50.5%*	*61.8%*	*65.2%*	*65.4%*	*66.2%*
Police Retirement Plan – Pension	$74.8	$66.8	$74.6	$79.9	$78.6	$79.2
Police Ret. Plan – Retiree Healthcare	$11.5	$10.5	$12.2	$13.4	$13.8	$14.3
Police Retirement Plan – Total	**$86.3**	**$77.3**	**$86.8**	**$93.3**	**$92.4**	**$93.5**
Budgetary Contribution Rates	*75.1%*	*65.7%*	*73.5%*	*78.9%*	*78.1%*	*78.8%*
Fire Retirement Plan – Pension	$46.0	$39.2	$43.6	$46.6	$45.9	$46.3
Fire Ret. Plan – Retiree Healthcare	$4.7	$4.4	$5.3	$6.4	$7.6	$8.1
Fire Retirement Plan - Total	**$50.7**	**$43.6**	**$48.9**	**$53.0**	**$53.5**	**$54.4**
Budgetary Contribution Rates	*74.0%*	*64.0%*	*71.3%*	*76.9%*	*77.2%*	*78.1%*
Other Retirement Costs	$0.6	$0.5	$0.5	$0.5	$0.5	$0.5
Total General Fund	**$192.8**	**$185.6**	**$215.1**	**$230.3**	**$230.6**	**$233.9**
Total All Funds	**$245.5**	**$245.8**	**$288.9**	**$308.4**	**$309.3**	**$314.0**

Source: 2011-2012 Modified Budget; Cheiron Letters dated February 8, 2012 and February 21, 2012 with applied pre-payment discount

The table above also indicates the budgetary retirement contribution rates which are discounted for the pre-payment of the ARC in order to set aside sufficient funds in the General Fund's budget to either pay the City's retirement costs based on the minimum ARC or a percentage of payroll, whichever is greater. For this forecast, only the City's 2012-2013 Federated System pension payment is based on a percentage of payroll. Over the forecast period, the budgetary rates show significant increases. In order to fund the ARC for the Federated System, the budgetary retirement contribution rate increases from 50.5% in 2012-2013 to 66.2% in 2016-2017; for the Police Retirement Plan the budgetary retirement contribution rate increases from 65.7% in 2012-2013 to 78.8% in 2016-2017; and for the Fire Retirement Plan, the budgetary contribution rate increases from 64.0% in 2012-2013 to 78.1% in 2016-2017.

For illustration purposes and discussion of the ARC for Retiree Healthcare, the table on the following page depicts the Board approved contribution rates for 2012-2013 and the Cheiron projected rates for the out years of the Forecast.

EXPENDITURE FORECAST

2013-2017 BOARD APPROVED CITY CONTRIBUTION RATES

Retirement Plan	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Fed. Ret. System – Pension	28.3%	44.4%	46.9%	48.0%	46.3%	45.4%
Fed. Ret. System – Ret. Healthcare	7.2%	7.9%	16.8%	17.4%	17.5%	17.5%
Federated Retirement System - Total	**35.5%**	**52.3%**	**63.7%**	**65.4%**	**63.8%**	**62.9%**
Police Retirement Plan – Pension	49.3%	57.0%	63.6%	65.7%	62.5%	60.8%
Police Ret. Plan – Retiree Healthcare	7.6%	9.0%	10.3%	11.0%	11.0%	11.0%
Police Retirement Plan – Total	**56.9%**	**66.0%**	**73.9%**	**76.7%**	**73.5%**	**71.8%**
Fire Retirement Plan – Pension	51.0%	58.9%	65.5%	67.6%	64.4%	62.8%
Fire Retirement Plan – Retiree Healthcare	5.3%	6.6%	8.0%	9.3%	10.7%	11.0%
Fire Retirement Plan - Total	**56.3%**	**65.5%**	**73.5%**	**76.9%**	**75.1%**	**73.8%**

Source: Cheiron Letters dated February 8, 2012 and February 21, 2012

For the Federated Retirement System, the Board approved pension contribution rate increased from 28.3% for 2011-2012 to 44.4% for 2012-2013 and is projected to increase to 45.4% for 2016-2017. The retiree healthcare or Other Post-Employment Benefit (OPEB) contribution rate increased from 7.2% for 2011-2012 to 7.9% for 2012-2013 and is projected to increase to 17.5% for 2016-2017. Over the Forecast period, the Federated System contribution rates increase by over 10 percentage points from 52.3% to 62.9% primarily due to the more than doubling of the Retiree Healthcare contribution rate. The substantive increase of the Retiree Healthcare contribution rate from 7.9% in 2012-2013 to 17.5% in 2016-2017 is primarily due to the full funding of the ARC starting with 2013-2014. In order to begin to addressing the significant unfunded actuarial liability for retiree healthcare costs, at the direction of the City Council, the Administration worked will all employee bargaining groups to begin a five-year phase-in to fully fund the annual required contribution (ARC). In 2009, the City and Federated bargaining units reached an agreement to begin a five-year phase-in to fully fund the annual required contribution for retiree healthcare benefits. The last year of the phase-in is 2012-2013 with the full funding of the ARC starting with 2013-2014. Based on Cheiron's projections, in order to fully fund the ARC for retiree healthcare benefits in 2013-2014, the City's contribution will more than double and increase to 16.8%. The employees' contribution rate is projected to more than double as well from 7.3% in 2012-2013 to 15.5% in 2013-2014.

For the Police Retirement Plan, the Board approved pension contribution rate increased from 49.3% for 2011-2012 to 57.0% for 2012-2013 and is projected to increase to 60.8% for 2016-2017; and per the MOA between the City and the San Jose Police Officers' Association, the retiree healthcare contribution rate increased from 7.6% for 2011-2012 to 9.0% for 2012-2013 and is projected to increase to 11.0% for 2016-2017. Over the Forecast period, the Police Pension Plan contribution rates increase from 66.0% to 71.8%. Similarly, for the Fire Retirement Plan, the Board approved pension contribution rate increased from 51.1% for 2011-2012 to 58.9% for 2012-2013 and is projected to increase to 62.8% for 2016-2017; and per the MOA between the City and the International Association of Firefighters, Local 230, the retiree healthcare contribution rate increased from 5.3% for 2011-2012 to 6.6% for 2012-

2013 and is projected to increase to 11.0% for 2016-2017. Over the Forecast period, the Fire Pension Plan contribution rates increase from 65.5% to 73.8%. In the out years of the Forecast period, the retiree healthcare contribution percentage has a limit of 11%, which, if reached, results in the meet and confer process per the MOAs with the San Jose Police Officers' Association and the San Jose Fire Fighters, IAFF, Local 230. The cost for retiree healthcare is shared 50/50 between the City and employees and these MOAs expire June 30, 2013. Per Cheiron, the Board's actuary, in order to fully fund the ARC for retiree healthcare benefits, preliminary results indicate that the City's annual contributions would be in excess of the current limit of the percentage contribution of 11%. In order to fully understand the out year projections, the Administration recently requested that the Board's actuary prepare the annual required contribution for retiree healthcare so that the full amount can be analyzed.

Health and Other Fringe:

- Forecasted health rate increase of 11% is included in 2012-2013 based on national and City trend information received from the City's Human Resources Department benefits consultant. For the out years of the Forecast, the annual rate increase assumptions are held constant to the 2012-2013 rate increases.
- Based On actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, no increase is anticipated 2012-2013. For the out years, the Forecast assumes an annual rate increase assumptions of 3% based on City trends and actuarial analysis.
- For the payment of Unemployment Benefit Claims, the City is self-insured. Based on actual claims experienced in 2011-2012, current funding available in the Unemployment Insurance Fund, and projected future claims, the unemployment insurance rate has been suspended, resulting in $2.2 million savings when compared to the 2012-2013 Preliminary Forecast.

Other Cost Factors:

It is important to note that this Forecast does not assume the implementation of any elements of the Fiscal Reform Plan approved by the City Council. Furthermore, not included in the Personal Services category are two large General Fund cost categories that are personnel-related and discussed further in the "Other Expense" portion of this section: Workers' Compensation Claims Payments and Sick Leave Payments Upon Retirement. These costs are included in the City-Wide Expenses category. In 2012-2013, estimates of $16.6 million for Workers' Compensation Claims Payments and $6.2 million for Sick Leave Payments Upon Retirement have been included in this General Fund Forecast.

EXPENDITURE FORECAST

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total $79.1 million in 2012-2013. The process utilized by the Budget Office includes adjusting each department's current year budget to eliminate one-time cost allocations, annualizing all partial-year reductions or additions approved for 2011-2012, and including projected adjustments for specific large non-personal/equipment allocations (e.g., utilities, leases, contracted services, debt service payments, fuel, and Police Department vehicle replacement). The resulting 2012-2013 estimates represent a decrease of $4.7 million from the 2011-2012 Modified Budget level of $83.7 million. Departmental gas and electricity funding for 2012-2013 has been slightly adjusted in this Forecast to reflect projected rate increases and consumption changes.

The 2012-2013 non-personal/equipment base includes an increase for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles from the Adopted Budget level of $4.2 million to $3.9 million based on the current replacement schedules and projected costs for these vehicles. In the out years of the Forecast, the police vehicle replacement costs are expected to decline in the first three Forecast years and increase in the last year of the Forecast, based on the anticipated replacements that will be necessary in those years. Over the five-year period, police vehicle replacement costs are expected to total $14.8 million.

For the out years of the Forecast, a growth rate of 2.0% has been assumed from the 2012-2013 non-personal/equipment base levels in each of the four years, adjusted for police vehicle replacement costs in those years. With this adjustment, the average growth rate for the non-personal/equipment category is 1.54% annually.

City-Wide

City-Wide Expenses in the first year of the Forecast (2012-2013) total $57.3 million, a decline from the 2011-2012 Modified Budget of $201.5 million. This large reduction primarily reflects the impact of deleting the $100.4 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; deleting allocations that were rebudgeted to 2011-2012 ($28.8 million); and the elimination of one-time grants ($6.1 million). In addition, the elimination of the Convention Center lease payment ($15.4 million) in this Forecast reflects the assumption that funding from the Successor Agency to the San Jose Redevelopment Agency will directly pay for this debt service payment. It should be noted, however, this Forecast assumes City funding would be necessary to meet the obligations required by the Successor Agency to the Redevelopment Agency, as discussed later in this section.

The line-items in this category are adjusted to reflect anticipated costs for 2012-2013 based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2012-2013 allocations in this category include: Workers' Compensation Claims ($16.6 million); Sick Leave Payments Upon Retirement ($6.2 million); FMC debt service payments ($4.5 million); City-owned Facility Operating Agreements ($3.5 million); Property Tax Administration Fee ($3.3 million); San Jose BEST Program ($2.6 million); Parking Citations/Jail Courthouse Fees ($2.5 million); Children's Health Initiative ($2.1 million); and General Liability Claims ($2.0 million).

In the out years of the Forecast, City-Wide Expenses are projected to increase at an average growth rate of 1.3%. While several of the individual line items are expected to remain at 2012-2013 levels over this period, there are some categories that are expected to experience growth, including Workers' Compensation Claims (from $16.6 million to $20.8 million). The FMC debt service payment is expected to increase significantly in the out years (from $5.0 million to $6.8 million) based on higher variable rate assumptions. The anticipated administrative costs to issue TRANs Debt Service is also expected to climb (from $800,000 to $6.3 million) based on a conservative estimate of the size of the issuance required and anticipated increases in variable interest rates and higher bank fees. It should be noted that these costs are still projected to achieve savings to the City for the annual prepayment of employer retirement contributions for pension and retiree health benefits through the forecast period. However, the budgetary benefit for prepayment of retirement costs will be closely evaluated as part of the annual budget process.

The General Fund **Capital Projects** category totals $7.5 million in 2012-2013 and increases to $8.0 million in each of the out years of the Forecast. The largest items in this category include fire apparatus replacement ($5.3 million annually) and debt service payments for Central Service Yard – Phase I ($1.3 million in 2012-2013 and relatively flat payments of $1.7 million in the out years). The investment in fire apparatus replacement in this Forecast is based on an analysis of projected replacement costs, replacement schedules, and apparatus changes to meet safety needs. The Capital Projects category also includes the continuation of annual allocations for Arena repairs ($100,000 in the out years), unanticipated maintenance of City facilities ($300,000), fuel tanks and methane monitoring control and replacement ($450,000), and annual capital expenditures ($150,000) to maintain sufficient power backup for the City Hall and the 9-1-1 Police Communications Building.

The **Transfers** category totals $35.1 million in 2012-2013 and ranges from $38.4 million to $29.9 million in the remaining years of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for City Hall is the largest line-item in this category and totals $15.3 million in 2012-2013 ($16.3 million to $18.4 million in the remaining years of the Forecast) followed by transfers to the Successor Agency to the Redevelopment Agency of $8.6 million in 2012-2013, $10.6 million in 2013-2014, and $6.8 million in 2014-2015. Other large transfers include the following: funding to cover a portion of the debt service payments and operating costs for the Hayes Mansion Conference Center ($4.8 million in 2012-2013 to $6.8 million the out years) and Rancho del Pueblo and Los Lagos Golf Courses ($1.8 million annually); payments in accordance with the San José Arena Management agreement extension ($2.8 million in 2012-2013 and $2.0 million to $750,000 in the out years of the Forecast) for Arena repairs and capital enhancements; and a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement ($800,000 annually).

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB 1X 26. As part of the legislation, Successor Agencies are charged with winding down operations and overseeing the dissolution process in an orderly manner. On January 24, 2012, the City Council adopted Resolution No. 76128 documenting its decision to serve as the Successor Agency to the former Redevelopment Agency ("Successor Agency").

As part of determining the current financial state of the Successor Agency, the Administration recently projected future property tax increment revenues and analyzed the current level of enforceable obligations for the forecast period. For the purpose of this Forecast, the Property Tax Increment is projected to grow by 1.7 % in 2012-2013, 0.8% in 2013-2014, 2.4% in 2014-2015, 1.3% in 2015-2016, and 2.8% in 2016-2017. Based on that analysis, it is projected that there will not be sufficient property tax increment revenue to pay all of the enforceable obligations for the first four years of the forecast period. It should be noted that the City is only contractually obligated to assume certain payment requirements of the Successor Agency as follows: 4th Street Garage Debt Service, Convention Center Debt Service, HUD 108 Loan payments, ERAF Loan Payments, and Interfund Loans made in connection with the SERAF Loan. However, while the City is not legally obligated to assume all of the Successor Agency obligations, there may be policy reasons why the City Council would want to see certain redevelopment obligations continue. Therefore, based on the current conservative budget projections as detailed below, it is assumed that City funds would pay the remaining amounts owed by the former Redevelopment Agency during the next four years.

It is currently projected that City funds may need to be advanced to provide for payment of Successor Agency enforceable obligations in the amounts of $13.5 million in 2012-2013, $15.6 million in 2013-2014, $11.9 million in 2014-2015, and $2.1 million in 2015-2016. Thereafter, sufficient tax increment revenue is projected to cover the current cost level of enforceable obligations and no further negative impact to City funds is expected.

Per the agreement between the Federal Department of Housing and Urban Development, if the Successor Agency is not able to make the loan repayment for the HUD Section 108 loan program, Community Development Block Grant (CDBG) funds are pledged to cover this obligation (between $1.6 and $1.7 million in each year for the next three fiscal years). In the event the Successor Agency has insufficient revenues to make the payment, the CDBG fund is expected to cover the payment. Per the bond covenants for the 4th and San Fernando Street Parking Garage, revenues of both the Successor Agency and the General Purpose Parking Fund are pledged to make the loan repayment for the annual debt service of $3.4 million related to this facility. In the event the Successor Agency has insufficient revenues to make the payment, the General Purpose Parking Fund is expected to cover the payment. Since these other City Funds are pledged to make these payments, the potential General Fund impact for the purpose of this forecast is $8.6 million for 2012-2013, $10.6 million for 2013-2014, and $6.8 million for 2014-2015. Given that a cash flow mismatch occurs between the payment obligation dates and the receipt of tax increment revenues from the County of Santa Clara, these projected additional costs to the General Fund assume that the County will provide short-term borrowing to the Successor Agency to align anticipated revenues with anticipated expenditures.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

It should be noted that the City Attorney's Office and the Administration are in the process of reviewing all of the Successor Agency obligations to reduce the impact on the General Fund, the Community Development Block Grant Fund, and the General Purpose Parking Fund during the next four years. Similarly, as part of the 2012-2013 Proposed Budget process, the Administration will carefully review the administration for the Successor Agency and the City to adequately support the winding down of operations and overseeing the dissolution process in an orderly manner. Any related cost savings from these efforts will be presented as part of the 2012-2013 Proposed Operating budget.

All of the debt service and maintenance and operations costs for the Hayes Mansion Conference Center and golf courses are funded in the Community Facilities Revenue and Municipal Golf Course Funds; however, revenues in those funds are not projected to be sufficient to completely cover these costs. The transfer for the Hayes Mansion Conference Center decreased from the $5.5 million annual subsidy level in the last forecast to $4.8 million required in 2012-2013 and then increases to $6.8 million in the out years based on forecasted debt service payments for that facility. The transfer for the golf course subsidy, however, has increased from the $1.6 million annual level assumed in the February 2011 Forecast to $1.8 million in 2012-2013 based on current operational activity.

The payments for Arena repairs and capital enhancements are in compliance with the San José Arena Management Agreement Extension from 2009-2018. In 2012-2013, an additional $1.25 million is necessary to pay for the City's share of the $16.5 million of improvements at the Arena, as approved by the City Council in May 2007.

The transfer to the Vehicle Maintenance and Operations Fund ($800,000 annually) is included to fund a vehicle replacement schedule for the General Fleet as well as transfers to the Communications C&C Fund ($37,500 in 2012-2013 to $375,000 in the out years) to fund projected expenditures in that fund that is above the anticipated C&C revenue available to support capital maintenance of the City's communications and radio infrastructure.

The Transfers category also includes the final payments of the Camden Lifetime Activities Center debt service ($202,000 in 2012-2013), Fiber Optics loan repayment ($50,000 annually), and transfers to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($780,000 to $910,000 annually). An extension of the Fiber Optics loan beyond June 30, 2013 until one-time funds become available to pay off the loan is assumed in this Forecast.

The **Earmarked Reserves** category includes a Deferred Infrastructure and Maintenance Reserve of $600,000 to fund critical capital maintenance or address technology needs. These resources would be allocated as part of the 2012-2013 Proposed Budget.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2011-2012, and would be recommended for rebudget or use in 2012-2013. Some of the larger current Earmarked Reserves include the Workers' Compensation/General Liability Catastrophic

Reserve, Development Fee Program Reserves, Salary and Benefits Reserve, and Retirement Pre-Payment Reserve.

Per City Council policy, the **2012-2013 Contingency Reserve** is projected at the level necessary to comply with the City Council policy to maintain a 3% Contingency Reserve ($29.3 million). This amount would be sufficient to cover approximately one pay period of payroll costs (two ½ weeks). Amounts necessary to remain in compliance with that policy are also included in each of the remaining four years of the Forecast.

Committed Additions to the Base General Fund Forecast

In this Forecast, projected additions to the base expenditure level have been included as **Committed Additions**. Although all are subject to further review during the budget process, Committed Additions are additional expenditures to which the City is considered to be committed by prior City Council action, such as the costs related to maintaining and operating capital projects previously approved by the City Council. The Forecast Base Case, considered most likely to occur, includes ongoing program costs plus Committed Additions.

Committed Additions total $4.3 million in 2012-2013 and increase to approximately $11.0 million by 2016-2017. These Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

The approved bond measures from the elections of November 2000 and March 2002 will result in new and expanded library (Measure O), park (Measure P), and police and fire (Measure O) facilities and will require significant additional Maintenance and Operations funding ($4.2 million in 2012-2013 and increasing to approximately $10.0 million in 2016-2017). Some of the new facilities anticipated to be open during this forecast period include: Bascom Branch Library, Calabazas Branch Library, Educational Park Branch Library, Seven Trees Branch Library, Southeast Branch Library, Softball Complex, Soccer Complex, Bascom Community Center, Fire Station 37 (South Willow Glen), and the South San José Police Substation.

Also included in the **Committed Additions** are maintenance and operations costs associated with non-bond projects such as new parks and recreation facilities, new traffic infrastructure, and the Police Department's new Automated Field Reporting/Records Management System. Costs included in the Forecast range from $98,000 in 2012-2013 and increases to $1,024,000 by 2016-2017.

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

Budget Principle #8 states that Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 without City Council certification that funding will be made available in the applicable year of the cost impact. Consistent with that direction, this Forecast includes a detailed list and discussion of capital projects that were previously certified by the City Council with annual operating and maintenance costs in the

EXPENDITURE FORECAST

General Fund greater than $100,000. Capital funding for these projects have been included as part of approved Capital Improvement Programs or approved by City Council in 2011-2012. The majority of these costs are associated with the voter-approved General Obligation bonds for Park, Library, and Public Safety facilities. The operating and maintenance costs for these facilities are included in the figures presented in this Forecast. There are no new projects identified in the Forecast that would need certification.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The Base Case with Committed Additions General Fund Forecast projects a surplus in the first year (2012-2013) of $10.0 million. However, budget shortfalls are projected in the following two years of the Forecast totaling $23.7 million. Over the five-year period, a surplus of $15.9 million is anticipated, with a $10.7 million surplus in the final year. Base Case expenditures, including committed additions, increase from $797.4 million in 2012-2013 to $889.1 million in 2016-2017, for an average growth rate each year of approximately 2.8%. This rate of expenditure growth falls slightly below the average increase in General Fund sources (including Beginning Fund Balance) of 2.9%. The sources of revenue total $807.3 million in 2012-2013, and grow to $905.0 million in 2016-2017.

The following table shows how the projected surpluses and deficits have changed in the most recent forecasts. It is assumed that each preceding surplus or deficit is addressed completely with ongoing solutions in the year it appears. Each year of the February 2012 Forecast is compared to the comparable year in the February 2011 Forecast. This chart also includes the one year projections for 2012-2013 provided after the adoption of the 2011-2012 Budget, in the 2012-2013 Preliminary Forecast issued in November 2011, as well as in the Forecast update provided in December 2011.

2013-2017 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
February 2011 Incremental Surplus/(Shortfall)	**($43.08)**	**($25.12)**	**($10.03)**	**($0.11)**	**N/A**
June 2011 Incremental Surplus/(Shortfall)	($34.88)	N/A	N/A	N/A	N/A
Revised Forecast	**($77.96)**	**($25.12)**	**($10.03)**	**($0.11)**	**N/A**
November 2011 Incremental Surplus/(Shortfall)	**($80.48)**	**N/A**	**N/A**	**N/A**	**N/A**
December 2011 Incremental Surplus/(Shortfall)	**($25.00)**	**N/A**	**N/A**	**N/A**	**N/A**
February 2012 Incremental Surplus/(Shortfall)	**$9.97**	**($22.45)**	**($1.29)**	**$19.04**	**$10.65**

Note: Does not assume cost-of-living salary increases; additional impacts from changes in actuarial assumptions and methodologies that may be approved by the Retirement Boards in future years that could change the City's required contributions or, conversely, that reduce the City's required contributions as a result of pension reform efforts that are currently underway; unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

In the February 2011 Forecast, an incremental shortfall of $43.1 million for 2012-2013 was projected. This figure was based on the assumption that the entire 2011-2012 shortfall would be solved with ongoing actions. Although the 2011-2012 Adopted Budget was balanced with 70% in ongoing solutions, 30% of the shortfall was solved with one-time solutions and carried forward to the next year. The carryover impact of those one-time measures (-$34.9 million) is reflected in the June 2011 incremental shortfall line item resulting in a revised forecast of $78.0 million.

In November 2011, staff prepared a 2012-2013 Preliminary General Fund Forecast incorporating the final 2010-2011 actual performance and the first three months of activity in 2011-2012. In that Preliminary Forecast, the General Fund deficit for 2012-2013 increased slightly to $80.5 million. This increase in the projected deficit was the net result of a number of upward and downward adjustments to the City's many General Fund revenue and expenditure categories. For complete details of the 2012-2013 Preliminary General Fund Forecast, please refer to the memorandum issued on November 4, 2011 (available on-line at http://www.sanjoseca.gov/budget/FY1213/2012-2013PrelimGFForecast.pdf). In December 2011, the 2012-2013 projected shortfall figure was revised downwards to $25.0 million to reflect lower projected Police and Fire pension contributions based on updated information provided by Cheiron, the actuary for the Police and Fire Retirement Board.

For the February 2012 General Fund Forecast, staff completed an in-depth review of anticipated revenues and expenditures for 2012-2013 and the remaining four years of the forecast period. The 2012-2013 projected surplus of $10.0 million reflects an improvement from the $25 million budget shortfall projected in December 2011. The improvement in this Forecast in 2012-2013 reflects the following: 1) a reduced impact from the dissolution of the San Jose Redevelopment Agency ($10.6 million); 2) improved revenue projections ($7.5 million); 3) a reduction in estimated retirement costs, primarily retiree healthcare-related ($7.0 million); 4) a reduction in estimated sick leave payments upon retirement, health care, and workers' compensation costs (7.0 million); and 5) and other miscellaneous changes ($2.9 million). The improved revenue projections and the lower costs for sick leave payments upon retirement, health care, and workers' compensation costs were discussed as part of the 2011-2012 Mid-Year Budget Review.

In the out-years of the Forecast, General Fund shortfalls and surpluses range from -$22.5 million to $19.0 million annually. These surplus and shortfall amounts are very small when put into context of the size of the projected General Fund budget, ranging from -1.3% of the budget to 1.1% of the projected annual budget (revenues and expenditures). For the first time in recent history, over the five-year period, an overall General Fund surplus of $15.9 million is projected, with an average surplus of approximately $3.2 million annually (0.2% of the annual budget).

The second year of the Forecast (2013-2014) projects a General Fund deficit of $22.5 million. Revenues are anticipated to grow by an additional $21.4 million though this growth rate is dampened as a result of the loss of a few one-time revenue sources in 2012-2013 including the sunset of the SAFER Grant (-$7.5 million), the elimination of the transfer from the FMC Bond Fund related to the close-out of this project (-$1.7 million) and a reduction in the Construction

OPERATING MARGIN

Excise Tax Fund transfer (-$1.0 million). Ultimately, by the final year of this forecast, revenues are projected to increase to levels seen prior to the recent recession.

The expenditure growth of $43.9 million in 2013-2014 outpaces the anticipated revenue growth of $21.4 million. This overall expenditure growth is primarily driven by higher retirement costs ($29.5 million) as well as higher health and other fringe benefit costs ($4.4 million), and salaries and other compensation costs ($1.2 million). City-wide expenditure categories (City-Wide Expenses, Capital Projects, Transfers, and Reserves) are expected to increase by $5.2 million and additional costs for facilities scheduled to come on-line in 2012-2013 are also expected to total $2.5 million. The variances in the three out years vary with a deficit of $1.3 million in 2014-2015, surplus of $19.0 million in 2015-2016 and a surplus of $10.7 million in 2016-2017.

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Five-Year Economic Forecast and Revenue Projections

2013-2017

Section 2

Base General Fund Forecast

BASE CASE

February 2012 Forecast REVENUE SUMMARY	MODIFIED BUDGET 2011-2012	FORECAST 2013	2014	2015	2016	2017
PROPERTY TAX	200,095,000	204,720,000	214,424,000	224,930,000	235,412,000	245,111,000
		2.31%	4.74%	4.90%	4.66%	4.12%
SALES TAX	150,450,000	151,705,000	159,214,000	165,551,000	172,223,000	178,630,000
		0.83%	4.95%	3.98%	4.03%	3.72%
TRANSIENT OCCUPANCY TAX	8,300,000	8,715,000	9,151,000	9,517,000	9,802,000	10,096,000
		5.00%	5.00%	4.00%	2.99%	3.00%
FRANCHISE FEES	42,625,000	44,740,000	45,760,000	47,160,000	48,797,000	50,651,000
		4.96%	2.28%	3.06%	3.47%	3.80%
UTILITY TAX	90,245,000	91,855,000	94,363,000	97,646,000	101,357,000	105,381,000
		1.78%	2.73%	3.48%	3.80%	3.97%
TELEPHONE TAX	20,525,000	20,525,000	20,628,000	20,731,000	20,834,000	20,939,000
		0.00%	0.50%	0.50%	0.50%	0.50%
BUSINESS TAX	40,174,000	40,450,000	40,612,000	40,762,000	40,909,000	41,052,000
		0.69%	0.40%	0.37%	0.36%	0.35%
LICENSES AND PERMITS	35,287,770	36,622,000	39,112,000	40,247,000	40,810,000	41,545,000
		3.78%	6.80%	2.90%	1.40%	1.80%
DEPARTMENTAL CHARGES	29,970,872	29,290,000	31,282,000	32,189,000	32,639,000	33,227,000
		(2.27%)	6.80%	2.90%	1.40%	1.80%
FINES, FORFEITURES & PENALTIES	16,971,000	16,709,000	16,962,000	17,175,000	17,389,000	17,607,000
		(1.54%)	1.51%	1.26%	1.25%	1.25%
MONEY & PROPERTY	2,474,000	2,733,000	2,713,000	2,827,000	2,940,000	3,058,000
		10.47%	(0.73%)	4.20%	4.00%	4.01%
REVENUE FROM LOCAL AGENCIES	17,479,415	11,360,000	11,768,000	12,154,000	12,438,000	12,734,000
		(35.01%)	3.59%	3.28%	2.34%	2.38%
REVENUE FROM THE STATE OF CALIFORNIA	14,514,319	9,751,000	9,716,000	9,716,000	9,716,000	9,716,000
		(32.82%)	(0.36%)	0.00%	0.00%	0.00%
FEDERAL REVENUE	24,378,072	10,266,000	2,930,000	36,000	37,000	37,000
		(57.89%)	(71.46%)	(98.77%)	2.78%	0.00%
OTHER REVENUE	116,147,022	14,609,000	14,877,000	15,107,000	15,311,000	15,531,000
		(87.42%)	1.83%	1.55%	1.35%	1.44%
GAS TAX	15,667,000	15,300,000	15,147,000	14,996,000	14,982,000	14,967,000
		(2.34%)	(1.00%)	(1.00%)	(0.09%)	(0.10%)
TOTAL GENERAL REVENUES	825,303,470	709,350,000	728,659,000	750,744,000	775,596,000	800,282,000
		(14.05%)	2.72%	3.03%	3.31%	3.18%

BASE CASE

February 2012 Forecast REVENUE SUMMARY	MODIFIED BUDGET 2011-2012	FORECAST 2013	2014	2015	2016	2017
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	31,823,543	32,908,000	35,146,000	36,165,000	36,672,000	37,332,000
TRANSFERS	23,555,867	17,049,000	16,405,000	16,739,000	16,814,000	16,955,000
REIMBURSEMENTS FOR SERVICES	846,452	662,000	707,000	727,000	737,000	751,000
TOTAL TRANSFERS & REIMBURSEMENTS	56,225,862	50,619,000	52,258,000	53,631,000	54,223,000	55,038,000
		(9.97%)	3.24%	2.63%	1.10%	1.50%
TOTAL GENERAL FUND REVENUES	881,529,332	759,969,000	780,917,000	804,375,000	829,819,000	855,320,000
		(13.79%)	2.76%	3.00%	3.16%	3.07%
BEGINNING FUND BALANCE	137,536,794	47,362,000	47,829,000	48,609,000	49,225,000	49,670,000
GRAND TOTAL SOURCES	1,019,066,126	807,331,000	828,746,000	852,984,000	879,044,000	904,990,000
		(20.78%)	2.65%	2.92%	3.06%	2.95%

BASE CASE

February 2012 Forecast
EXPENDITURE SUMMARY

	MODIFIED BUDGET 2011-2012	FORECAST 2013	2014	2015	2016	2017
PERSONAL SERVICES						
Salaries and Other Compensation	349,630,761	349,950,000	351,187,000	352,430,000	353,678,000	354,931,000
Retirement	192,789,713	185,609,000	215,081,000	230,279,000	230,593,000	233,920,000
Health and Other Fringe Benefits	56,916,636	48,664,000	53,107,000	57,956,000	63,248,000	69,023,000
TOTAL PERSONAL SERVICES	599,337,110	584,223,000	619,375,000	640,665,000	647,519,000	657,874,000
		(2.52%)	6.02%	3.44%	1.07%	1.60%
TOTAL NON-PERSONAL/EQUIPMENT	83,727,100	79,055,000	80,047,000	81,286,000	82,044,000	84,039,000
		(5.58%)	1.25%	1.55%	0.93%	2.43%
CITY-WIDE						
CITY-WIDE EXPENSES	201,493,789	57,252,000	58,667,000	61,580,000	66,638,000	68,224,000
CAPITAL PROJECTS	11,295,937	7,500,000	7,970,000	7,968,000	7,963,000	7,966,000
TRANSFERS	30,210,250	35,089,000	38,424,000	35,677,000	29,176,000	29,904,000
EARMARKED RESERVES	63,692,940	600,000	600,000	600,000	600,000	750,000
CONTINGENCY RESERVE	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000
TOTAL CITY-WIDE	336,001,916	129,750,000	134,970,000	135,134,000	133,686,000	136,153,000
		(61.38%)	4.02%	0.12%	(1.07%)	1.85%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,019,066,126	793,028,000	834,392,000	857,085,000	863,249,000	878,066,000
		(22.18%)	5.22%	2.72%	0.72%	1.72%

OPERATING MARGIN

BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	MODIFIED BUDGET 2011-2012	FORECAST 2013	2014	2015	2016	2017
GRAND TOTAL REVENUE	1,019,066,126	807,331,000	828,746,000	852,984,000	879,044,000	904,990,000
GROWTH RATE		(20.78%)	2.65%	2.92%	3.06%	2.95%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,019,066,126	793,028,000	834,392,000	857,085,000	863,249,000	878,066,000
GROWTH RATE		(22.18%)	5.22%	2.72%	0.72%	1.72%
OPERATING MARGIN CHANGE *From Prior Year*		14,303,000	(19,949,000)	1,545,000	19,896,000	11,129,000

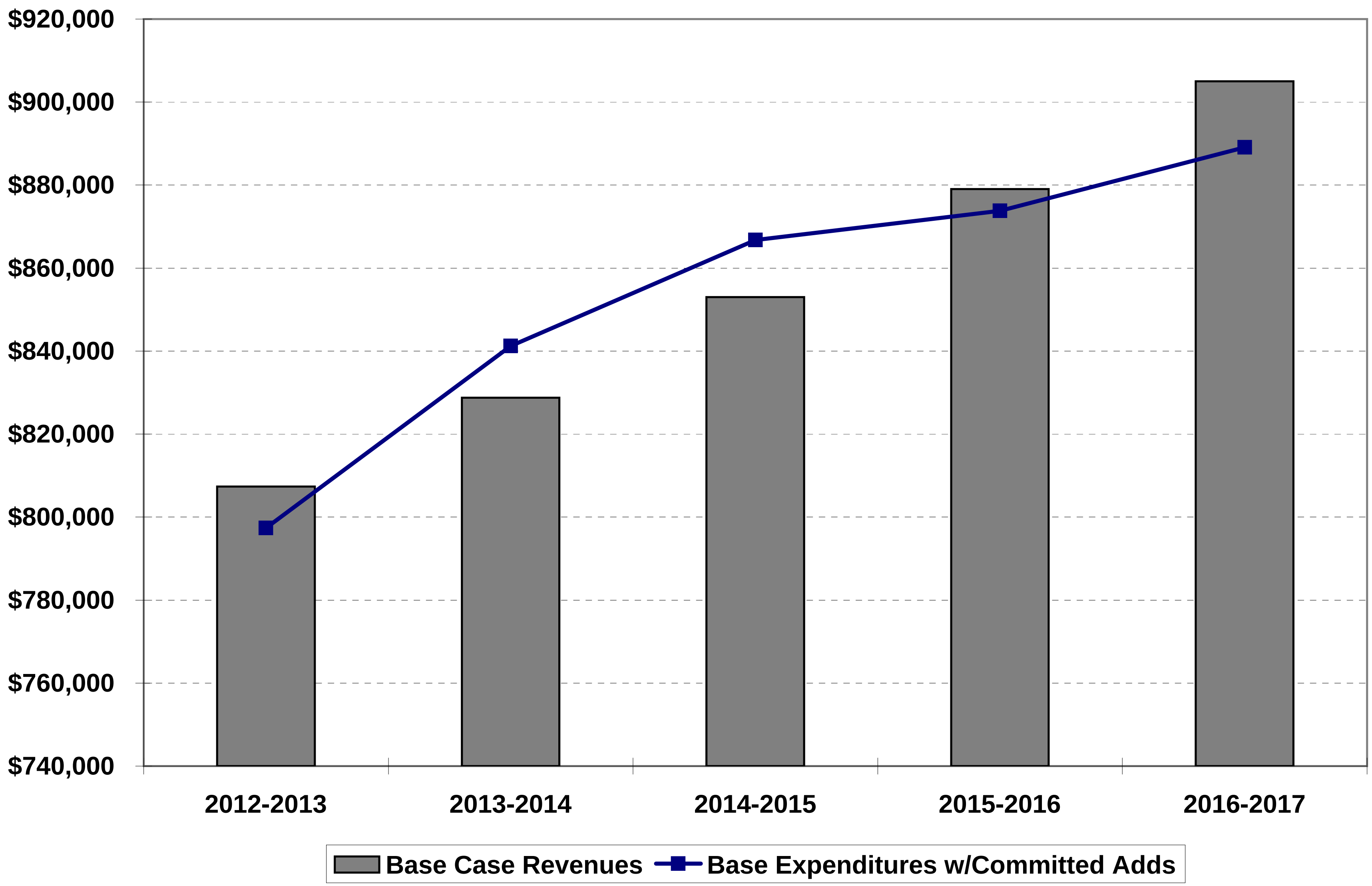
BASE CASE

February 2012 Forecast EXPENDITURE SUMMARY	MODIFIED BUDGET 2011-2012	FORECAST 2013	2014	2015	2016	2017
COMMITTED ADDITIONS:						
New Parks and Recreation Facilities Maintenance and Operations		49,000	131,000	234,000	294,000	521,000
New Traffic Infrastructure Assets Maintenance and Operations		49,000	82,000	107,000	124,000	127,000
Police Automated Field Reporting/Records Management System			335,000	438,000	461,000	376,000
Measure O (Library) Maintenance and Operations		1,185,000	3,106,000	3,160,000	3,851,000	3,962,000
Measure P (Parks) Maintenance and Operations		653,000	712,000	720,000	774,000	810,000
Measure O (Public Safety) Maintenance and Operations: Fire				2,503,000	2,474,000	2,618,000
Measure O (Public Safety) Maintenance and Operations: Police		2,393,000	2,465,000	2,504,000	2,545,000	2,585,000
TOTAL COMMITTED ADDITIONS	0	4,329,000	6,831,000	9,666,000	10,523,000	10,999,000
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,019,066,126	797,357,000	841,223,000	866,751,000	873,772,000	889,065,000
		(21.76%)	5.50%	3.03%	0.81%	1.75%

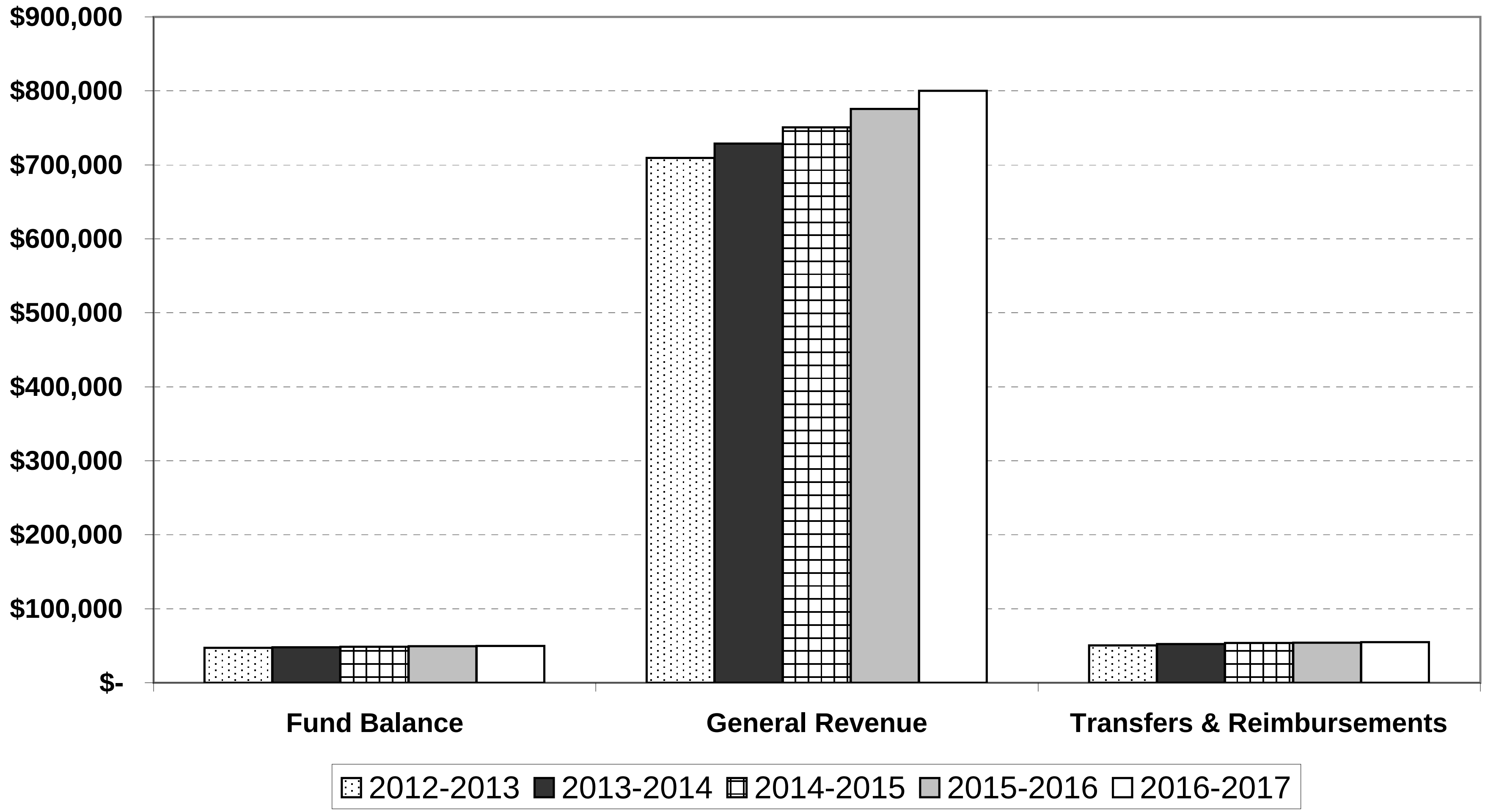
OPERATING MARGIN

BASE EXPENDITURES (w / COMMITTED ADDITIONS)	MODIFIED BUDGET 2011-2012	FORECAST 2013	2014	2015	2016	2017
GRAND TOTAL REVENUE	1,019,066,126	807,331,000	828,746,000	852,984,000	879,044,000	904,990,000
GROWTH RATE		(20.78%)	2.65%	2.92%	3.06%	2.95%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,019,066,126	797,357,000	841,223,000	866,751,000	873,772,000	889,065,000
GROWTH RATE		(21.76%)	5.50%	3.03%	0.81%	1.75%
ONGOING OPERATING MARGIN CHANGE *From Prior Year*		9,974,000	(22,451,000)	(1,290,000)	19,039,000	10,653,000

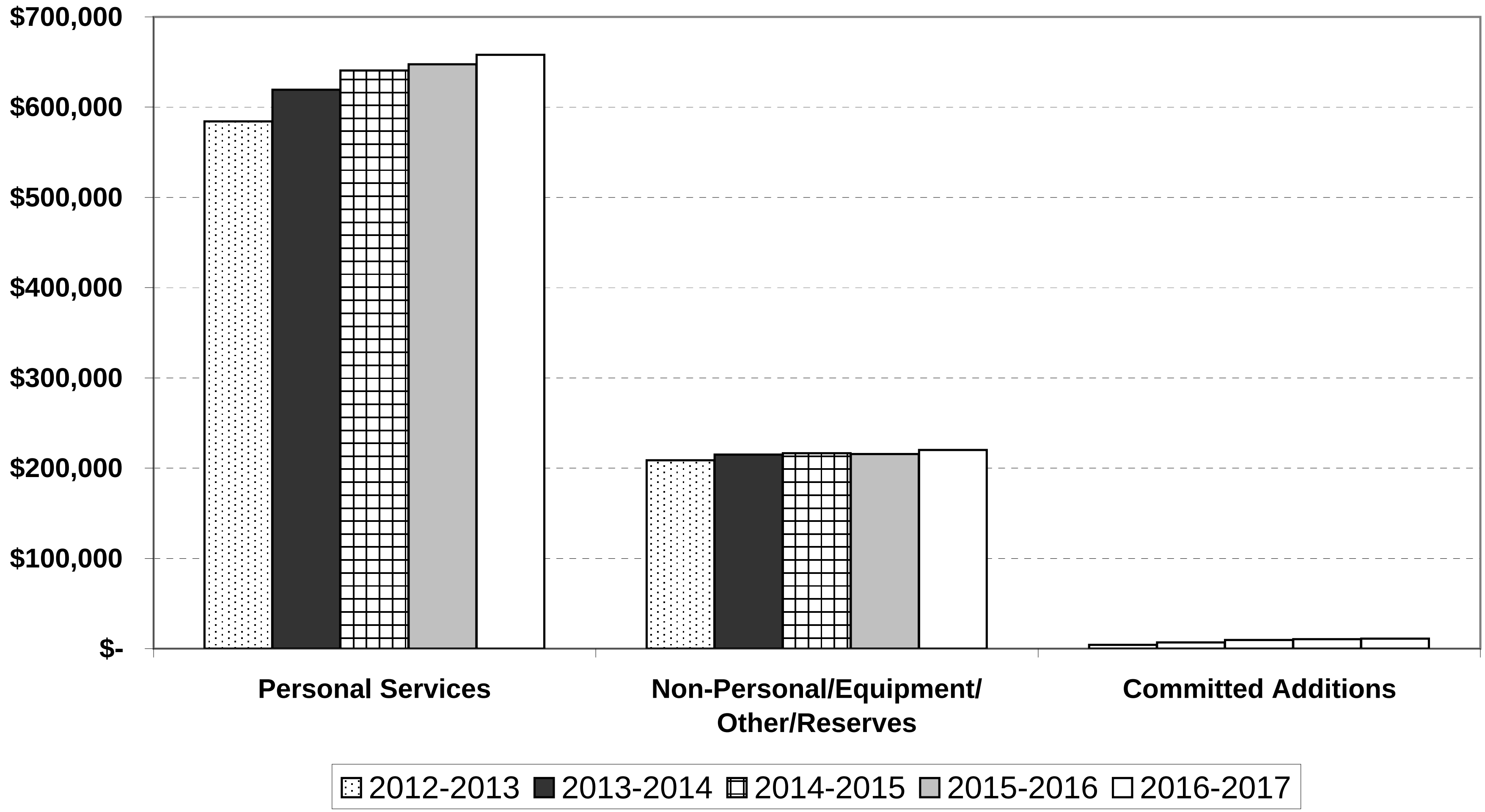
2013-2017 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)



2013-2017 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)



2013-2017 General Fund Forecast
FIVE-YEAR USE OF FUNDS COMPARISON
($ in thousands)



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Five-Year Economic Forecast and Revenue Projections

2013-2017

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

Committed Additions involve expense changes for projects that have been previously approved by the City Council and deemed relatively unavoidable. The majority of items included in this category are additional maintenance and operating expenses that will be required to operate and maintain approved capital projects scheduled for completion or to open within the five-year horizon of this forecast. These expenses are related to the maintenance and operations of the Police Automated Field Reporting/Records Management System, as well as for new parks and recreational facilities, traffic infrastructure assets, and bond-funded library, parks and public safety facilities. It should be noted that the projected costs included in this category have been submitted by the various departments involved, but have not yet been fully analyzed by the Budget Office. It can be anticipated that refinements of these estimates will be performed prior to bringing them forward for consideration by the City Council in any given year.

A summary of capital projects included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council's adoption of Budget Principle #8 during the 2008-2009 budget process, a **General Fund Capital Operating and Maintenance/Budget Principle #8** discussion is included in this section. Capital projects with maintenance and operating costs over $100,000 and previously certified and included in the approved Capital Improvement Program or approved by the City Council in 2011-2012 are identified in Chart A of this section. There are no potential projects where maintenance and operating funding has not yet been certified. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast that have not been previously approved by the City Council may be recommended for certification as part of the 2013-2017 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

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

Committed Additions To The Base General Fund Forecast

Committed Additions

Police Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of the new Automated Field Reporting/Records Management System (AFR/RMS) project. Implementation of the AFR/RMS project (including hardware, software, and training costs) has been funded mainly by Urban Area Security Initiatives (UASI), Recovery Act - Justice Assistance, and Supplemental Law Enforcement Services Fund grants. The new system, anticipated to come on-line July 2012, will centralize data, reduce data entry redundancies and enable the Police Department to conduct more thorough and detailed analysis of crime and resources.

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
0	335,000	438,000	461,000	376,000

New Parks and Recreation Facilities Maintenance and Operations – This category reflects the projected additional costs of maintaining and operating new and expanded parks and recreation facilities included in the City's Five-Year Capital Improvement Program. The majority of the funding is to support various trails such as the Lower Guadalupe River Trail or sections of the Lower Silver Creek Trail and Three Creeks Trail, and the Vietnamese Heritage Gardens project. Funding is also set aside for Future Trail Projects to meet the City's goal to expand the City's trail system to 100 miles by the year 2020. The City currently has over 50 miles of trails.

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
49,000	131,000	234,000	294,000	521,000

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the projected additional costs that will be necessary to operate and maintain projects included in the City's Five-Year Capital Improvement Program. Funding to operate and maintain new traffic signals, landscaping, and street lighting is assumed in this category. The majority of the projected costs are for traffic signals and lighting and these costs are largely associated with the improvements along Capitol Expressway and includes the installation of 260 streetlights from Capitol Avenue to Eastridge Transit Center. In future years of the forecast, the funding assumed in this category will also support the installation of structural gateway controls (which aid in remotely programming LED streetlights) and audible pedestrian signals throughout the City, as well as other streetlight and signal needs associated with distinct capital projects. Funding to maintain the new Traffic Incident Management Center (located at Fourth and St. John), currently scheduled to be operational in January 2013, is assumed. Lastly, funding is assumed for the maintenance of new landscape improvements, such as trees on Capitol Expressway and along the route connecting San José State University, City Hall, and Japantown through the Hensley Historic District.

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
49,000	82,000	107,000	124,000	127,000

Committed Additions To The Base General Fund Forecast

Committed Additions

Measure O (Library) Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of new and expanded branch libraries that were approved by voters in November 2000. These additional expenditures include the costs of a staggered opening of the Bascom (Jan. 2013), Calabazas (May 2013), Educational Park (April 2013), and Seven Trees (Dec. 2012) branch libraries in 2012-2013 and Southeast (Aug. 2015) Branch Library in 2015-2016. Costs have been greatly reduced compared to the last Forecast primarily due to employee savings associated with total compensation reductions, a revised opening schedule for the branch libraries operating next year, and a reduction in the number of positions needed for the new branch libraries. The estimated staffing needed for each new branch library was reduced from an average of 11 positions per branch for all five branches to an average of 9 positions per branch, based on a review of actual staffing requirements at existing branch libraries.

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
1,185,000	3,106,000	3,160,000	3,851,000	3,962,000

Measure P (Parks) Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of new and expanded parks and community facilities that were included as part of a bond measure approved by the voters in November 2000. This Forecast assumes the opening of the Bascom Community Center in 2012-2013 with a projected net operating expenditure of $653,000. The maintenance and operations expenditures currently anticipated for the community center totals $840,000, which consists of 9.5 positions and associated non-personal/equipment costs. This cost is partially offset by earned revenue of $187,000 for anticipated fee based activity at the community center. For the Soccer Complex also assumed in this Forecast, the maintenance and operating costs ($368,000 beginning in 2013-2014) are expected to be fully offset by revenues from fee activity and concessions. Construction bids for this project have been received and it is anticipated the bid/award memorandum will be brought forward for City Council consideration in late March 2012. For the Softball Complex project, the Parks, Recreation and Neighborhood Services Department is reviewing the scope of the project and is evaluating alternative locations. It is currently anticipated a recommended site location will be brought forward for City Council consideration in late summer/early fall 2012. The complex will most likely include artificial turf, which results in the fields having a significantly lower maintenance and operations cost than the much larger natural turf complex that was originally envisioned. Revenues are expected to partially offset the maintenance and operations costs for the Softball Complex and the net impact is expected to be $45,000 in 2015-2016 and annualized to $72,000 in 2016-2017.

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
653,000	712,000	720,000	774,000	810,000

Committed Additions

Measure O (Public Safety) Maintenance and Operations: Fire – This category reflects the projected additional maintenance and operations (including Fire personnel) costs of new and expanded fire facilities that were included as part of a bond measure adopted by the voters in March 2002. These include operating Fire Station 37 (South Willow Glen) in 2014-2015 at a presumed annual cost of slightly under $2.5 million and Fire Station 21 (relocation to White Road) in 2014-2015 at a cost of $23,000. As discussed later in this section of the report, Fire Station 37 includes the addition of 14 sworn positions and with no new appartus redeployment. However, prior to the award of the construction contract, per City Council direction, further analysis will be conducted by the Administration to determine the actual recommended staffing needed for this station.

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
0	0	2,503,000	2,474,000	2,618,000

Measure O (Public Safety) Maintenance and Operations: Police – This category reflects the projected additional maintenance and operations costs of new and expanded police facilities that were included as part of a bond measure adopted by the voters in March 2002. Included is the projected cost for the South San José Substation. For 2012-2013, the Forecast assumes the Substation opening in September 2012 (partial occupancy) at a cost of approximately $2.4 million that annualizes to approximately $2.5 million in 2013-2014. The Maintenance and Operations funding for the Substation will be used to fund various positions and non-personal/equipment needs in several departments to support the new facility. In the Police Department, funding will cover Central Supply Unit positions that distribute safety equipment to field patrol personnel and intake and catalog evidence collected by the patrol staff. In the Public Works Department, funding will pay for general maintenance and repairs to the building, including a dedicated Air Conditioning Mechanic to handle maintenance of the large heating, ventilation, and air conditioning system at the building; contracted custodial services; and fleet mechanic personnel and equipment to maintain the marked fleet for the Southern Patrol Division. In the Parks, Recreation and Neighborhood Services Department, funding will be used for personnel and equipment to maintain and upkeep the building's green roof as well as the grounds surrounding the Substation. With the partial occupancy, the Southern Patrol Division, Central Supply staff, and a few investigations staff would occupy the new facility, however, there would not be a Pre-Processing Center, no public access to the building, and no records or administrative staff.

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
2,393,000	2,465,000	2,504,000	2,545,000	2,585,000

General Fund Capital Operating and Maintenance/Budget Principle #8

In March 2008, the City Council adopted the Budget Principles as part of the approval of the Mayor's 2008-2009 March Budget Message. Budget Principle #8 pertains to Capital

General Fund Capital Operating and Maintenance/Budget Principle #8

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

On February 9, 2010, the City Council approved to place a hold on the design and construction of 12 new parks and recreation facilities (including trails) in order to avoid the impact of ongoing operating and maintenance costs to the General Fund. Staff was instructed to reevaluate these projects annually during the budget process. On November 16, 2010, the City Council adopted Resolution No. 75638 which provides various mechanisms for proceeding with development of new parks and recreation facilities while minimizing the maintenance and operating impacts to the General Fund. This Resolution provided guidance for a pilot program that expires in December 2012 which authorizes the City Manager to move forward with the construction of new recreational facilities if non-General Fund funding is identified to provide for a three year park establishment period and/or for long-term maintenance of the new recreational facility.

On June 14, 2011, the City Council adopted a resolution to amend and restate the resolution and pilot program approved by the City Council on November 16, 2010. This change removed any reference to "trail" from the resolution as well as allowed more residential development projects to take advantage of the pilot program by receiving credit against related parkland fees in exchange for providing long-term maintenance of the new park or recreational facility. As new parks and recreation facilities are allowed to proceed based on this revised resolution, no additional operating and maintenance costs to the General Fund are expected to be generated for at least 10 years after a project is completed. Subsequent to these resolutions, three parks previously placed on hold are now proceeding with development – Buena Vista, Commodore and Newhall Parks. There are approximately 10 to 15 additional parks that are in the development phase that are anticipated to come online in the next three to seven years, assuming maintenance funding can be identified.

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for all those projects have been included as part of approved Capital Improvement Programs or approved by the City Council in 2011-2012. There are no new projects identified in the Forecast that would need certification in accordance with Budget Principle #8. All capital projects that were previously approved for certification by the City Council with annual maintenance and operating costs in the General Fund greater than $100,000 have been denoted in the chart with an asterisk. The majority of these costs are associated with the voter-approved General Obligation bonds for Park, Library, and Public Safety facilities. The maintenance and operating costs for these facilities are included in the figures presented in this General Fund Forecast. By 2016-2017, the annualized costs to maintain and operate all City Council approved projects expected to come online during the five year period are projected at approximately $11.0 million annually, of which approximately $10.0 million are related to voter-approved bond measures.

General Fund Capital Operating and Maintenance/Budget Principle #8

All project maintenance and operating costs will be evaluated on an annual basis for inclusion in subsequent Five-Year General Fund Forecasts. As part of this evaluation, the staffing necessary to maintain and operate these facilities, as well as other costs, may change as further analysis on the operational needs of each facility or project are conducted. Notably, further analysis will be required to determine the actual staffing need of Fire Station 37. For purposes of this document, however, pending further analysis, the maintenance and operating costs for Fire Station 37 – Willow Glen reflects the City Council-directed assumption that no staff would be relocated from Fire Station 6 and that new personnel (four additional duty positions per shift plus reserve staffing or 14 positions) would staff that facility. This assumption is drawn from the *"City-Wide Policy for the Relocation/Closure and/or Selling Fire Stations and Removal of Fire Station 6 from the Budget,"* approved by the City Council on September 9, 2008. The additional annual General Fund maintenance and operating costs projected for this facility alone, if this policy were to be implemented, represents approximately $2.5 million in 2014-2015, the first full year of the fire station's operation. In addition, it is currently assumed an unstaffed apparatus from a deactivated company will be reallocated to Station 37 and this newly staffed station will be part of the Dynamic Deployment model implemented by the Fire Department for efficient and effective resource allocations. Pending the outcome of the staffing and apparatus analysis, funding for a new apparatus may be required at a later date. Note also that the personal services costs do not include funding for an additional Fire Fighter Recruit Academy. It is anticipated that there will be a low number of retirements in the near future; therefore, the Fire Department is expected to be able to recruit for new personnel at Fire Station 37 as part of the regular recruitment process.

Maintenance and operating costs will present challenges to the General Fund in future years until the General Fund Structural Deficit is resolved. A careful evaluation of the project schedules and/or staffing necessary to maintain and operate these facilities will be performed prior to bringing them forward for consideration by the City Council in any given year.

CHART A - 2013-2017 GENERAL FUND FORECAST
Net Operating Impact of Capital Programs

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
POLICE MAINTENANCE AND OPERATIONS					
Automated Field Reporting/Records Management System*	-	335,000	438,000	461,000	376,000
TOTAL POLICE MAINTENANCE AND OPERATIONS	**0**	**335,000**	**438,000**	**461,000**	**376,000**
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Cadence Turnkey Park (Land)	-	-	-	3,000	5,000
Future Trails Projects*	-	-	32,000	85,000	139,000
TRAIL: Coyote Creek (Highway 237 Bikeway to Tasman)	-	16,000	17,000	17,000	17,000
TRAIL: Highway 237 Bikeway (Zanker Rd to Coyote Creek)	12,000	12,000	12,000	12,000	12,000
TRAIL: Lower Guadalupe River Trail (Gold St to Hwy 880)	19,000	58,000	59,000	60,000	60,000
TRAIL: Lower Silver Creek 4/5A (Alum Rock to Hwy 680)	-	14,000	15,000	16,000	16,000
TRAIL: Lower Silver Creek VI (Dobern Bridge to Foxdale)	2,000	5,000	5,000	5,000	5,000
TRAIL: Penitencia Creek Reach IB (Noble Ave to Dorel Dr)	3,000	13,000	13,000	14,000	14,000
TRAIL: Three Creeks - East	-	-	67,000	68,000	70,000
TRAIL: Three Creeks - West	13,000	13,000	14,000	14,000	14,000
Vietnamese Heritage Garden*					169,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	**49,000**	**131,000**	**234,000**	**294,000**	**521,000**
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Traffic Lighting and Signals	27,000	44,000	69,000	85,000	87,000
Traffic Incident Management Center	8,000	17,000	17,000	18,000	19,000
Landscape Maintenance	14,000	21,000	21,000	21,000	21,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	**49,000**	**82,000**	**107,000**	**124,000**	**127,000**
MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS					
Bascom Branch*	432,000	943,000	956,000	989,000	1,001,000
Calabazas Branch*	90,000	543,000	550,000	557,000	565,000
Educational Park Branch*	158,000	688,000	709,000	718,000	728,000
Seven Trees Branch*	505,000	932,000	945,000	957,000	970,000
Southeast Branch*	-	-	-	630,000	698,000
TOTAL MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS	**1,185,000**	**3,106,000**	**3,160,000**	**3,851,000**	**3,962,000**
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Bascom Community Center*	653,000	712,000	720,000	729,000	738,000
Softball Complex*	-	-	-	45,000	72,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	**653,000**	**712,000**	**720,000**	**774,000**	**810,000**
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE					
Fire Station 21 - Maintenance and Utilities	-	-	23,000	23,000	23,000
Fire Station 37 - South Willow Glen - Staffing/NP*	-	-	2,436,000	2,406,000	2,549,000
Fire Station 37 - South Willow Glen - Maint/Util*	-	-	44,000	45,000	46,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE	**0**	**0**	**2,503,000**	**2,474,000**	**2,618,000**
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: POLICE					
South San José Substation - Maint/Oper*	1,782,000	1,930,000	1,963,000	1,997,000	2,031,000
South San José Substation - Fleet*	475,000	398,000	402,000	407,000	411,000
South San José Substation - Parks Maintenance*	136,000	137,000	139,000	141,000	143,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: POLICE	**2,393,000**	**2,465,000**	**2,504,000**	**2,545,000**	**2,585,000**
TOTAL OPERATING IMPACT OF CAPITAL PROGRAMS	**4,329,000**	**6,831,000**	**9,666,000**	**10,523,000**	**10,999,000**

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

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Five-Year Economic Forecast
and
Revenue Projections

2013-2017

Section 4

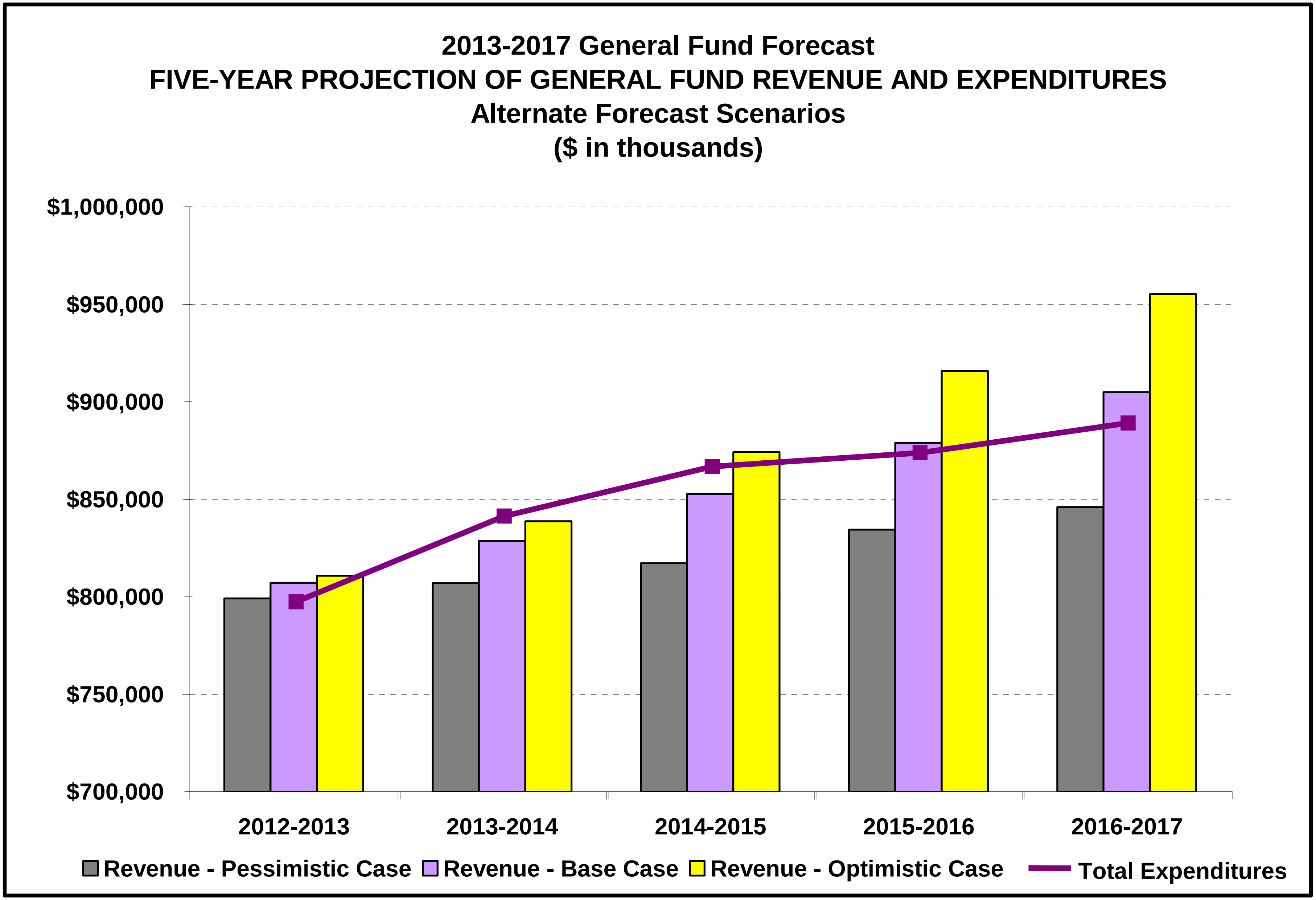
Alternate Forecast Scenarios

2013-2017 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

BASE CASE	2013	2014	2015	2016	2017
TOTAL REVENUES ($)	807,331,000	828,746,000	852,984,000	879,044,000	904,990,000
GROWTH RATE		2.65%	2.92%	3.06%	2.95%
TOTAL EXPENDITURES ($)	797,357,000	841,223,000	866,751,000	873,772,000	889,065,000
GROWTH RATE		5.50%	3.03%	0.81%	1.75%
OPERATING MARGIN - BASE	**9,974,000**	**(22,451,000)**	**(1,290,000)**	**19,039,000**	**10,653,000**

OPTIMISTIC CASE	2013	2014	2015	2016	2017
TOTAL REVENUES ($)	810,833,000	838,883,000	874,364,000	915,901,000	955,313,000
GROWTH RATE		3.46%	4.23%	4.75%	4.30%
TOTAL EXPENDITURES ($)	797,357,000	841,223,000	866,751,000	873,772,000	889,065,000
GROWTH RATE		5.50%	3.03%	0.81%	1.75%
OPERATING MARGIN - OPTIMISTIC	**13,476,000**	**(15,816,000)**	**9,953,000**	**34,516,000**	**24,119,000**

PESSIMISTIC CASE	2013	2014	2015	2016	2017
TOTAL REVENUES ($)	799,269,000	807,160,000	817,349,000	834,554,000	846,115,000
GROWTH RATE		0.99%	1.26%	2.10%	1.39%
TOTAL EXPENDITURES ($)	797,357,000	841,223,000	866,751,000	873,772,000	889,065,000
GROWTH RATE		5.50%	3.03%	0.81%	1.75%
OPERATING MARGIN - PESSIMISTIC	**1,912,000**	**(35,975,000)**	**(15,339,000)**	**10,184,000**	**(3,732,000)**


2013-2017 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
($ in thousands)
$1,000,000
$950,000
$900,000
$850,000
$800,000
$750,000
$700,000
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017
Revenue - Pessimistic Case
Revenue - Base Case
Revenue - Optimistic Case
Total Expenditures

Five-Year Economic Forecast and Revenue Projections

2013-2017

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

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

Construction-related Capital Program revenues are anticipated to increase significantly from the estimates provided in the 2012-2016 Adopted Capital Improvement Program (CIP) reflecting improvements in the current economic environment. There is a large projected increase of 23% over the 2012-2016 Adopted CIP, from $186.0 million in the 2012-2016 Adopted CIP to $228.0 million in the 2013-2017 Forecast. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2012-2016 Adopted CIP.

FORECAST COMPARISON SUMMARY
($ in Thousands)

	2012-2016 CIP	2013-2017 Forecast	Difference	% Change
Construction and Conveyance Tax	$109,000	$109,000	0	0%
Building and Structure Construction Tax	31,500	52,000	20,500	65%
Construction Excise Tax	41,500	62,000	20,500	49%
Municipal Water System Fees	600	750	150	25%
Residential Construction Tax	200	500	300	150%
Sanitary Sewer Connection Fee	2,700	3,000	300	11%
Storm Drainage Connection Fee	530	700	170	32%
TOTAL	**$186,030**	**$227,950**	**$41,920**	**23%**

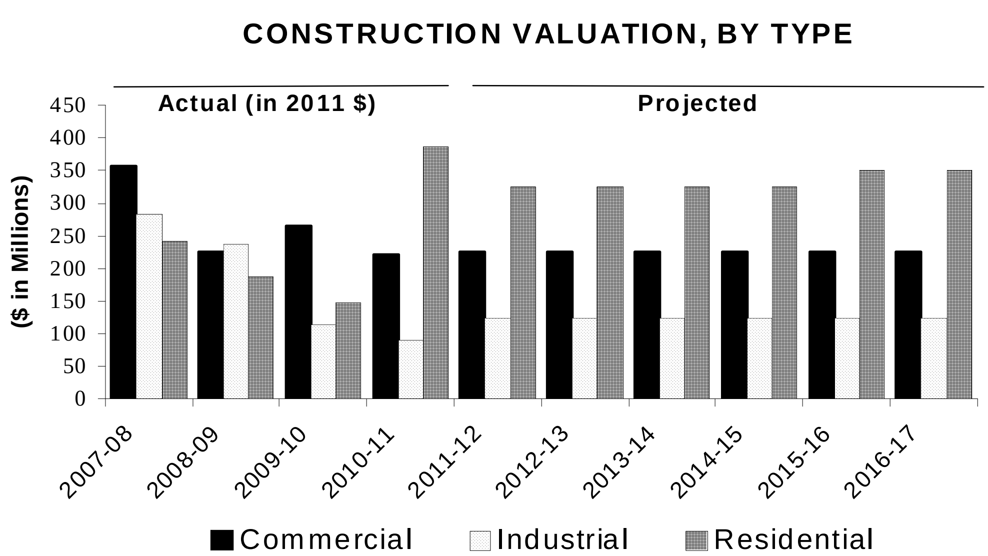
A discussion of major construction activity trends and each of the revenue categories are included in more detail on the following pages.

CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this Forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides projections of activity for each of the three types of development (residential, commercial, and industrial) revenue. The valuation figures have been adjusted to 2011 dollars, per Bureau of Labor Statistics Consumer Price Index, San José-San Francisco-Oakland all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled "Development Activity Highlights and Five-Year Forecast (2013-2017)", which is attached as an appendix to this document.

Based on projections provided by the PBCE Department, construction activity valuation is projected to continue at slightly lower levels than experienced last year ($675 million for 2011-2012 or a 3% decrease compared to $699 million in 2010-2011). This level of activity is expected to remain flat for 2012-2013 through 2014-2015 and then increase slightly to $700 million in 2015-2016 and 2016-2017. These assumptions show a slight improvement of 7% or a $225 million increase from the levels presented in the 2012-2016 Forecast where activity ranged from $600 million in 2011-2012 and 2012-2013 and increased to $675 million in 2014-2015 and 2015-2016.

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



CONSTRUCTION ACTIVITY PROJECTIONS

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

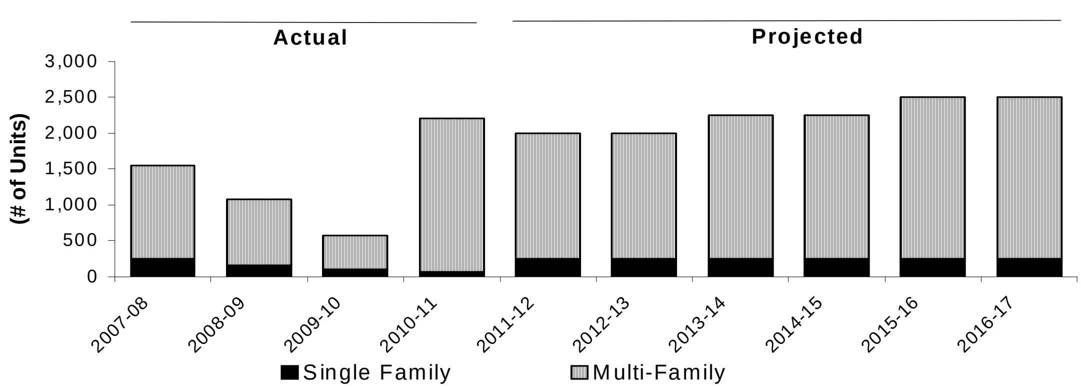
A. Residential Construction Activity

A significant portion of development-related revenue in San José has traditionally been generated by residential construction. Permit activity in 2010-2011 in this sector reached a four-year high of 2,208 new dwelling units as a result of a dramatic, short-term spike in building permits issued in December 2010. This compares to an all-time low of just 573 new dwelling units in 2009-2010. Permit activity is anticipated to decline by only 9% (to 2,000 units) in 2011-2012 from last year's levels as a high demand for rental housing continues in the near term.

The total value of residential building permits projected in this Forecast is $1.675 billion, which reflects a 16% increase over the 2012-2016 Forecast. The PBCE Department expects residential construction activity to generate an estimated 2,000 new units in 2012-2013 and then is expected to increase to 2,250 new units in 2013-2014 and 2014-2015 and increases to 2,500 in 2015-2016 and 2016-2017. This represents an average of 2,300 units per year or 11,500 units over the forecast period. This activity level has increased slightly compared to the 10,750 units included in the 2012-2016 Forecast.

This forecast expects a total of 10,250 multi-family dwelling units or approximately 90% of all dwelling units (single-family and multi-family) to be constructed, reflecting the construction of higher density housing primarily in North San José. This figure represents an 8% increase compared to the projections in the 2012-2016 Forecast for this category. On the other hand, only 1,250 new single-family dwelling units are anticipated during this forecast period, reflecting uncertainty in job growth, consumer confidence, and the housing market. This figure is flat compared to the projections in the 2012-2016 Forecast for single-family permits. The following chart shows the number of new units, by housing type, anticipated in San José through 2016-2017.

RESIDENTIAL CONSTRUCTION ACTIVITY



B. Commercial Construction Activity

In 2010-2011, commercial construction activity totaled $221 million and had a 16% decline from 2009-2010. This level of activity is significantly lower than a peak of $870 million reached in 2000-2001. New construction fell to its lowest levels in almost 20 years, yet alterations of existing buildings climbed to a three-year high. The PBCE Department expects commercial activity to remain flat in 2011-2012, with permit valuation estimated at $225 million.

Recent information from the Office of Economic Development for the 4th Quarter in 2011 indicated that the San José office vacancy rate was 19.4% and the retail vacancy rate was 5.2%. Vacancy rates for these categories have slightly decreased in comparison to the 4th Quarter in 2010 (18.2% and 6.3%, respectively).

Over the forecast period, commercial construction is expected to remain flat, with building permit valuation of $225 million per year. The total commercial permit valuation projected in this Forecast is $1.125 billion, which reflects no change from the previous five-year forecast. As discussed in the attached report provided by the PBCE Department, the outlook for commercial construction activity is largely unchanged. The majority of near-term office and retail development are expected to occur in locations further north (i.e., San Francisco and the peninsula).

C. Industrial Construction Activity

Industrial construction activity in San José has also experienced a dramatic decline since a peak in 2000-2001. In 2010-2011, building permit valuation of $91 million was roughly half of the levels over the last five-year period. The majority of industrial construction activity was alterations to existing buildings, with new construction dropping to an eight-year low. In 2011-2012, permit activity for alterations is expected to remain at the same levels as last year. Industrial permit valuation over the forecast period is estimated at $625 million, which reflects no change from the last forecast and reflects the continuation of a weak environment for this sector. As discussed in the attached report provided by the PBCE Department, industrial activity is expected to remain low over the forecast period, with minimal new construction and alterations continuing to drive the sector. Recent information from the Office of Economic Development for the 4th Quarter in 2011 indicated that the San José vacancy rate for industrial space was 7.9%, which is similar to the 7.2% vacancy rate for the same period in 2010.

In the Mayor's March 2011 Budget Message, as approved by the City Council, staff was directed to review costs assigned to private development and develop a structure that makes San José more competitive with surrounding jurisdictions. In addition, staff was directed to explore an incentive program for research and development, office, retail, and light industrial/manufacturing uses. The objective of addressing the cost structure of the development taxes was to create a predictable and competitive environment that supports

CONSTRUCTION ACTIVITY PROJECTIONS

C. Industrial Construction Activity

the City's economic development goals of filling industrial buildings and encouraging new workplace development. Based on the City Council direction, in January 2012, the Administration recommended a development incentive program, which was approved by the City Council. Although the incentive program is expected to encourage the absorption of vacant space by driving industry companies and make San José more competitive for new development projects, this forecast does not assume any impact from this incentive program due to the difficulty in determining how successful the incentive program will be to stimulate development activity. A more detailed discussion of the changes to development taxes, fees and costs implemented in January 2012 can be found in the Building and Structure Construction Tax section of this document.

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2013-2017) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on "major" projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but not yet commenced, and pending City approval). In addition, individual maps are provided for each of the City's 15 planning areas that show the projects in all status categories submitted since January 1, 2007. These maps can be used in conjunction with the activity data to help analyze the rate, type and location of major development activity in San José.

CONSTRUCTION AND CONVEYANCE TAX

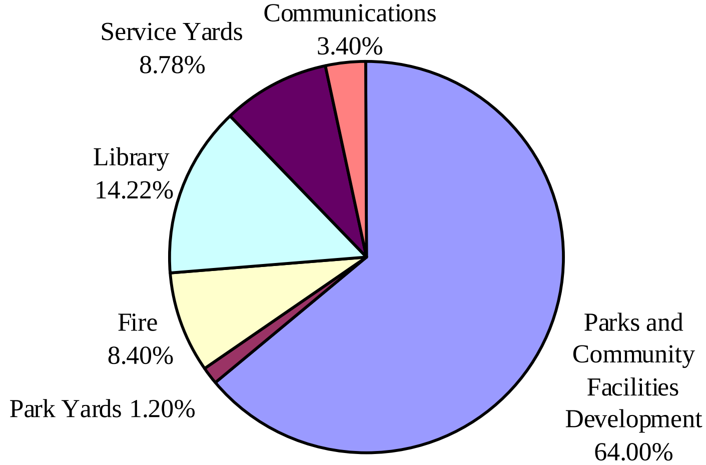
The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from $75 per unit located in a building containing at least 20 dwelling units to $150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

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

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

CONSTRUCTION AND CONVEYANCE TAX

CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION



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

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

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

CONSTRUCTION AND CONVEYANCE TAX

The five-year projection for Construction and Conveyance Tax revenue totals $109 million, which is consistent with the estimate used to develop the 2012-2016 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis. Collections declined to $41.8 million in 2006-2007, $26.8 million in 2007-2008, and $20.5 million in 2008-2009. Collections then rose slightly in 2009-2010 with revenues totaling $22.5 million, but then decreased slightly to $21.4 million in 2010-2011.

During the last few years Construction and Conveyance Tax revenues have been moderately stable as collections have leveled off from the sharp declines experienced after the collapse of the financial market. Currently, the Construction and Conveyance Tax revenue collections are expected to meet or slightly exceed budgeted estimates by year-end. The 2011-2012 Adopted Capital Budget estimate for Construction and Conveyance taxes is $21.0 million. The Adopted Capital Budget estimate allowed for a slight 1.8% drop from the 2010-2011 collection level. However, collections of $11.9 million through January 2012 represent a 7.2% increase from the $11.1 million collected through January 2011.

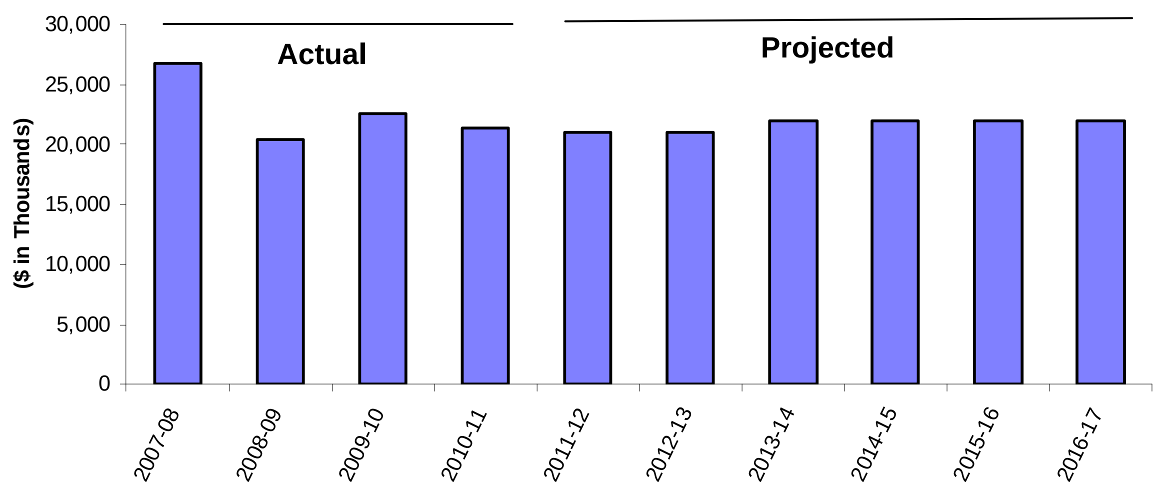
Nearly 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. The median single-family home price in January 2012 was $437,500, which is a decrease of 5.3% from the January 2011 price of $461,800. Consistent with this drop, the amount of time it took for homes to sell (single-family and multi-family dwellings) dropped from 102 days in January 2011 to 88 days in January 2012. However, surprisingly, the number of property transfers (sales) for all types of residences in January 2012 totaled 507, which represents a decrease of approximately 5.6% from the 537 sales that occurred in the same month in the prior year.

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX

The 2013-2017 Construction and Conveyance Tax revenue forecast is built on the assumption that collections will remain generally flat in the near term and experience modest growth in the out-years with collections projected at $21 million in 2012-2013 and rising slightly to $22 million annually for the four remaining years of the forecast. This forecasted collection level reflects what is believed to be a more sustainable level of ongoing housing resale activity. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10 year period.

CONSTRUCTION AND CONVEYANCE TAX REVENUES



BUILDING AND STRUCTURE CONSTRUCTION TAX

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

1) Residential - 1 $^{3}/_{4}$% 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.

BUILDING AND STRUCTURE CONSTRUCTION TAX

Building and Structure Construction Tax receipts through January totaled $7.0 million, compared to a budgeted estimate of $9.0 million. This tax is tracking very similar to levels in 2010-2011, with collection levels only $134,000 below the same period last year. Year-end collections are expected to meet or slightly exceed the budgeted estimate due to new residential construction activity. This performance is much welcomed compared to a 15-year low of $6.1 million collected in 2009-2010.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals $52.0 million. Collections are projected to be at $10 million in 2012-2013 and increase to $10.5 million for the remaining four years of the forecast. The five-year revenue projection represents an increase of approximately $20.5 million (65%) from the estimate included in the 2012-2016 Adopted CIP. The dramatic spike in activity experienced in December 2010, once projected to be short-term, is expected to continue at this collection level over the forecast period. A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax is shown in the chart that follows.

As mentioned previously, in March 2010, staff was directed to review costs assigned to private development and develop a structure that makes San José more competitive with surrounding jurisdictions and to explore an incentive program for research and development, office, retail, and light industrial/manufacturing uses. While San José has multiple construction-related taxes, staff concentrated primarily on reviewing the two largest, the Building and Structure Construction Tax and the Construction Excise Tax, as they make up approximately two thirds of the cost of many building permits issued by the City.

Given that these two taxes are the primary funding sources for the Traffic Capital Program, any decrease to these taxes would result in a negative impact to the continued development of an effective transportation system and maintenance of the City's current traffic infrastructure. Taking this into consideration, a short-term incentive program was approved by the City Council in January 2012. This incentive program adjusts the definition of industrial uses and will result in certain projects designated as office, research and development, data center uses, and installation of solar photovoltaic systems paying a lower rate of Building and Structure Construction Tax and being exempt from the Construction Excise Tax. The result is projects designated as these uses will be taxed at the lower industrial rate of 1% rather than the 4.5% rate for commercially designated projects. This incentive program, intended to incentivize development activity, sunsets March 15, 2014 and any losses of revenue that otherwise would have funded traffic capital projects will be offset by funding in the Economic Development Enhancement Fund, up to $450,000. If the funds are exhausted before the sunset date, staff will revisit the incentive program, considering the fiscal environment at that time. Staff was also directed to propose a permanent plan for modernization of the City's construction taxes to encourage job creation while ensuring major traffic infrastructure remains funded.

BUILDING AND STRUCTURE CONSTRUCTION TAX

The City Council, in keeping with the objective of advancing the City's economic development goals, implemented a temporary reduction to the North San José traffic impact fees that sunsets in December 31, 2014. Under this temporary incentive program, North San José traffic impact fees would be capped at $5 per square foot for projects larger than 100,000 square feet, with a cap of 1,000,000 square feet of development. In January 2012 at the time of the incentive program's approval, the traffic impact fee was $12.69 per square foot, which is significantly higher than neighboring jurisdictions. The intent of this incentive program is to drive near-term industrial development to benefit from the latest growth cycle in the regional economy. It is anticipated that grant opportunities for the North San José mitigation efforts will become available to offset the cost of offering this incentive program.

For the purposes of this forecast and development of the upcoming 2013-2017 Proposed CIP, the revenue forecasts for the Building and Structure Construction Tax and Construction Excise Tax have not been adjusted to account for either incentive programs due to the ability to offset the loss of revenue with other sources. As information becomes available about the success of the incentive program, these estimates will be refined.

CONSTRUCTION EXCISE TAX

The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure, 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.

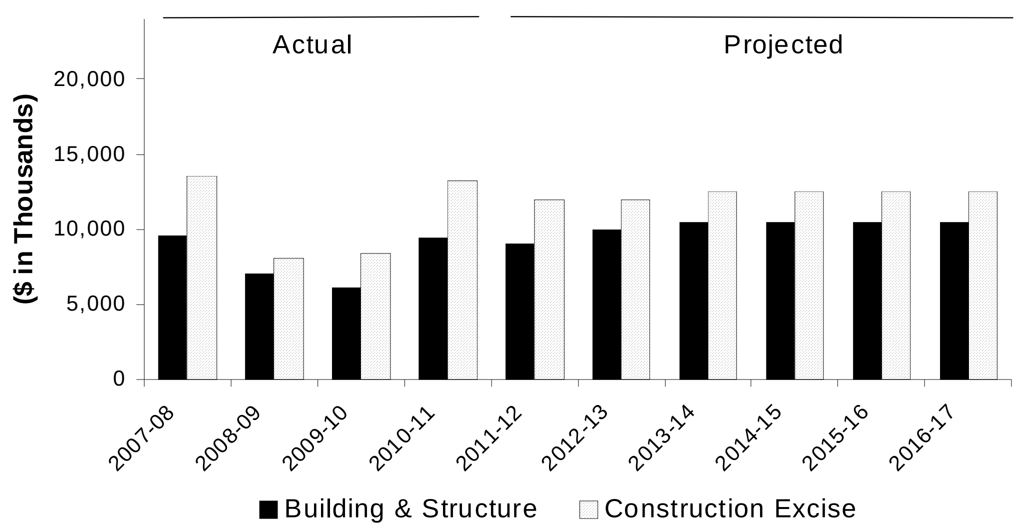
Unlike the Building and Structure Construction Tax, this tax does not apply to industrial development. As a result, changes in industrial building activity do not affect these tax receipts. However, the changes in development taxes, fees and costs implemented in January 2012 as described earlier, are anticipated to impact this tax as certain projects that now fall under the definition of industrial uses will be exempted from the Construction Excise Tax. As mentioned above, this tax is a general purpose tax; however, the majority of the proceeds have generally been used for a variety of essential Traffic Capital projects that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City's ability to obtain State and federal grants. A portion of these taxes have also been regularly used as a budget balancing solution to address General Fund shortfalls.

CONSTRUCTION EXCISE TAX

Tax receipts through January for the Construction Excise Tax Fund totaled $10.0 million, compared to a budgeted estimate of $12.0 million. This tax is tracking very similar to levels in 2010-2011 with collection levels only 5.5% below levels for the same period last year. Year-end collections are expected to be meet or slightly exceed the budgeted estimate due to new residential construction activity in North San José.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total $62.0 million over the five-year forecast period, with annual expected proceeds ranging from $12 million in 2012-2013 and 2013-2014 to $12.5 million annually for the four remaining years. This collection level also represents an increase of $20.5 million (49%) from the 2012-2016 Adopted CIP. The dramatic spike in activity experienced in December 2010, once projected to be short-term, is expected to continue at this collection level over the forecast period. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown in the chart below.

MAJOR CONSTRUCTION-RELATED TAX REVENUES



MUNICIPAL WATER SYSTEM FEES

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

MUNICIPAL WATER SYSTEM FEES

Fee collections for the Municipal Water System in 2011-2012 are tracking high and are expected to exceed the budgeted estimate. This level of activity is expected to continue in the near term and $750,000 in revenue is expected over the five-year period of this forecast for the fees detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

($ in Thousands)

	2012-2016 CIP	2013-2017 Forecast	Difference	
Advance System Design Fee	250	250	0	0%
Meter Installation Fee	200	250	50	25%
Service Connection Fee	150	250	100	67%
TOTAL	600	750	150	25%

The 25% increase in the estimate for Municipal Water System fees from the 2012-2016 Adopted CIP reflects an expected increase in development activity in the Municipal Water System service areas which include North San José, Evergreen, Alviso, Edenvale, and Coyote Valley areas. As noted in the previous Forecast, because of the volatility of Major Facilities Fee revenue, this fee revenue will be allocated for projects as actual collections occur rather than being allocated based on an estimate.

RESIDENTIAL CONSTRUCTION TAX

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

Collections for this tax in 2011-2012 are tracking high and are expected to exceed the budgeted estimate. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, $500,000 in revenue is expected over the five-year period of this forecast, which is a 150% increase from the 2012-2016 Adopted CIP revenue estimates of $200,000, and reflects expectations that development activity will continue to increase.

SANITARY SEWER CONNECTION FEE

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

Fee collections in 2011-2012 are tracking high and are expected to exceed the budgeted estimate. The 2013-2017 Forecast projection for this fee is $3.0 million, which is an 11% increase from the 2012-2016 CIP estimate of $2.7 million. This estimate is based on the assumptions that development activity will increase slightly.

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.

Fee collections in 2011-2012 are tracking high and are expected to exceed the budgeted estimate. The five-year forecast for Storm Drainage Connection Fees is $700,000, which is a 32% increase from the estimate of $530,000 included in the 2012-2016 Adopted CIP.

ATTACHMENT A

CONSTRUCTION-RELATED REVENUE
2013 - 2017
($ in thousands)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	5 Yr Total
Construction and Conveyance Tax							
2012-2016 Adopted CIP	21,000	22,000	22,000	22,000	22,000	N/A	109,000
2013-2017 FORECAST	21,000	21,000	22,000	22,000	22,000	22,000	109,000
Difference	-	(1,000)	-	-	-	N/A	-
Building and Structure Construction Tax							
2012-2016 Adopted CIP	6,000	6,000	6,500	6,500	6,500	N/A	31,500
2013-2017 FORECAST	9,000	10,000	10,500	10,500	10,500	10,500	52,000
Difference	3,000	4,000	4,000	4,000	4,000	N/A	20,500
Construction Excise Tax							
2012-2016 Adopted CIP	8,000	8,000	8,500	8,500	8,500	N/A	41,500
2013-2017 FORECAST	12,000	12,000	12,500	12,500	12,500	12,500	62,000
Difference	4,000	4,000	4,000	4,000	4,000	N/A	20,500
Municipal Water Advance System Design Fee							
2012-2016 Adopted CIP	50	50	50	50	50	N/A	250
2013-2017 FORECAST	50	50	50	50	50	50	250
Difference	-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee							
2012-2016 Adopted CIP	40	40	40	40	40	N/A	200
2013-2017 FORECAST	80	50	50	50	50	50	250
Difference	40	10	10	10	10	N/A	50
Municipal Water Service Connection Fee							
2012-2016 Adopted CIP	30	30	30	30	30	N/A	150
2013-2017 FORECAST	50	50	50	50	50	50	250
Difference	20	20	20	20	20	N/A	100
Residential Construction Tax							
2012-2016 Adopted CIP	40	40	40	40	40	N/A	200
2013-2017 FORECAST	100	100	100	100	100	100	500
Difference	60	60	60	60	60	N/A	300
Sanitary Sewer Connection Fee							
2012-2016 Adopted CIP	525	525	550	550	550	N/A	2,700
2013-2017 FORECAST	675	600	600	600	600	600	3,000
Difference	150	75	50	50	50	N/A	300
Storm Drainage Connection Fee							
2012-2016 Adopted CIP	100	100	110	110	110	N/A	530
2013-2017 FORECAST	140	140	140	140	140	140	700
Difference	40	40	30	30	30	N/A	170
TOTAL							
2012-2016 Adopted CIP	35,785	36,785	37,820	37,820	37,820	N/A	186,030
2013-2017 FORECAST	43,095	43,990	45,990	45,990	45,990	45,990	227,950
Difference	7,310	7,205	8,170	8,170	8,170	N/A	41,920
% Change from 2012-2016 CIP	20%	20%	22%	22%	22%	N/A	23%

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Five-Year Economic Forecast and Revenue Projections

2013-2017

CITY OF SAN JOSE BUDGET PRINCIPLES

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

1) STRUCTURALLY BALANCED BUDGET

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

2) PROPOSED BUDGET REVISIONS

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

3) USE OF ONE-TIME RESOURCES

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

4) BUDGET REQUESTS DURING THE YEAR

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

5) RESERVES

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

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

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

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

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

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

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

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

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

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

BASELINE SERVICES AS OF JANUARY 1, 2011

In May 2011, the City's Fiscal Reform Plan determined that the City's acceptable baseline for providing services would be measured by the level of services being provided by the City as of January 1, 2011.[144] Service level metrics were determined by using either actual data or the level approved in the 2010-2011 Adopted Budget. For example, response times for Fire and Police services are based on performance data whereas hours of operation for the Library or Neighborhood Services are based on the service levels approved as part of the 2010-2011 Adopted Budget. Additionally, in order for the City to support these baseline service levels, strategic support services will need to be funded at an adequate level.

FIRE DEPARTMENT

- 33 Fire Stations open;
- On average, City-wide, 82.6% of time, the initial responding fire unit arrives within 8 minutes after an emergency 9-1-1 call is received;
- On average, City-wide, 85.2% of time, the second response fire unit arrives within 10 minutes after an emergency 9-1-1 call is received.

POLICE

- On average, City-wide, average response time for Priority One police calls for service (present or imminent danger to life or major damage/loss of property) is 6.04 minutes;
- On average, City-wide, average response time for Priority Two police calls for service (injury or property damage or potential for either to occur) is 12.74 minutes;
- On average, overall, the clearance rate (number cleared / total cases) for Part 1 crimes is as follows: Homicide (65.00%), Rape (19.37%), Robbery (26.54%), Aggravated Assault (39.93%), Burglary (5.58%), Larceny (18.90%), and Vehicle Theft (8.85%).

[144] Depending on the service provided, the metrics reflect actual 2010 Calendar Year-End performance data (e.g., Fire and Police response times) or the service level as approved as part of the 2010-2011 Adopted Budget (e.g., Library Hours).

LIBRARY

- On average, 18 library branches are open 39 hours per week;
- On average, King Library (subject to future contractual arrangements with San José State University):
  - Hours open: 72 hours per week per academic semester; 58 hours per week otherwise;
  - Children's Room: 50 hours per week;
  - Third Floor General Collection and Reference Desks: 64 hours per week;
  - California Room: 20 hours per week;
  - Access Services: 72 hours per week;
  - Periodicals: 72 hours per week;
  - Second Floor Reference Desk: 72 hours per week.

PARK, RECREATION, AND NEIGHBORHOOD SERVICES

- On average, 10 Hub Community Centers are open 63 hours per week;
- On average, 9 Satellite Community Centers are open 40 hours per week;
- On average, 8 Neighborhood Centers are open for 15 hours of programming per week.

STREET MAINTENANCE

72 miles of residential and arterial streets resealed and 6 miles of residential and arterial streets resurfaced with various Capital and Grant funds (no General Fund allocation). Maintaining this street maintenance level will be contingent upon receiving commensurate levels of regional, state, and federal funds annually.

FACILITIES BUILT OR UNDER CONSTRUCTION / OPENING DEFERRED

- South San José Police Substation
- Bascom Community Center and Branch Library
- Calabazas Branch Library
- Educational Park Branch Library
- Seven Trees Branch Library

Five-Year Economic Forecast and Revenue Projections

2013-2017

Appendix B

General Fund Revenue Descriptions

Property Tax

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

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

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

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

Sales and Use Tax

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

The distribution of the sales tax proceeds is as follows:

Agency	Distribution Percentage
State of California	5.50%
City of San José*	1.00%
Santa Clara County	0.75%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	0.50%
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 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.

* Note: As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), starting July 1, 2004, 0.25% of the City's one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue (primarily Educational Revenue Augmentation Funds). This action is to last only for the life of the bonds (currently estimated at five to ten years). The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts is tied to sales tax and because this action is considered to be temporary.

Transient Occupancy Tax

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

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

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

2) Funding for the cultural grant program and fine arts division programs, including expenses of the fine arts division (approximately 25%).

3) Funding for convention facilities operations and maintenance in the Convention and Cultural Affairs Fund (approximately 50%).

The General Fund portion of the Transient Occupancy Tax was enacted as a general tax.

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 for a calendar year within the City limits. The taxes are authorized by Title 15 of the Municipal Code, Chapter 15.32, and no authorized exemptions exist.

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

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

Franchise Fees

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 commercial business engaged in the collection, transportation, or disposal of garbage and/or rubbish (solid waste) accumulated or generated in the City of San José. In December 1997, the City Council increased the rate to $2.41 effective on January 1, 1998. In 1999-2000, this fee was increased to $2.84 per cubic yard. In 2002-2003, a three year gradual shift in the revenue distribution between the CSW and AB 939 fees (also known as the "commercial source reduction and recycling fee" collected and deposited in the Integrated Waste Management Fund) was approved, that increased the amount collected for CSW to $3.34 per cubic yard in 2004-2005. In 2005-2006, the City Council increased the fee by 4.5% ($0.15 per cubic yard) to $3.49 per cubic yard. In 2006-2007, an additional 5% increase was approved by the City Council, which brings the fee to $3.67 per cubic yard. In 2009-2010, the elimination of the fee exclusion for the first 20,000 cubic yards hauled in the fiscal year was approved. On October 19, 2010, the City Council amended the CSW to a fee for franchises based on geographic collection districts rather than volume. The new fee of $5 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District is anticipated to become effective July 1, 2012, and is subject to an annual consumer price index (CPI) adjustment. 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 number 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 José cannot impose a franchise fee on that company.

Utility Tax

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (e.g., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). For the electricity, gas, and water categories, consumers pay 5% of their utility charges to the utility company that acts as a collection agent for the City. For the telephone utility tax, consumers pay 4.5% on all intrastate, interstate, and international communication services regardless of the technology used to provide such services. Private communication services, voice mail, paging, and text messaging are treated the same as traditional telephone services. In November 2008, voters approved Measure K that reduced the telephone utility rate from 5% to 4.5% and broadened the base for the tax and the definition of technologies covered by the tax. 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.

Telephone Line Tax

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

Business Tax

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

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

In addition to the rates listed above, City Ordinance number 21518 specifies the assessment of taxes by grouping taxed businesses (each at a different rate) in the following categories: Rental or Lease of Residential or Non-Residential property, Mobile Home Parks, and Water Companies. Rented or leased properties (if three or more residential rental units) are subject to the $150 minimum tax, but are also assessed $5/rental unit over 30 units for residential properties and $0.01 per square foot in excess of 15,000 square feet for non-residential properties. Taxes for both residential and non-residential properties are limited to a maximum of $5,000. Mobile home parks are treated as

Business Tax

residential properties. Water companies are assessed by a schedule that assigns an amount (from $200 to $20,000) depending on the number of active metered connections. In November 1996, the rates were increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates (as reflected) were returned to the levels prior to November 1996.

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

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

During 1991-1992, Council approved the establishment of a Cardroom Ordinance which contained the provision of a **Cardroom Business Tax** to tax gross receipts from cardrooms located in the City. On June 9, 1992, the City Council approved an ordinance amending the San José Municipal Code, increasing the tax rate schedule and expanding the permissible games authorized. A gross receipt monthly tax schedule was established with taxes ranging from 1% to 13% of gross receipts. In 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. In June 2010, voters approved a ballot measure that increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98.

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

Licenses and Permits

The City requires payment for the issuance of Building Permits, Fire Permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees

Licenses and Permits

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 the City Council's full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City's Fees and Charges Report, which is released in May of each year.

Fines, Forfeitures, and Penalties

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

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

Use of Money and Property

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

Use of Money and Property

and policies must be reviewed and approved by both the City Manager and City Council. Investment of funds is authorized by the City Charter, Section 8066. Revenue is also received from the rental of City-owned property. Exceptions are created by City Council resolution. The fees are authorized in Title 2 of the Municipal Code, Section 2.04.1070.

Revenue from Local Agencies

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

On November 23, 1998, the attorneys general of most States and the major United States tobacco companies signed a Master Settlement Agreement (MSA) to settle more than 40 pending lawsuits brought by states against the tobacco industry. In exchange for the states dropping their lawsuits, and agreeing not to sue in the future, the tobacco companies agreed to pay, in perpetuity, various annual payments to the states to compensate them for some of the medical costs of caring for persons with smoking-related illnesses. Further, the companies have restricted their marketing activities and established new efforts to curb tobacco consumption. The City, along with the other states and local government entities, joined in the settlement. In the MSA, the Original Participating Manufacturers agreed to pay a minimum of $206 billion over the first twenty-five years of the agreement.

The City has also previously received Motor Vehicle In-Lieu (MVLF) Tax revenues, which are license fees collected by the California Department of Motor Vehicles (DMV). Until 1998-1999, the annual license fee was two percent of the market value of the vehicle as determined by the DMV. In 1998-1999, the State reduced the license fees by 25%, but agreed to backfill local jurisdictions for the loss in revenue, which represented 67.5% of MVLF revenues received by the City at the time. In 2004-2005, as part of State budget actions, the MVLF rate was permanently reduced from 2% to 0.65% and all future receipts of the backfill were approved to be in the form of increased Property Tax receipts and are reflected in that category. Thus, the backfill amount due to the City has permanently become property tax revenue that now grows based on assessed valuations. The

Revenue from the State of California

State withholds a portion of these fees for the support of the DMV. The remaining fees were divided equally between counties and cities, and their aggregate shares were distributed in proportion to the respective populations of the cities and counties of the State. The exemptions authorized by the State Constitution, Article 13, include vehicles owned by insurance companies and banks, publicly owned vehicles, and vehicles owned by certain veterans with disabilities. The tax is authorized by the State Revenue and Taxation Code. In late June 2011, the State legislature approved SB 89, which shifted over $130 million in annual General Fund Motor Vehicle In-Lieu revenue from cities to support State law enforcement grants effective July 1, 2011. State legislative action in 1992-1993 eliminated local Trailer Coach In-Lieu Tax revenues. These funds were shifted to the State General Fund.

Revenue from the Federal Government

Federal grants account for 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. The fees in this category are determined by ordinance and described in the City's Annual Fees and Charges Report. The fees assessed by the Parks, Recreation and Neighborhood Services Department are posted on the Internet (www.sanjoseca.gov/prns).

Other Revenue

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

Transfers and Reimbursements

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

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

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

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

State Gas Tax

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

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

State Gas Tax

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

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

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Five-Year Economic Forecast and Revenue Projections

2013-2017

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2013-2017)

Prepared by:

City of San Jose
Department of Planning, Building and Code Enforcement
February 2012

Development Activity Highlights and Five-Year Forecast (2013-2017)

For more information, please contact:

City of San Jose
Department of Planning, Building and Code Enforcement
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San Jose, CA 95113
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This report and other information can be found on the Planning Division web site at:

http://www.sanjoseca.gov/planning/data

Development Activity Highlights and Five-Year Forecast (2013-2017)

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Development Activity Highlights
and Five-Year Forecast (2013-2017)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2013-2017)* 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 the general public.

II. SUMMARY

Development activity levels in San Jose have exhibited "fits and starts" over the past twelve to fifteen months, with construction highly concentrated not only in time, but also in type and location. Specifically, market-rate rental housing and non-residential tenant improvements have seen a pronounced but sporadic resurgence in North San Jose and Downtown, while all else remains virtually dormant. In other words, the construction industry, and as well the broader economy, is giving mixed signals about the future. The current state of volatility and uncertainty is in sharp contrast to much of the past fifteen years, during which two distinct periods can be identified: (1) Technology Boom (1996-2003), an extremely robust era when annual construction valuation was generally in the $1.0 to $1.5 billion range (peaking at an astonishing $2.0 billion in 2000); and, (2) Housing Boom (2003-2008), a slower but steadier stretch when annual construction valuation was about $900 million, and strength in residential activity somewhat offset slack in non-residential activity. Unfortunately, consideration of the various economic factors that have resulted in subdued development these past few years suggests more of the same—a flat-lining of activity at around $675 million, roughly the lowest levels of development activity ever witnessed in San Jose. 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 (2013-2017).

<u>Residential Development</u>

- *New housing production in San Jose exceeded 4,000 dwelling units per year during the late-1990's, and then declined to an average of just over 3,000 units per year from 2001-2006. Since that time, activity has dropped off sharply, to about half the prior pace, or an average of 1,500 units per year. However, in fiscal year 2010/11, activity rebounded from the prior year's all-time low, reaching a four-year high of 2,208 units (slightly below the staff forecast of 2,500 units).*

- *Staff forecasts that residential construction activity will sustain last year's marginally improved pace, and attributes this performance solely to strong fundamentals in the rental housing market. In the near term, this level of activity is virtually guaranteed given the recent issuance of foundation permits for numerous large, market-rate projects, primarily in North San Jose. On the other hand, no affordable housing projects have proceeded to construction in the last twelve months. Further, scarce new ownership housing is expected given a backdrop of uncertainty regarding job growth, consumer confidence, and pricing power in the midst of significant "shadow" inventory (i.e., homes that are seriously delinquent, in some stage of foreclosure, or bank-owned and not yet listed for sale).*

- *Over the five-year forecast period, new construction is expected to continue the recent, moderate activity level of roughly 2,000 to 2,500 units per year. This outlook takes into account those concerns described above, yet also recognizes growing reasons for optimism. Among these is a simple supply/demand metric, as recent population estimates indicate San Jose grew by a fairly robust 50,000 persons in the last five years, yet meanwhile comparatively little inventory was added to the City's housing stock. If this demographic imbalance persists, it should eventually create need for somewhat higher rates of housing production. In any event, staff does not foresee a return to the low levels of activity observed during the immediate aftermath of the financial crisis.*

Commercial Development

- *After a five-year-long boom in commercial construction activity that spanned the late-1990's to early 2000's, during which time total permit valuation averaged over $500 million per year, activity since then has generally amounted to less than half that level. In fiscal year 2010/11, commercial activity was mixed, in that new construction fell to its lowest level in almost 20 years, yet tenant improvements (alterations) rose to a three-year high. Overall, valuation reached $220 million, in-line with the staff forecast.*

- *Staff forecasts that commercial construction activity during fiscal year 2011/12 will repeat the moderate levels of the "post boom" era, with total permit valuation amounting to $225 million. This activity will be driven by some limited amount of new construction, but primarily steady tenant improvements (alterations) activity, which should once again well surpass new construction in terms of building permit valuation. One notable example of the ongoing resurgence in commercial tenant improvements is the long-vacant, 18-story Oracle tower in Downtown. In this tower, PricewaterhouseCoopers is occupying about half the building, speculative tenant improvements are occurring on three floors, and Oracle itself is expected to occupy another three floors.*

- *For the five-year forecast period, commercial construction activity is expected to remain flat. While an economic recovery appears to have taken hold in the Bay Area, this recovery is uneven, with the majority of near-term office and retail development expected to occur in locations further north (i.e., San Francisco and the Peninsula). However, once this potential wave of renewed activity reaches our shores, the City is strategically positioned to take advantage in a timely manner, as several large-scale, mixed use/employment center projects (e.g., Hitachi, Flea Market, etc.) have already completed various master planning and entitlement processes.*

Industrial Development

- *Like its commercial counterpart, industrial construction activity nearly reached an astonishing $500 million per year in permit valuation over the five-year period of 1997-2001. Since that time, however, activity has registered just a small fraction of that figure, dipping to sub-$100 million lows both immediately following the "dot com" bust and once again last year. In fiscal year 2010/11, as with commercial development, industrial activity was mixed— new construction dipped to an eight-year low, yet tenant improvements (alterations) leaped an impressive 68% year-over-year. Overall, activity fell to $91 million, somewhat below the staff forecast of $125 million.*

- *Staff forecasts that industrial construction activity will remain relatively weak in fiscal year 2011/12, with total permit valuation reaching just $125 million. As with last year, virtually no new construction is expected, yet tenant improvements (alterations) should remain reasonably strong. As recent examples, both Polycom and Flextronics have announced intentions to occupy the long-vacant America Center project along Highway 237, and Maxim has performed major tenant improvements for relocation of their headquarters to 160 Rio Robles, which when purchased by the company in 2010 was the year's largest end-user property transaction in Silicon Valley.*

- *Activity levels for industrial construction will likely be very low over the forecast period. With no new major groundbreakings anticipated in the near term, permit valuation is expected to remain flat, and approximate the lowest levels seen off-and-on over the past decade. Tenant improvements should outpace new construction for some time to come, a pattern typical of recessionary periods.*

III. FIVE-YEAR FORECAST (2013-2017)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction valuation is expected to approximate last year's modest pace, totaling $675 million during fiscal year 2011/12, and remain flat throughout the remainder of the forecast period.

Table 1
Construction Valuation: FY 06/07 to FY 16/17

Fiscal Year	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
	Actual Valuation[1] (in millions)					Projected Valuation (in millions)					
New Construction											
Residential	$397	$166	$126	$86	$308	$250	$250	$250	$250	$275	$275
Commercial	$90	$194	$87	$147	$73	$75	$75	$75	$75	$75	$75
Industrial	$97	$116	$136	$66	$8	$25	$25	$25	$25	$25	$25
Subtotal	$584	$476	$348	$300	$388	$350	$350	$350	$350	$375	$375
Alterations											
Residential	$96	$77	$63	$65	$79	$75	$75	$75	$75	$75	$75
Commercial	$143	$165	$140	$120	$148	$150	$150	$150	$150	$150	$150
Industrial	$160	$171	$104	$50	$83	$100	$100	$100	$100	$100	$100
Subtotal	$398	$413	$307	$235	$310	$325	$325	$325	$325	$325	$325
GRAND TOTAL	**$982**	**$888**	**$656**	**$534**	**$699**	**$675**	**$675**	**$675**	**$675**	**$700**	**$700**
Tax Exemptions											
Residential	*	*	*	*	*	$(50)	$(50)	$(50)	$(50)	$(50)	$(50)
Commercial	*	*	*	*	*	$(25)	$(25)	$(25)	$(25)	$(25)	$(25)
Industrial	*	*	*	*	*	$(25)	$(25)	$(25)	$(25)	$(25)	$(25)
Net Total (Taxable)						**$575**	**$575**	**$575**	**$575**	**$600**	**$600**

*Note: Data on actual tax exemptions not available at the time of this report.
[1]Valuation figures adjusted to 2011 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 06/07 to FY 16/17

Fiscal Year	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
	Actual[1]					Projected					
Residential (Units)											
Single-Family	545	245	160	103	66	250	250	250	250	250	250
Multi-Family	2,669	1,300	911	470	2,142	1,750	1,750	2,000	2,000	2,250	2,250
TOTAL	3,214	1,545	1,071	573	2,208	2,000	2,000	2,250	2,250	2,500	2,500
Non-Residential (sq.ft., in thousands)											
Commercial	1,000	1,250	1,000	750	500	500	500	500	500	500	500
Industrial	250	250	500	250	0	250	250	250	250	250	250
TOTAL	1,250	1,500	1,500	1,000	500	750	750	750	750	750	750

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

IV. CONSTRUCTION TAXES 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 that provide capacity beyond the needs attributed to a particular development. These taxes are in addition to cost-recovery fees charged for processing and reviewing applications for development approvals and permits. The largest construction-related tax revenue sources are described below.

Building and Structure Construction Tax

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

Construction Excise Tax

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

Residential Construction Tax

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

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 15% 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 over 26,000 dwelling units and approximately 14 million square feet of non-residential space submitted for Planning approval since January 1, 2007.

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 1/1/07

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
Projects Completed									
PDA07-026-01	2/6/08	Elements Apts	264-09-051	NE/c Race & Parkmoor	Central	MF	243	MD	4/16/08
PDA03-006-01	5/23/07	Corde Terra Senior Apts	497-38-020	S/s Tully, 750' wly Senter	South	MF	201	MD	11/30/07
PDA08-039-01	7/7/09	University Villas Apts	230-14-026	N/s Campbell, 250' ely El Camino Real	West Valley	MF	138	LX	4/26/10
PD09-001	1/20/09	Brookwood Terrace Apts	472-05-075	S/s E. San Antonio, opp. S. 28th	Central	MF	84	SZ	6/15/09
PD07-042	5/1/07	Kentwood Place Townhomes	359-35-008	NW/c S. De Anza & Hwy 85	West Valley	SF	57	MD	6/29/07
PD07-097	11/13/07	Cornerstone Apts	249-08-002	SW/c N. 10th & E. Hedding	Central	MF	53	LM	6/13/08
Total							**776**		
Projects Under Construction									
PDA07-006-03	12/12/08	Crescent Village Apts	097-33-113	SE/c Zanker & River Oaks	North	MF	1,750	MD	1/15/09
PD08-056	8/29/08	Epic Apts	097-15-026	SE/c River Oaks & Seely	North	MF	769	ES	1/23/09
PD07-033	4/13/07	Northpointe Mixed Use	097-07-086	NW/c Zanker & Tasman	North	MF	704	JB	11/30/07
PD11-031	9/8/11	Vista Montana Park Apts	097-52-028	B/s Vista Montana, bet Tasman & N. 1st	North	MF	444	JH	10/14/11
PD07-025	3/26/07	Mosaic Apts	264-09-043	E/s Race, nly UPRR tracks	Central	MF	385	RO	7/23/07
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	SF	371	RM	10/10/08
PDA07-090-02	5/26/11	Riverview Mixed Use (Phase 1)	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	271	LX	8/2/11
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	SF	256	SM	3/21/08
PD08-061	9/29/08	Orvieto Family/Senior Apts	455-09-030	W/s Monterey, 300' sly Umbarger	South	MF	242	MD	11/24/08
PD07-099	11/19/07	Belovida Senior Apts	254-04-076	NE/c N. King & Dobbin	Alum Rock	MF	185	AB	8/29/08
PD07-036	4/13/07	Baypointe Apts (North)	097-07-031	W/s Baypointe, 370' nly Tasman	North	MF	183	JB	11/30/07
PD08-023	3/11/08	Baypointe Apts (South)	097-07-072	NE/c Baypointe & Tasman	North	MF	174	JB	8/1/08
PD10-026	11/5/10	Messina Gardens Condos[1]	254-06-037	SW/c N. Capitol & Mabury	Alum Rock	MF	135	JN	6/10/11
PD07-067	7/23/07	Kings Crossing Apts/Shelter	254-04-076	NE/c N. King & Dobbin	Alum Rock	MF	130	AB	10/22/08
PD04-103	5/10/04	Fiesta Senior/Vista on San Carlos	274-14-142	NE/c W. San Carlos & Buena Vista	Central	SF/MF	127	EM	8/25/04
PD08-071	12/17/08	Santana Row (Parcel 6B)	277-40-011	NW/c Olin & Hatton	West Valley	MF	118	SZ	4/23/10
PD11-003	1/21/11	Mirassou Mixed Use	659-57-010	SW/c Ruby & Aborn	Evergreen	SF	104	LX	7/29/11
PD06-011	4/11/06	Fourth Street Apts	235-04-005	E/s N. 4th, 600' nly Gish	North	MF	100	CB	6/29/07
PDA04-071-01	9/29/10	Mayfair Court Apts	481-18-013	W/s McCreery, 230' sly Alum Rock	Alum Rock	MF	93	JN	3/15/11
PD06-062	11/2/06	Siena/Savona at Montecito Vista	455-09-030	W/s Monterey, 300' sly Umbarger	South	SF	93	LM	7/3/06
Total							**6,634**		

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/07

Approved Projects (Construction Not Yet Commenced)

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD05-087	11/18/05	Hitachi Site Mixed Use	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	2,930	JR	6/2/06
PDC09-006	1/27/09	Flea Market Mixed Use	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF/MF	2,576	LX	10/20/09
PD07-090	10/23/07	Riverview Mixed Use	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	1,308	JB	4/4/08
PDC07-015	2/15/07	Newbury Park Mixed Use	254-04-076	NE/c N. King & Dobbin	Alum Rock	SF/MF	972	AB	12/18/07
PDC08-061	11/3/08	Ohlone Mixed Use	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	800	ME	11/9/10
PDC07-010	1/25/07	Markovits & Fox Mixed Use	237-03-070	SW/c E. Brokaw & Oakland	Berryessa	MF	650	LX	12/14/10
PD11-030	9/8/11	Tasman Apts	097-52-013	B/s Vista Montana, bet Tasman & N. 1st	North	MF	554	JH	10/14/11
PDA06-048-01	11/8/07	Hyundai Site Mixed Use[2]	097-06-055	N/s Montague, 550' wly N. 1st	North	MF	528	JB	12/14/07
PDC08-032	6/9/08	Montecito Vista Mixed Use	455-09-030	W/s Monterey, 300' sly Umbarger	South	SF/MF	501	MD	9/9/08
PDC08-036	6/20/08	Libitzky Mixed Use	249-09-001	NW/c N. 10th & E. Taylor	Central	MF	403	LX	1/25/11
PDC07-095	11/9/07	Santana Row	277-33-004	SE/c Winchester & Stevens Creek	West Valley	SF/MF	369	SM	5/13/08
H07-008	2/16/07	The Carlysle Condos	259-35-007	SW/c N. Almaden & W. St. John	Central	MF	347	MS	12/7/07
PDA08-036-01	11/4/08	River Oaks Housing	097-33-036	NE/c Zanker & River Oaks	North	MF	293	MD	12/19/08
PD11-025	3/11/11	Rosemary Family/Senior Apts	235-05-012	SE/c N. 1st & Rosemary	North	MF	290	LX	8/26/11
PD07-088	10/9/07	Morrison Park Townhomes	261-01-054	SW/c Cinnabar & Stockton	Central	SF	250	LM	8/1/08
PD08-027	4/4/08	Flea Market (North, Phase 1)	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF	242	LX	12/15/10
PD08-029	4/16/08	Virginia Terrace Condos	472-18-051	SW/c E. Virginia & S. 6th	Central	MF	238	RM	10/24/08
PD08-046	7/16/08	Century Center Mixed Use (Phase 1	230-29-022	SW/c N. 1st & Century Center	North	MF	220	LX	4/29/11
PDC09-002	1/8/09	Century Center Mixed Use (Phase 2	230-29-022	SW/c N. 1st & Century Center	North	MF	220	LX	8/25/09
PD09-006	2/27/09	San Carlos Mixed Use	277-20-006	SW/c W. San Carlos & Meridian	Central	SF	218	ES	6/8/09
PDC06-069	6/29/06	North Tenth Street Housing	249-08-004	W/s N. 10th, bet Vestal & E. Mission	Central	SF	166	SZ	11/17/09
H09-004	2/11/09	Donner Lofts	467-20-018	SE/c E. St. John & N. 4th	Central	MF	156	SZ	10/9/09
PD07-094	10/23/07	South 2nd Mixed Use	477-01-082	SE/c S. 2nd & Keyes	Central	MF	134	ES	11/14/08
PDA05-057-01	12/19/07	Park Avenue Lofts	261-36-062	N/s Park, 450' ely Sunol	Central	SF	125	MD	4/21/08
PD11-009	3/9/11	Santana Terrace Townhomes	277-38-006	W/s S. Monroe, 450' nly Hwy 280	West Valley	SF	104	LX	9/30/11
PD11-011	3/14/11	Markham Terrace Apts	477-23-021	E/s Monterey, 700' nly Tully	South	MF	102	LX	7/15/11
PDC09-033	12/17/09	Senter Road Family Apts	497-41-098	E/s Senter, 600' sly Tully	South	MF	102	LX	9/21/10
PD09-033	10/21/09	Ford Apts	678-53-004	N/s Ford, 550' ely Monterey	Edenvale	MF	95	LX	7/16/10
PD11-023	7/21/11	North Capitol Villas Condos	589-19-063	NE/c N. Capitol & Sierra	Berryessa	MF	94	LX	11/18/11
PD10-024	11/2/10	Guadalupe Mines Housing	575-02-027	W/s Guadalupe Mines, 2000' sly Camden	Almaden	SF	89	LX	9/16/11
PD11-008	3/7/11	Lester Property Housing	464-22-030	N/s Blossom Hill, 250' ely Cahalan	Edenvale	SF	86	LX	9/7/11
PD08-015	2/11/08	Japantown Senior Apts	249-39-011	W/s N. 6th, 200' sly E. Taylor	Central	MF	85	SZ	5/7/10

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/07

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
CP07-101	12/6/07	Bascom Senior Assisted Living	412-24-009	SW/c Bascom & Surrey	Willow Glen	MF	69	MD	6/11/08
PD07-013	2/9/07	22nd & William Housing	472-01-021	S/s William, 350' wly S. 24th	Central	SF	67	MS	6/29/07
PD07-089	10/10/07	Leigh Senior Housing	284-32-014	SE/c Southwest Expwy & Leigh	Willow Glen	MF	64	MD	6/26/09
PD09-030	10/2/09	Westmount Square	249-09-009	SE/c E. Mission & N. 10th	Central	SF	60	SZ	11/30/09
PD11-026	7/28/11	Hacienda Gardens Townhomes	447-05-012	NE/c Hillsdale & Yucca	Willow Glen	SF	51	ME	11/18/11
PD09-039	11/23/09	Edwards Mixed Use	264-37-060	SW/c Edwards & S. 1st	Central	MF	50	SZ	7/2/10
Total							**15,608**		

Projects Pending City Approval

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PDC07-098	11/21/07	iStar Site Housing	706-08-008	NW/c Monterey & Hwy 85	Edenvale	SF/MF	1,100	JC	---
PDC07-073	9/12/07	Corp Yard Mixed Use	249-39-039	NE/c Jackson & N. 6th	Central	SF	600	LM	---
PDC11-018	10/14/11	River Oaks Apts	097-33-102	N/s River Oaks, 200' ely Research	North	MF	450	LX	---
H08-001	1/2/08	San Pedro Condos (Tower 1)	259-32-044	SW/c N. San Pedro & Bassett	Central	MF	240	SZ	---
PDA05-066-01	11/3/11	Santana Row (Parcel 8B)	277-46-001	SE/c Winchester & Stevens Creek	West Valley	SF/MF	220	LX	---
HA04-038-04	11/21/07	The 88 Condos (Phase 2)	467-22-156	S/s E. San Fernando bet S. 2nd & S. 3rd	Central	MF	204	ES	---
CP11-034	5/10/11	North San Pedro Apts	259-23-016	NE/c Hwy 87 & Bassett	Central	MF	135	LX	---
PDA04-076-02	12/16/11	Ajisai Gardens Apts	249-37-006	SE/c E. Taylor & N. 7th	Central	MF	100	LX	---
PDC08-067	12/23/08	Summerwind Apts (annex)	477-19-060	NW/c McLaughlin & Summerside	South	MF	91	LX	---
PDC11-005	4/7/11	Race Street Terrace	261-42-072	Bet. Race & Grand, 300' sly Park	Central	MF	70	LX	---
Total							**3,210**		
GRAND TOTAL							**26,228**		

Footnotes: (1) Includes PD05-075 (89 units)

(2) Includes PD06-051 (104 units), PD06-052 (50 units), and PD06-068 (127 units).

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

Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/07

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									
PD07-060	6/20/07	America Center (Phase 1)	015-45-026	NW/c Hwy 237 & Gold	Alviso	421,000		CB	11/8/07
PD07-049	5/21/07	Lowe's Home Improvement	230-46-068	NW/c Coleman & Newhall	North	219,000		ME	5/2/08
PD07-063	7/10/07	Lowe's Home Improvement	706-06-019	SE/c Monterey & Cottle	Edenvale	201,000		SS	9/19/08
H07-025	7/2/07	Lowe's Home Improvement	237-05-053	SE/c Hwy 880 & Brokaw	Berryessa	195,000		JB	2/29/08
CP07-070	9/7/07	Target Stores	097-03-140	SE/c N. 1st & Hwy 237	North	148,000		AB	8/26/09
SP08-046	8/14/08	Equinix (Phase 1)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	125,000		SD	10/9/09
CP08-071	8/29/08	Hotel Sierra	097-03-138	SE/c N. 1st & Hwy 237	North	116,000	160	CB	12/10/08
PD07-100	11/19/07	Santana Row (Office)	277-33-004	SE/c Winchester & Stevens Creek	West Valley	76,000		SM	4/11/08
PD08-054	8/12/08	Samaritan Medical Center	421-37-012	NE/c Samaritan & S. Bascom	Cambrian/Pioneer	75,000		ES	3/24/09
CP07-072	9/18/07	Whole Foods Market	567-50-012	SW/c Blossom Hill & Almaden	Cambrian/Pioneer	73,000		ES	4/8/08
PD09-021	6/11/09	Bellarmine (Academic Building)	261-11-005	NE/c Elm & Emory	Central	55,000		SD	11/13/09
PD07-105	12/20/07	Bellarmine (Humanities Building)	261-11-005	NE/c Elm & Emory	Central	53,000		ES	7/11/08
Total						**1,757,000**	**160**		
Projects Under Construction									
PD10-025	11/5/10	M8trix Casino/Hotel	230-29-065	SE/c Airport & Old Bayshore	North	798,000	600	JH	3/18/11
PD05-016	2/14/05	Vietnam Town Shopping Center	472-11-065	N/s Story, 700' swly McLaughlin	Central	300,000		LM	9/5/06
CP08-057	6/26/08	Brokaw North Retail	237-03-074	NW/c Oakland & Brokaw	Berryessa	102,000		ES	10/22/08
H07-053	5/25/07	Retail @ First	097-03-138	NE/c N. First & Headquarters	North	73,000		CB	4/4/08
PD09-040	12/2/09	Valley Christian Schools	684-05-019	Ely term. Skyway	Edenvale	50,000		JC	8/25/10
PD09-018	5/7/09	Lincoln Office/Retail	429-06-070	SE/c Lincoln & Willow	Willow Glen	41,000		SZ	5/21/10
PD10-011	6/15/10	Bellarmine (Life Center/Gym)	261-11-005	NE/c Elm & Emory	Central	40,000		JN	1/14/11
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	30,000		SM	3/21/08
PD11-013	5/5/11	Foxworthy Retail	451-06-066	NW/c Almaden & Hillsdale	Willow Glen	25,000		JN	7/15/11
PD07-033	4/13/07	Northpointe Mixed Use	097-07-086	NW/c Zanker & Tasman	North	25,000		JB	11/30/07
Total						**1,484,000**	**600**		

Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/07

Approved Projects (Construction Not Yet Commenced)

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
PD07-060	6/20/07	America Center (Phase 2)	015-45-026	NW/c Hwy 237 & Gold	Alviso	560,000	176	CB	11/8/07
H06-027	5/10/06	Valley Fair Shopping Center	274-43-035	NW/c Hwy 17 & Stevens Creek	West Valley	525,000		AB	11/19/07
PD05-087	11/18/05	Hitachi Site Mixed Use	706-04-013	NE/c Cottle & Hwy 85	Edenvale	460,000		JR	6/2/06
PDC10-017	6/2/10	Harker School (Upper Campus)	303-25-001	NE/c Saratoga & Hwy 280	West Valley	316,000		JC	9/27/11
PD11-027	8/2/11	Sun Garden Retail Center	477-07-013	E/s Monterey, 300' sly E. Alma	Central	257,000		JC	10/21/11
PDC09-006	1/27/09	Flea Market Mixed Use	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	245,000		LX	10/20/09
PD08-062	6/23/08	Marriott Residence Inn	230-29-109	SW/c N. 1st & Skyport	North	216,000	321	JD	2/10/09
PDC07-095	11/9/07	Santana Row	277-33-004	SE/c Winchester & Stevens Creek	West Valley	198,000		SM	5/13/08
PD05-095	12/22/05	Calif. Center for Health Care	678-07-029	SE/c Silver Creek Valley & Hwy 101	Edenvale	178,000		SS	9/21/07
PD07-001	1/3/07	Smythe European	296-38-012	SW/c Stevens Creek & Palace	West Valley	170,000		RR	6/15/07
PD09-016	4/23/09	ɛegional Medical Center (Phase 2A	481-05-021	SW/c McKee & N. Jackson	Alum Rock	161,000		SD	11/4/09
PDC07-010	1/25/07	Markovits & Fox Mixed Use	237-03-070	SW/c E. Brokaw & Oakland	Berryessa	150,000		LX	12/14/10
H08-044	12/5/08	Askari Self Storage	241-12-012	E/s Oakland, 350' sly Service	Berryessa	103,000		JC	6/24/11
CP10-059	11/9/10	Courtyard Marriott @ First	097-14-108	SE/c N. 1st & Hwy 237	North	99,000	157	JN	4/20/11
PD07-071	8/21/07	Senter Office/Retail	477-73-043	E/s Senter, 1200' nly Tully	South	60,000		MD	11/30/07
PD07-085	10/1/07	Silicon Valley Club	015-34-059	W/s Gold term El Dorado	Alviso	60,000		JD	2/13/09
PD08-018	2/20/08	Orchard Supply Hardware	447-05-018	E/sYucca, bet Foxworthy & Hillsdale	Willow Glen	51,000		ES	8/15/08
PD07-090	10/23/07	Riverview Mixed Use	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	45,000		JB	4/4/08
PD07-039	4/25/07	Whole Foods Market	261-01-098	NW/c The Alameda & Stockton	Central	44,000		HL	9/28/07
SP08-046	8/14/08	Equinix (Phase 2)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	40,000		SD	10/9/09
PD06-036	7/24/06	Evergreen Village Square	659-56-002	SW/c Ruby & Classico	Evergreen	37,000		RM	1/12/07
PDC08-061	11/3/08	Ohlone Mixed Use	264-14-131	SW/c W. San Carlos & Sunol	Central	30,000		ME	11/9/10
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	30,000		RM	10/10/08
PD10-027	11/22/10	Chinmaya Mission	612-53-046	NE/c Clayton & Hickerson	Alum Rock	26,000		JC	3/21/11
PDC07-015	2/15/07	Newbury Park Mixed Use	254-04-076	NE/c N. King & Dobbin	Alum Rock	25,000		AB	12/18/07
H10-018	9/17/10	First United Methodist Church	467-19-078	NE/c E. Santa Clara & N. 5th	Central	24,000		LX	4/8/11
Total						**4,110,000**	**654**		

Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/07

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
Projects Pending City Approval									
PDC10-006	4/13/10	Almaden Ranch	458-17-006	SE/c Almaden & Chynoweth	Cambrian/Pioneer	400,000		AB	---
PDC10-022	10/26/10	The Plaza at Evergreen	670-29-020	W/s Capitol, 1500' sly Quimby	Evergreen	200,000		JC	---
PD08-027	4/4/08	Flea Market Mixed Use (North)	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	121,000		LX	---
SP11-046	11/29/11	Public Storage	477-22-028	SW/c Tully & Old Tully	South	115,000		JB	---
PD11-021	6/27/11	Santana Office Park	277-38-002	W/s S. Monroe, 450' nly Hwy 280	West Valley	90,000		LX	---
H08-014	3/26/08	Stevens Creek Chrysler/Dodge	294-41-003	S/s Stevens Creek, 260' ely Kiely	West Valley	50,000		ES	---
H11-027	10/11/11	Mabury Self Storage	254-02-038	S/s Mabury, 220' wly Lenfest	Alum Rock	30,000		JC	---
PDC07-073	9/12/07	Corp Yard Mixed Use	249-39-039	NE/c Jackson & N. 6th	Central	30,000		LM	---
HA04-038-04	11/21/07	The 88 Condos (Phase 2)	467-22-156	S/s E. San Fernando bet S. 2nd & S. 3rd	Central	27,000		ES	---
H08-025	5/28/08	Stevens Creek Gateway	274-57-022	NE/c Stevens Creek & DiSalvo	Central	26,000		JC	---
Total						**1,089,000**	**-**		
GRAND TOTAL						**8,440,000**	**1,414**		

Footnotes:

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

Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/07

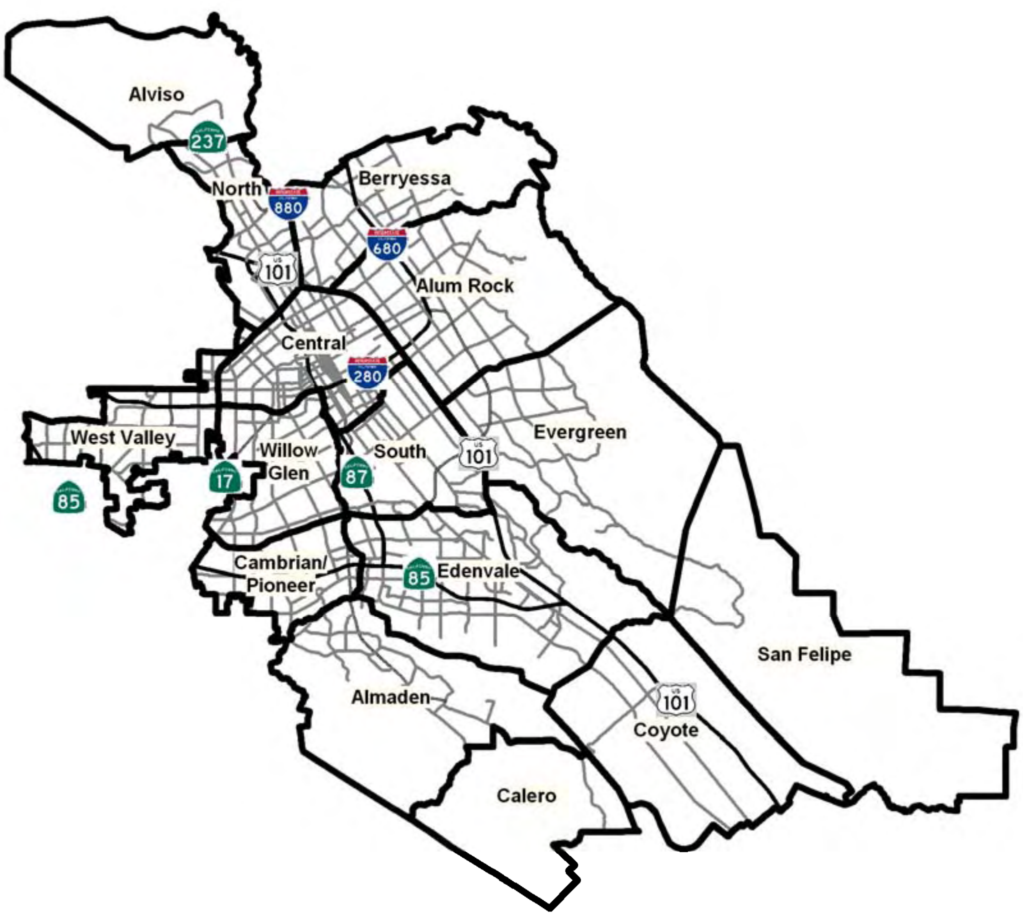
File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
Projects Completed								
HA02-040-01	3/19/07	ACM Aviation Hangar/Office	230-46-042	SE/c Coleman & Aviation	North	78,000	CB	6/22/07
Total						**78,000**		
Projects Under Construction								
H09-002	1/14/09	Brocade Communications	097-03-139	SE/c N. 1st & Hwy 237	North	1,000,000	CB	10/9/09
H07-030	8/2/07	Bay Area Self Storage	455-07-012	NW/c Curtner & Stone	South	135,000	CB	6/6/08
Total						**1,135,000**		
Approved Projects (Construction Not Yet Commenced)								
PD08-064	11/3/08	Campus @ North First	101-02-011	SW/c N. 1st & Component	North	2,800,000	JD	3/24/09
PD08-030	4/22/08	Skyport Plaza (Phase 2)	230-29-056	W/s N. 1st bet Skyport & Sonora	North	558,000	JB	8/8/08
H08-002	1/8/08	Boston Properties (Zanker)	097-33-104	NE/c Zanker & Montague	North	533,000	CB	12/17/08
PD07-081	9/18/07	Legacy on 101 Office	101-02-015	W/s Orchard, 750' nly Charcot	North	398,000	JB	12/21/07
Total						**4,289,000**		
Projects Pending City Approval								
Total						**-**		
GRAND TOTAL						**5,502,000**		

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

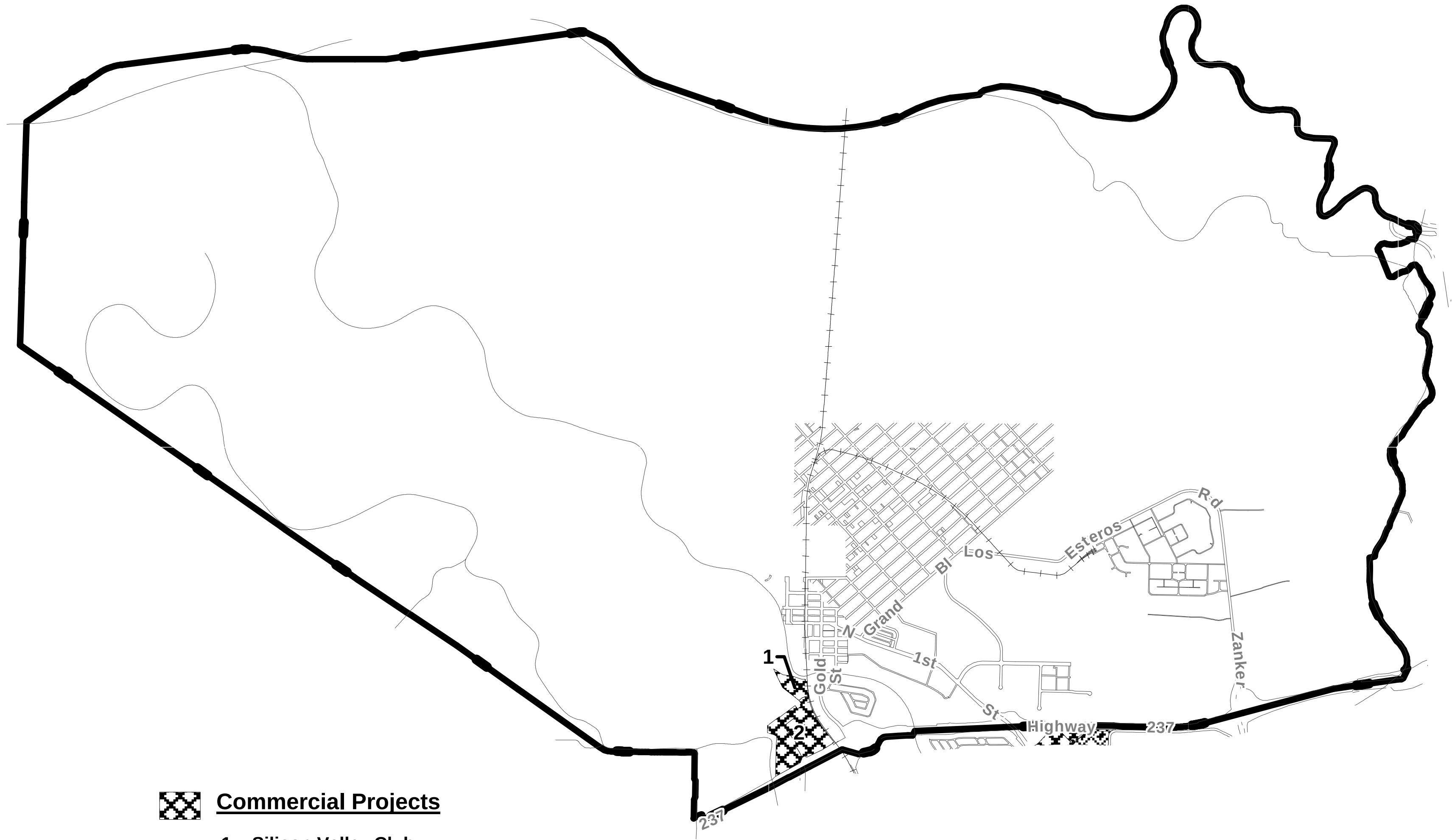
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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, 2007. These maps can be used in conjunction with the data contained in Section V of this report to allow closer analysis of the rate, type, and location of major development activity in the City. (Note: map exhibits are not provided for the Calero, Coyote, or San Felipe planning areas, as no major development activity occurred there and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary).

Figure 1: San Jose Planning Areas



Alviso Planning Area
Major Development Activity

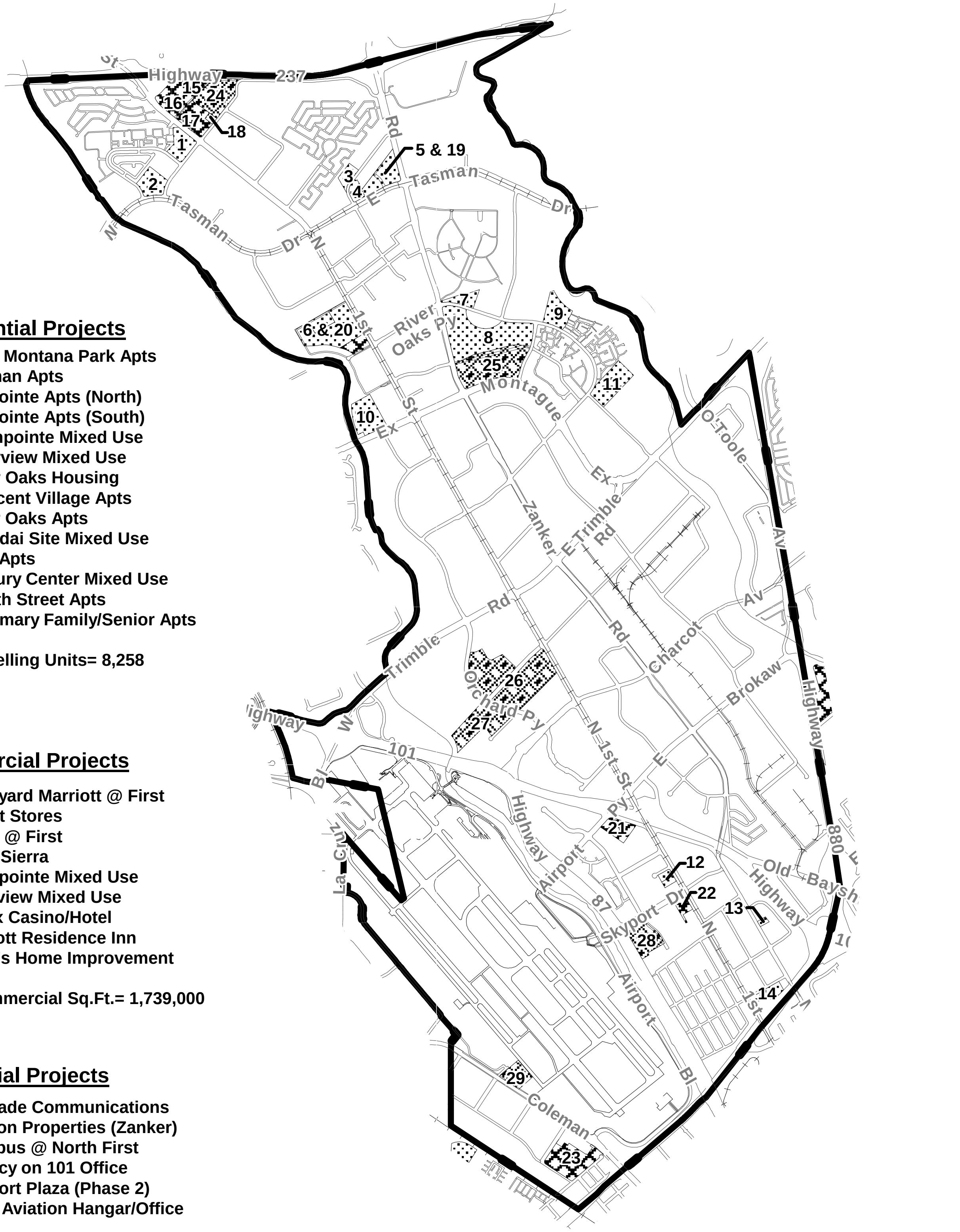


Commercial Projects

1 Silicon Valley Club
2 America Center

Total Commercial Sq.Ft.= 1,041,000

North Planning Area
Major Development Activity



Residential Projects

1 Vista Montana Park Apts
2 Tasman Apts
3 Baypointe Apts (North)
4 Baypointe Apts (South)
5 Northpointe Mixed Use
6 Riverview Mixed Use
7 River Oaks Housing
8 Crescent Village Apts
9 River Oaks Apts
10 Hyundai Site Mixed Use
11 Epic Apts
12 Century Center Mixed Use
13 Fourth Street Apts
14 Rosemary Family/Senior Apts

Total Dwelling Units= 8,258

Commercial Projects

15 Courtyard Marriott @ First
16 Target Stores
17 Retail @ First
18 Hotel Sierra
19 Northpointe Mixed Use
20 Riverview Mixed Use
21 M8trix Casino/Hotel
22 Marriott Residence Inn
23 Lowe's Home Improvement

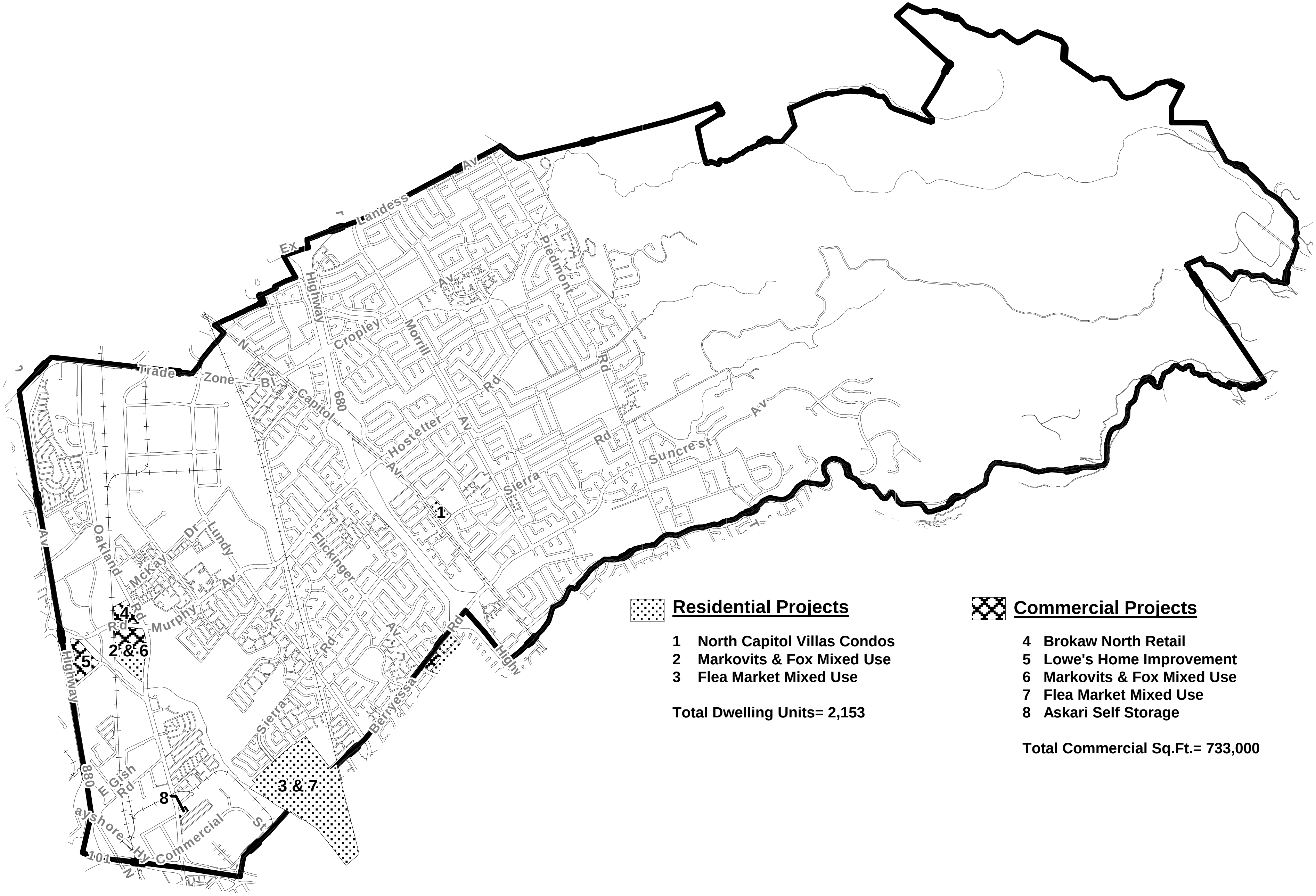
Total Commercial Sq.Ft.= 1,739,000

Industrial Projects

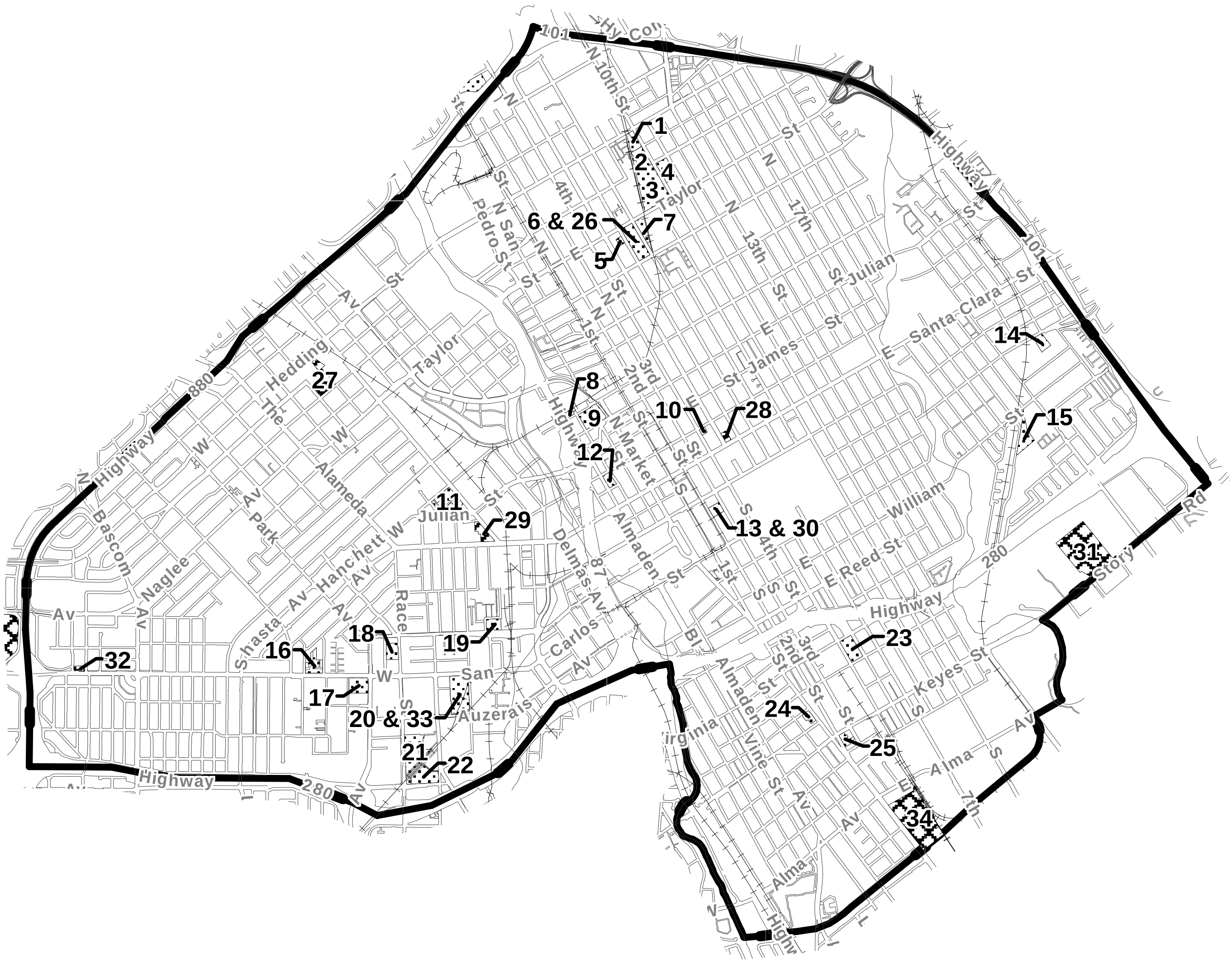
24 Brocade Communications
25 Boston Properties (Zanker)
26 Campus @ North First
27 Legacy on 101 Office
28 Skyport Plaza (Phase 2)
29 ACM Aviation Hangar/Office

Total Industrial Sq.Ft.= 5,367,000

Berryessa Planning Area
Major Development Activity



Central Planning Area
Major Development Activity



Residential Projects

1 Cornerstone Apts
2 North Tenth Street Housing
3 Libitzky Mixed Use
4 Westmount Square
5 Japantown Senior Apts
6 Corp Yard Mixed Use
7 Ajisai Gardens Apts
8 North San Pedro Apts
9 San Pedro Condos
10 Donner Lofts
11 Morrison Park Townhomes
12 The Carlysle Condos
13 The 88 Condos (Phase 2)
14 Brookwood Terrace Apts
15 22nd & William Housing
16 Fiesta Senior/Vista on San Carlos
17 San Carlos Mixed Use
18 Race Street Terrace
19 Park Avenue Lofts
20 Ohlone Mixed Use
21 Mosaic Apts
22 Elements Apts
23 Virginia Terrace Condos
24 Edwards Mixed Use
25 South 2nd Mixed Use

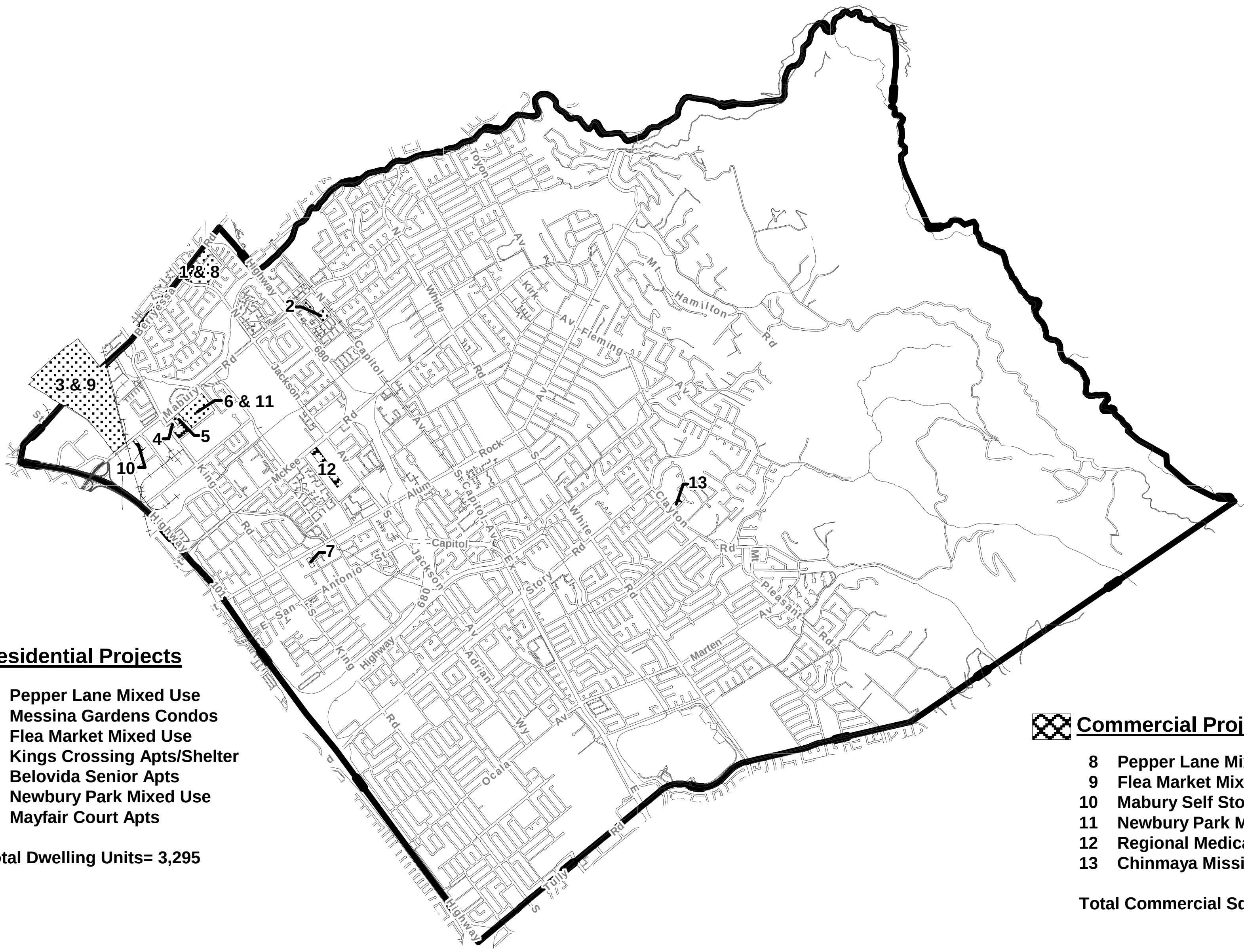
Total Dwelling Units= 5,340

Commercial Projects

26 Corp Yard Mixed Use
27 Bellarmine College Preparatory
28 First United Methodist Church
29 Whole Foods Market
30 The 88 Condos (Phase 2)
31 Vietnam Town Shopping Center
32 Stevens Creek Gateway
33 Ohlone Mixed Use
34 Sun Garden Retail Center

Total Commercial Sq.Ft.= 886,000

Alum Rock Planning Area
Major Development Activity



Residential Projects

1 Pepper Lane Mixed Use
2 Messina Gardens Condos
3 Flea Market Mixed Use
4 Kings Crossing Apts/Shelter
5 Belovida Senior Apts
6 Newbury Park Mixed Use
7 Mayfair Court Apts

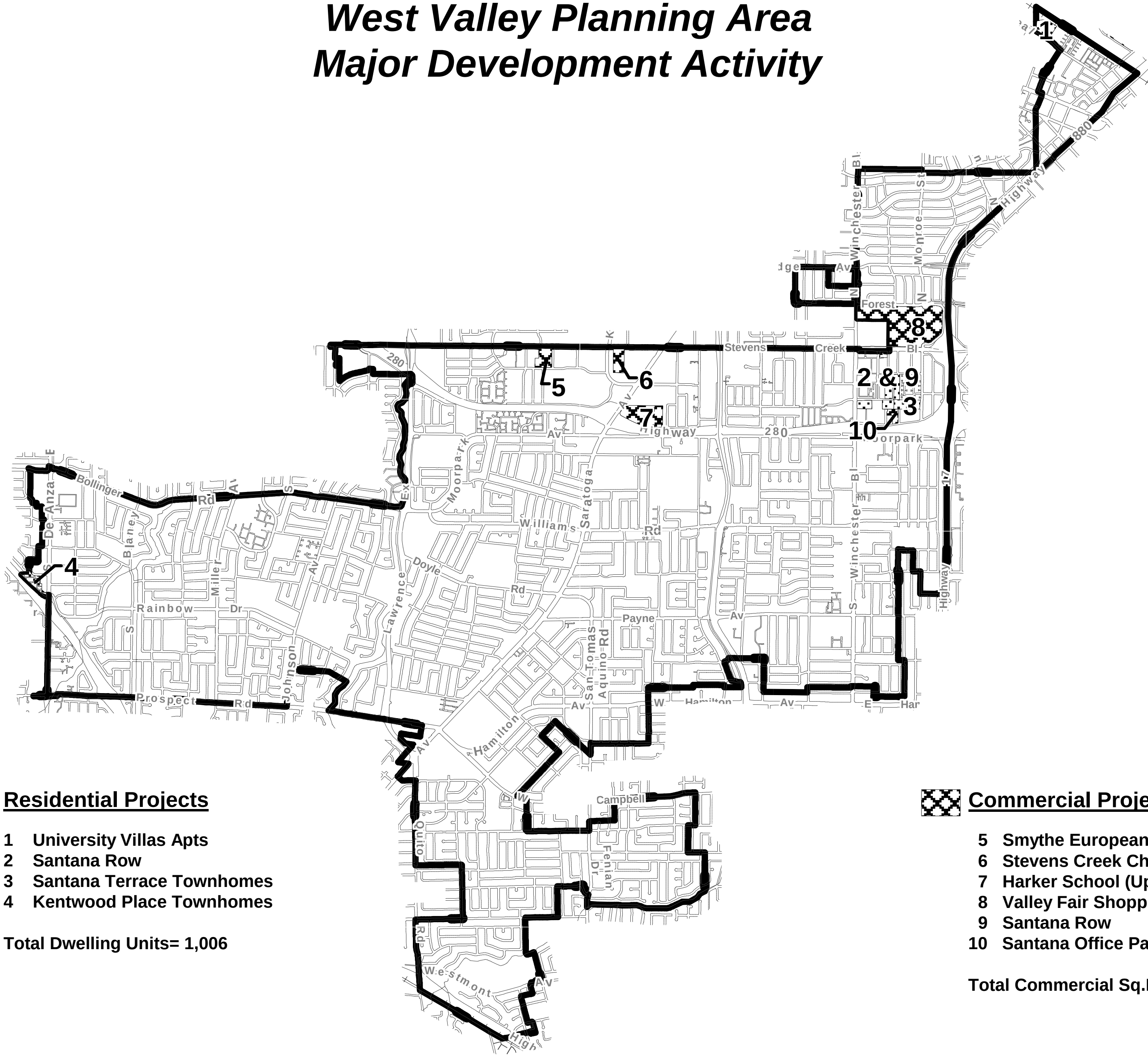
Total Dwelling Units= 3,295

Commercial Projects

8 Pepper Lane Mixed Use
9 Flea Market Mixed Use
10 Mabury Self Storage
11 Newbury Park Mixed Use
12 Regional Medical Center
13 Chinmaya Mission

Total Commercial Sq.Ft.= 455,000

West Valley Planning Area
Major Development Activity



Residential Projects

1 University Villas Apts
2 Santana Row
3 Santana Terrace Townhomes
4 Kentwood Place Townhomes

Total Dwelling Units= 1,006

Commercial Projects

5 Smythe European
6 Stevens Creek Chrysler/Dodge
7 Harker School (Upper Campus)
8 Valley Fair Shopping Center
9 Santana Row
10 Santana Office Park

Total Commercial Sq.Ft.= 1,425,000

Willow Glen Planning Area
Major Development Activity

Residential Projects

1 Fruitdale Station (Phase 2)
2 Leigh Senior Housing
3 Bascom Senior Assisted Living
4 Hacienda Gardens Townhomes

Total Dwelling Units= 440

Commercial Projects

5 Fruitdale Station (Phase 2)
6 Lincoln Office/Retail
7 Orchard Supply Hardware
8 Foxworthy Retail

Total Commercial Sq.Ft.= 147,000

South Planning Area
Major Development Activity

Residential Projects

1 Summerwind Apts (annex)
2 Markham Terrace Apts
3 Corde Terra Senior Apts
4 Senter Road Family Apts
5 Montecito Vista Mixed Use
6 Orvieto Family/Senior Apts

Total Dwelling Units= 1,332

Commercial Projects

7 Senter Office/Retail
8 Public Storage

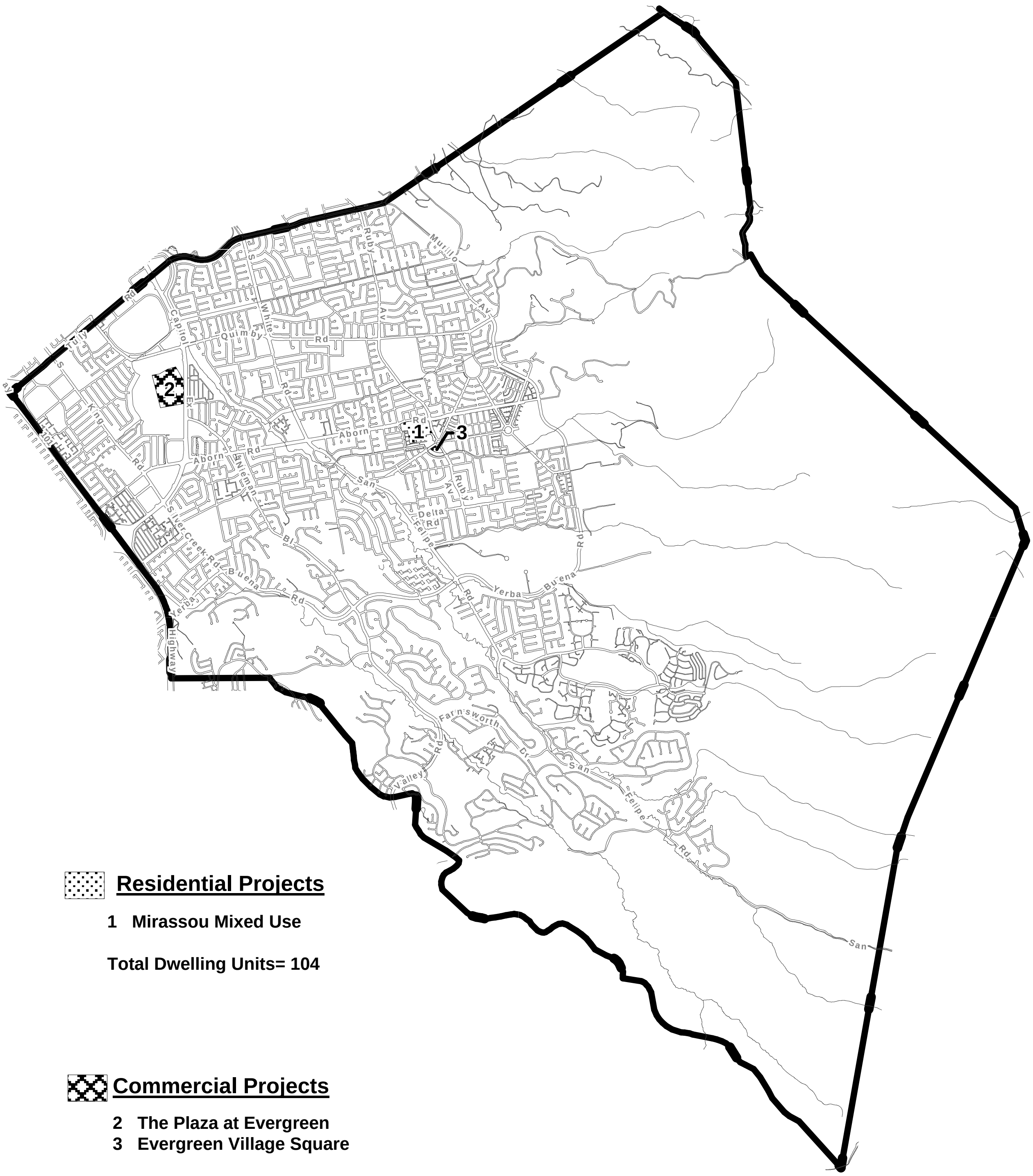
Total Commercial Sq.Ft.= 175,000

Industrial Projects

9 Bay Area Self Storage

Total Industrial Sq.Ft.= 135,000

Evergreen Planning Area
Major Development Activity



Residential Projects

1 Mirassou Mixed Use

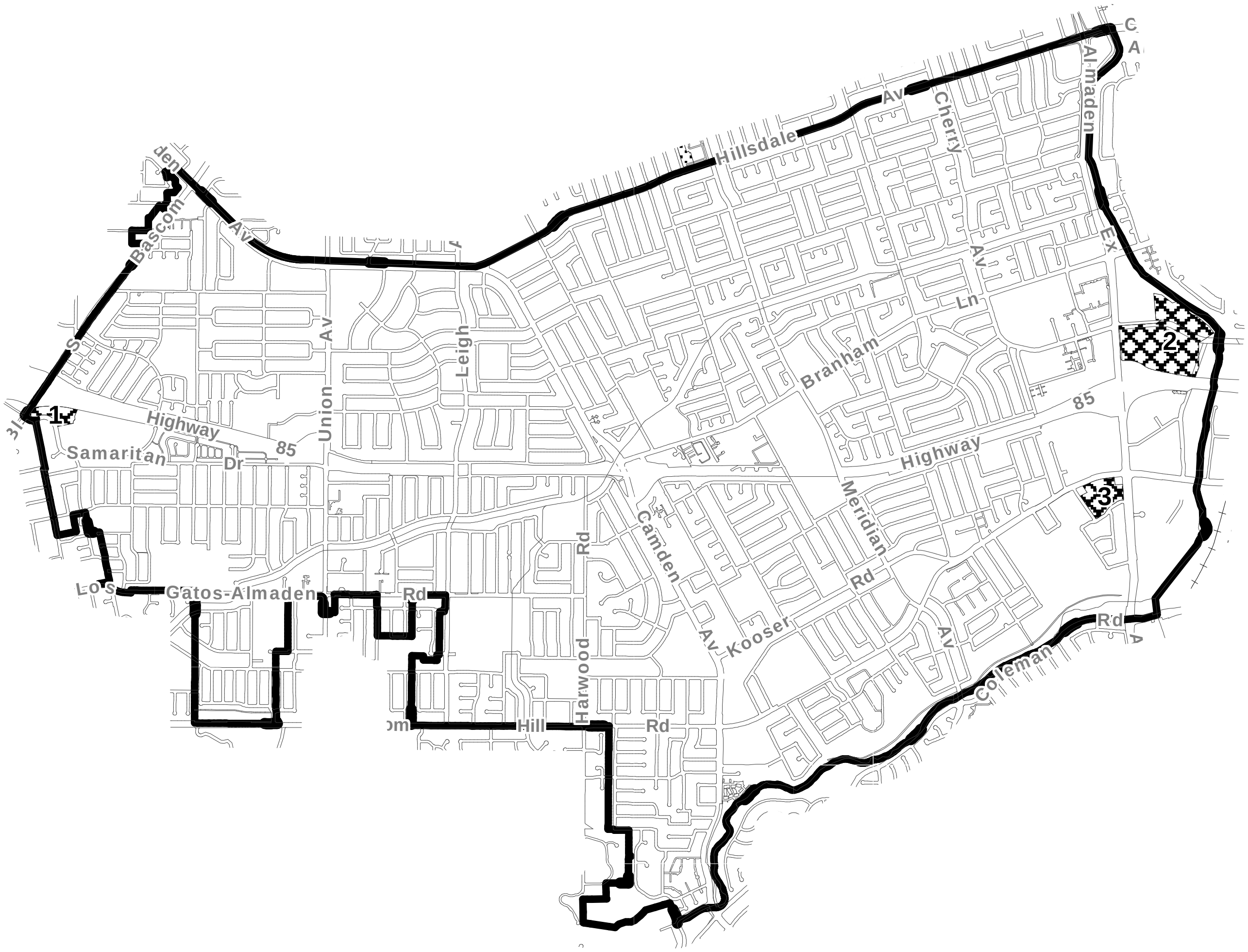
Total Dwelling Units= 104

Commercial Projects

2 The Plaza at Evergreen
3 Evergreen Village Square

Total Commercial Sq.Ft.= 237,000

Cambrian/Pioneer Planning Area
Major Development Activity

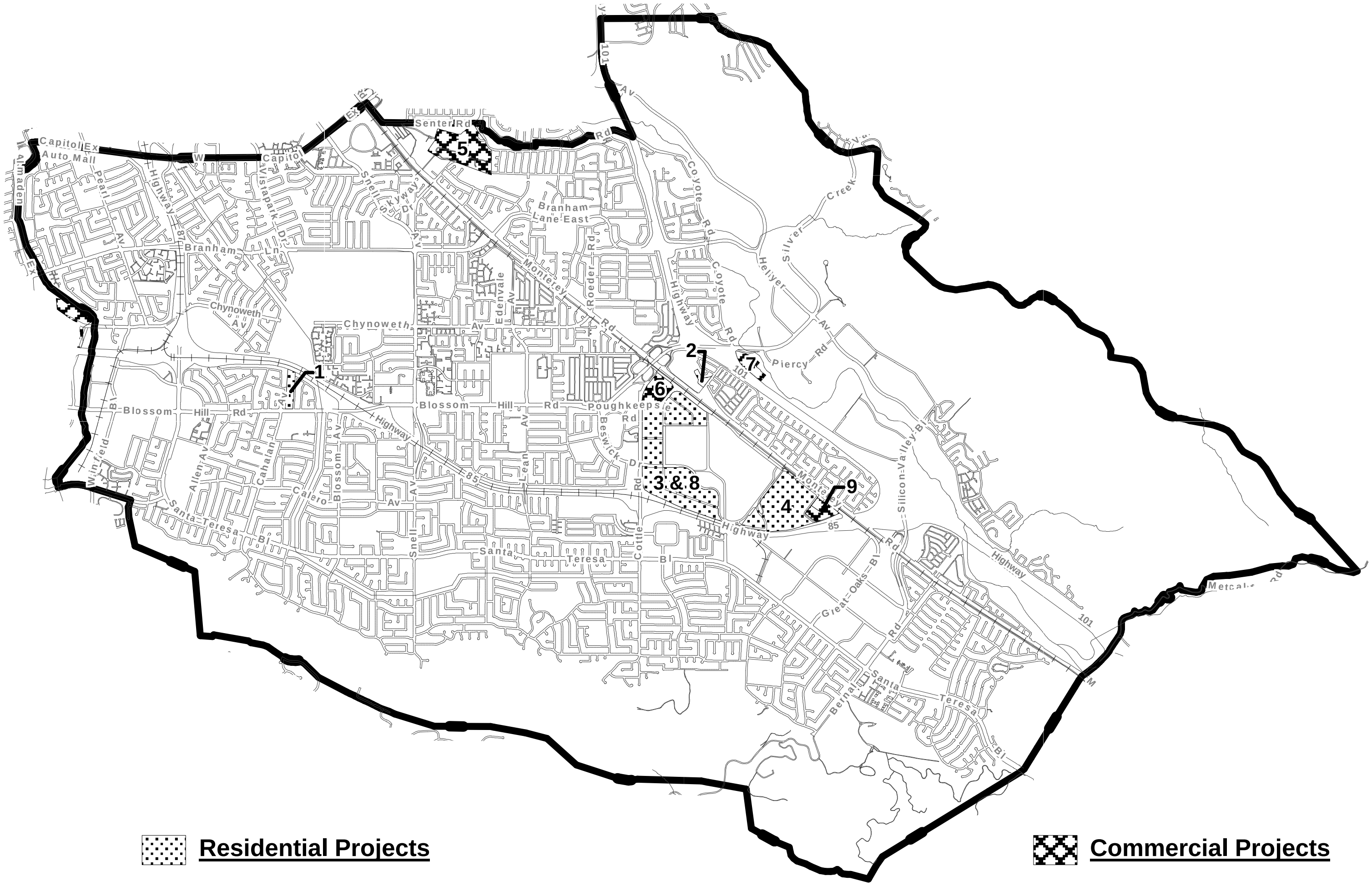


Commercial Projects

1 Samaritan Medical Center
2 Almaden Ranch
3 Whole Foods Market

Total Commercial Sq.Ft.= 548,000

Edenvale Planning Area
Major Development Activity



Residential Projects

1 Lester Property Housing
2 Ford Apts
3 Hitachi Site Mixed Use
4 iStar Site Housing

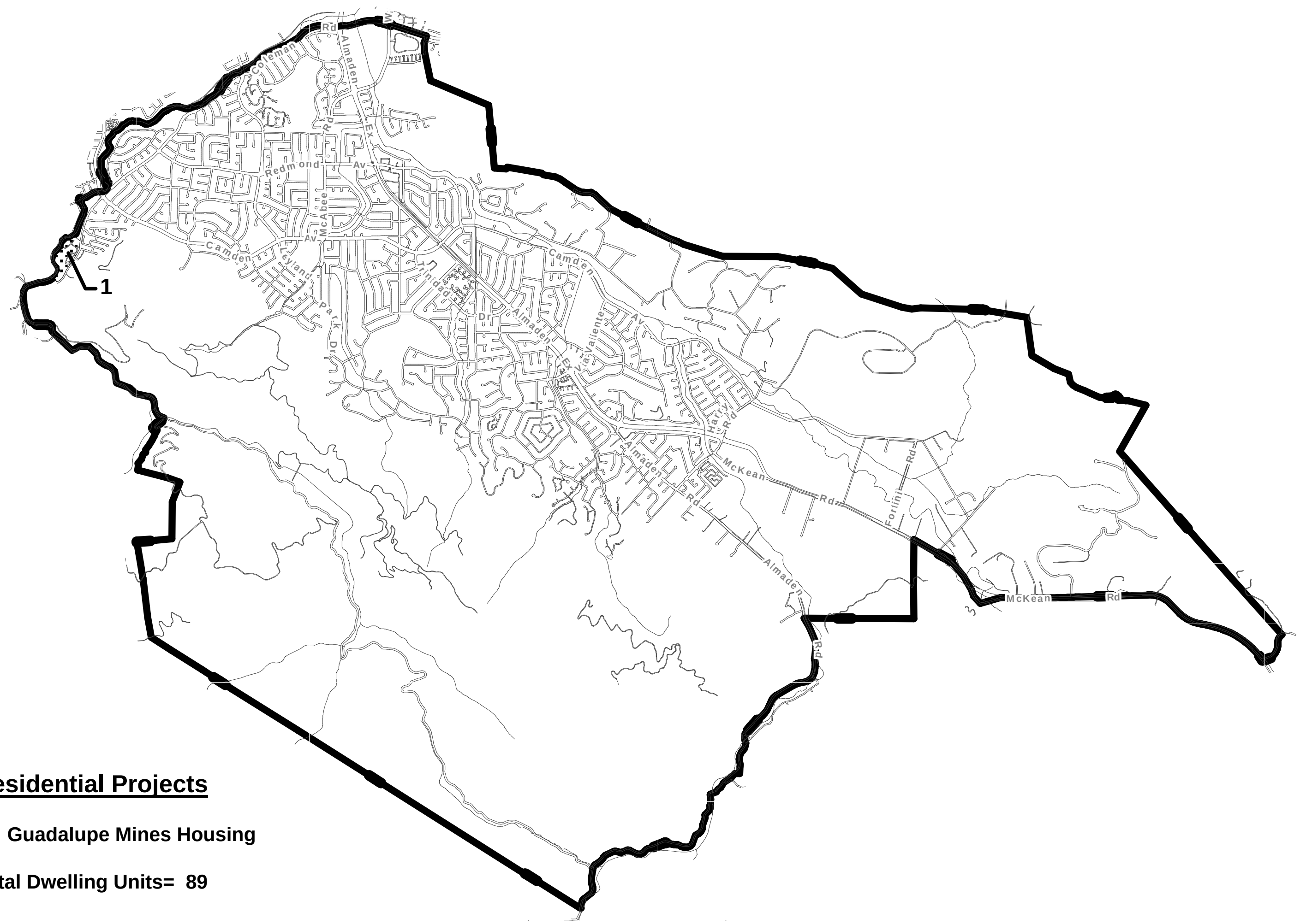
Total Dwelling Units= 4,211

Commercial Projects

5 Valley Christian Schools
6 Lowe's Home Improvement
7 Calif. Center for Health Care
8 Hitachi Site Mixed Use
9 Equinix

Total Commercial Sq.Ft.= 1,054,000

Almaden Planning Area
Major Development Activity



Residential Projects

1 Guadalupe Mines Housing

Total Dwelling Units= 89

VII. APPENDIX: SOURCES

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

Data Collection and Analysis

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

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

Review of Publications

Planning staff consulted several publications that made an important contribution to the preparation of this report, including: the San Jose Business Journal, The Registry Real Estate Journal, the San Jose Mercury News, the Silicon Valley Leadership Group's *Projections 2011*, Joint Venture Silicon Valley Network's *2011 Index of Silicon Valley*, the U.S. Census Bureau's *Census 2010*, Marcus & Millichap's *Market Research Reports* (periodic), and Cassidy Turley/CPS's *Market Newsletter* (quarterly).