CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

# 2020-2021
# City Manager's Budget Request

# &

# 2021-2025
# Five-Year Forecast
# and
# Revenue Projections

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

**Office of the City Manager**

February 2020

# 2020-2021
# CITY MANAGER'S BUDGET REQUEST
# &
# 2021-2025
# 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 2020

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

# Memorandum

**TO:** HONORABLE MAYOR AND CITY COUNCIL

**FROM:** David Sykes

**SUBJECT:** **2020-2021 CITY MANAGER'S BUDGET REQUEST AND 2021-2025 FIVE-YEAR FORECAST**

**DATE:** March 2, 2020

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## INFORMATION

## EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2020-2021 City Manager's Budget Request (2020-2021 Budget Balancing Strategy Guidelines) and the 2021-2025 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. Major highlights of this report follow.

As shown in the chart below, a very small General Fund surplus of $0.5 million is projected for 2020-2021. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved ongoing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. In the remaining years of the Forecast, General Fund shortfalls ranging from $11.1 million to $2.2 million are projected for two of the four years with a projected surplus in the other two years ($14.0 million in 2022-2023 and $1.0 million in 2024-2025). These margins are relatively narrow when put into context of the size of the total projected General Fund Base Budget, ranging from -0.9% to 1.1%. Over the five-year period, a total General Fund surplus of $2.2 million is anticipated, which equates to approximately $0.4 million annually, which equates to 0.2% of the projected General Fund Base Budget.

**2021-2025 General Fund Forecast**
**Incremental General Fund Surplus/(Shortfall)**

| | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| Incremental Surplus/(Shortfall) | $0.5 M | ($11.1 M) | $14.0 M | ($2.2 M) | $ 1.0 M |
| % of Budget (Based on Expenditures) | 0.04% | (0.89%) | 1.11% | (0.17%) | 0.08% |

- This Forecast reflects the Administration's best estimates on projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2019-2020; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

- The Forecast is built on the assumption of slowing, but still positive, economic growth. The General Fund position is fairly consistent with the 2020-2024 Forecast issued in March 2019. In the previous Forecast, shortfalls ranging from -$1.7 million to -$15.6 million were projected in the out years of the Forecast, with a projected surplus of $11.4 million in 2022-2023 and $1.7 million in 2023-2024.

- As with all forecasts, there is a level of 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. The City's two largest General Fund revenues, Property Tax and Sales Tax, are sensitive to changes in the local economy and may fluctuate to a significant degree depending on future conditions. Various cost elements can also vary from year to year. While retirement costs as a percentage of the General Fund have stabilized over the past several years, costs fluctuate and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards.

- Three alternative forecasts have been developed to model the range of budgetary scenarios possible under varying economic conditions. "Optimistic", "Pessimistic", and "Recession" Cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case". Over the five-year period, the Optimistic Case would generate a surplus of $78.9 million, while the Pessimistic Case would result in a shortfall of $47.4 million, and the Recession Case would yield a shortfall of $178.1 million. It is important to note that, the length of current economic expansion makes for difficult forecasting over the next five years. Though a recession is not anticipated in the following year, the Base Case does assume weaker economic conditions in the out years, including a decline in local employment metrics in 2021-2022.

- Although potential implications of the coronavirus (COVID-19) have been discussed internally and with consulting economists over the past couple of months as the City developed its forecast models, a specific impact associated with a flu-like pandemic was not incorporated due to the limited information available and uncertainty over how broadly the disease would spread. As this Forecast document is being finalized, early economic impacts of COVID-19 are being felt, with global financial markets sharply down and several large conventions within the Bay Area scaled back or cancelled, including Facebook F8 that was originally scheduled at the San José McEnery Convention Center in May 2020. The City will closely monitor the events associated with COVID-19 to measure their impact as part of the 2020-2021 Proposed Budget process.

- The chart on page 3 compares the 2020-2021 General Fund Forecast to the 2019-2020 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund surplus of $0.5 million. As a result of the Mayor and City Council's direction incorporated into the 2019-2020 Adopted Budget, a small surplus of $4.8 million of funding remains unspent and was therefore carried forward into 2020-2021. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by $24.2 million, driven primarily by increases in the Property Tax, Sales Tax, and Overhead revenue estimates. In addition, revenues and expenditures related to the development fee programs will no longer be captured in the General Fund beginning in 2020-2021 as each of the Development Fee Programs will be budgeted in individual funds. As a result, significant General Fund reductions in the Licenses and Permits ($42.3 million) and Fees, Rates, and Charges ($28.2 million) revenue categories are reflected in 2020-2021. These revenue reductions are partially offset by an increase to the Beginning Fund Balance ($35.5 million) that reflects the liquidation of the Development Fee Program reserves. When comparing expenditures (the third element), base costs are expected to increase by $28.4 million from 2019-2020 ongoing budget levels, with the majority of the net increase, after accounting for the Development Fee Program shift, associated with increased employee pay and retirement contributions.

**2020-2021 General Fund Forecast**
**Reconciliation from 2019-2020 Adopted Budget**

| 2020-2021 General Fund Forecast Components (Ongoing) | $ in Millions |
|---|---|
| **Carry-Over from 2019-2020 Adopted Budget** | **$ 4.75** |
| **Revenue Changes** | |
| - Development Fee Program Reserve Liquidation (For Transfer to Separate Funds) | $ 35.50 |
| - Property Tax | 26.30 |
| - Sales Tax | 9.40 |
| - Business Taxes (Cannabis Business Tax and General Business Tax) | 5.70 |
| - Licenses and Permits (Development Fee Programs) | (42.33) |
| - Fees, Rates, and Charges (Development Fee Programs) | (28.15) |
| - Utility Tax | (3.25) |
| - Overhead/Transfers/Reimbursements | 12.83 |
| - Other Net Revenue Changes | 8.15 |
| **Total Revenue Changes (Increase)** | **$ 24.15** |
| **Expenditure Changes** | |
| - Transfer to the Development Fee Program Funds | $ 35.50 |
| - Employee General Pay Increases | 24.67 |
| - Retirement Costs | 22.08 |
| - Non-Management Step and Management-Pay-for-Performance Increases | 5.27 |
| - Health Plan and Other Benefits | 2.14 |
| - Living Wage/Minimum Wage Increase | 1.40 |
| - Dispatch/Communications Classification Series Compensation Increases | 1.37 |
| - IT Project Management Staffing | 1.25 |
| - Non-Personal/Equipment Costs (Vehicle O&M, Electricity, Gas, Police Fleet) | 1.68 |
| - Janitorial Services | 0.69 |
| - Cultural Facilities Operations | 0.50 |
| - Insurance Premiums | 0.47 |
| - City Facilities Maintenance & Waste Collection | 0.43 |
| - Software/Information Systems Contractual Increases/Licenses | 0.34 |
| - King Library Operations | 0.22 |
| - Fire Equipment/Station Maintenance | 0.17 |
| - Animal Care Services (Cleaning, Food, Medical Supplies) | 0.10 |
| - Development Fee Program Fund Shifts (Including City Hall Debt Service Shift) | (67.36) |
| - Other Net Expenditure Changes | (2.56) |
| **Total Expenditure Changes (Increase)** | **$28.36** |
| **2020-2021 Projected General Fund Surplus** | **$ 0.54** |

- For the 2020-2021 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $936.5 million projected personal services total for 2020-2021, salary and other compensation costs total $531.3 million (56.7% of projected personal services), retirement costs total $340.4 million (36.4% of projected personal services), and health and other fringe benefits costs total $64.8 million (6.9% of projected personal services). In the out years of the forecast, annual personal services growth ranging from 1.7% to 3.7% is projected.

- Committed Additions, expenses that address previous City Council direction, are included and total $125,000 in 2020-2021, rising to $21.4 million by the end of the forecast period. The largest expense in this category are the operating and maintenance costs for Measure T bond projects, approved by voters in November 2018, such as Fire Stations 32, 36, and 37 ($4.3 million per project), the Police Training Facility, and the activation of South San José Police Substation**.**

- In approaching the 2020-2021 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2020-2021 City Manager's Budget Request). The *City of San José Budget Principles* and the *Service Delivery Framework* included in Appendix A, combined with City Council approval of the Mayor's March Budget Message will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2020-2021 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval process later in March.

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

- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total $363.9 million over the five-year period, which is slightly higher than the $360.9 million assumed in the 2020-2024 Adopted CIP. Construction and Conveyance (C&C) Tax projections of $180 million over the five-year period are consistent with the prior forecast. The Building and Structure Construction Tax estimates increased slightly and the Construction Excise Tax revenue estimates remained the same in this Forecast for a combined total of $179 million (up 2%).

- Consistent with past practice, as part of the preparation for the 2020-2021 Proposed and Adopted Budgets, the Administration will bring forward revisions to both the revenue and expenditure estimates as new information becomes available.

## BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the recommended 2020-2021 City Manager's Budget Request and the 2021-2025 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program (CIP).

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends for use in developing the 2020-2021 Proposed Budget. These guidelines are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated fiscal status for 2020-2021 is an integral part of the Administration's proposed approach to preparing the 2020-2021 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2020-2021, and the subsequent four years, is provided as part of this document.

## ANALYSIS

This section includes the following: a discussion of the 2020-2021 City Manager's Budget Request; an overview of the 2021-2025 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; and a description of the next steps in the 2020-2021 budget process.

### 2020-2021 CITY MANAGER'S BUDGET REQUEST

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines recommended to be used in the development of the 2020-2021 Proposed Budget. These proposed guidelines were formulated in the context of General Fund projections that are relatively in balance, with a very small General Fund surplus in 2020-2021 followed by alternating shortfalls and surpluses in the remaining years of the Forecast period. The over-arching goals of these guidelines are to continue operational and budget stability while minimizing any service delivery impacts to our community as well as impacts to our employees. These goals are accomplished by keeping General Fund revenues and expenditures in balance; seeking cost savings and revenue generation opportunities; and effectively allocating one-time funding. The potential uses of the one-time funding include continuing, in some cases, programs funded on a one-time basis in 2019-2020, early retirement of debt to decrease future debt-related costs to the City, addressing unmet/deferred infrastructure and maintenance needs, investing in technology that improves efficiency, and setting aside funding in reserves to address potential future budget uncertainty. In a very limited number of cases, ongoing budget additions may be necessary to address key service needs identified by the City Council and Administration as priorities.

In addition to City Council's approval of the Mayor's March Budget Message and priorities identified in prior City Council sessions, these guidelines will be used with the overall City Council-approved *City of San José Budget Principles*, and the *Service Delivery Framework* that are attached as Appendix A to this document.

In accordance with the City Charter, the City is required to adopt a balanced budget each year, allocating any projected surplus or addressing any projected shortfall. In 2020-2021, a General Fund surplus of $0.5 million is projected, representing 0.04% of the General Fund Base Budget of $1.2 billion. In the out years of the Forecast, General Fund shortfalls ranging from $11.1 million to $2.3 million are projected during two of the four years, with a projected surplus of $14.0 million in 2022-2023 and $1.0 million in 2024-2025. These annual variances are small when put into context of the size of the projected General Fund budget, ranging from -0.9% to 1.1% of the projected annual budget, but continue to highlight that the City lacks capacity to address significant ongoing funding needs. To avoid future service disruptions, it is critical that the City does not over-commit its resources in this environment. Although overall service levels fall below desired levels for the San José community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support these additions. As in past years, the Administration recommends that one-time funding identified in the budget process be strategically invested to address one-time needs, such as paying down debt, addressing a portion of the City's unmet/deferred infrastructure and maintenance needs, or building reserves.

This Forecast assumes a deceleration of economic growth in 2021-2022, though not a full recession. However, given the length of the current economic expansion, the possibility of a recession in future years becomes increasingly likely. Leveraging one-time resources to pay down debt that reduces future ongoing costs, or add funding to the Budget Stabilization Reserve (currently at $32 million) that provides a cushion when revenues fall significantly short of expectations or expenditures rise unexpectedly, are important budget strategies to guard against future potential service level reductions.

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

- The costs to continue services funded on a one-time basis in 2019-2020 in the General Fund that totaled over $50 million. Major items funded on a one-time basis include the following: Sworn Hire Ahead Program, Police Recruitment and Background Services, Proactive Community Policing/Foot Patrol in High Needs Neighborhoods, Downtown Foot Patrol Program, Senior Nutrition Program, Transitional Jobs Program (San José Bridge), Pest Management, Reuse Program and Facilities Staffing, Public Life and Parks Activation, Project Hope Expansion, Diridon Station Area Development Planning, Emergency Management Training and Exercise, Beautify San José Street Landscape Maintenance Program, and Climate Smart San Jose Plan Implementation. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2019-2020. This analysis will be conducted during the 2020-2021 budget process and funding recommendations for these programs and services will be included in the 2020-2021 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were updated and presented to the City Council on February 25, 2020 at $10.2 million annually in the General Fund ($90.7 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling $66.9 million in the General Fund ($1.6 billion all funds).

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

- It should be noted that the Development Fee Programs (Building, Fire, Planning, and Public Works) are not included in this General Fund Forecast, as these programs will be moved into separately budgeted funds as part of the 2020-2021 budget process. As before, the Development Fee Programs will remain at 100% cost recovery. The movement into separate funds is designed to improve the internal administration and tracking of resources, and to provide greater transparency since these new funds will have separate source and use statements included within the 2020-2021 Proposed Operating Budget document.

### *2020-2021 Budget Balancing Strategy Guidelines*

The 2020-2021 Budget Balancing Strategy Guidelines, as shown below, provide recommended direction on the general approaches to use in the development of the 2020-2021 Proposed Budget.

## 2020-2021 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. Consider current needs in the context of long-term service delivery priorities.
2. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management.
3. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
4. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps, generate new revenues, address truly significant community or organizational risks, fund programs added on a one-time basis in 2019-2020, and/or respond to City Council direction and organizational risks. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in the development of proposals.
5. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
6. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively.
7. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
8. 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.
9. Explore expanding existing revenue sources and/or adding new revenue sources.
10. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
11. Focus any available one-time resources on investments that 1) address the City's unmet or deferred infrastructure needs; 2) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 3) continue high-priority programs funded on a one-time basis in 2019-2020 for which ongoing funding is not available; 4) accelerate the pay down of existing debt obligations; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
12. Engage employees in department and/or city-wide budget proposal idea development.
13. 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.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

***Guiding Budget Principles and Service Delivery Framework***

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

As the City Council is aware, it is important that the City take a holistic approach when either adding or reducing resources and programs. The Service Delivery Framework (included in *Appendix A*) provides a multi-pronged approach to delivering direct services to the community that takes into consideration various factors, including adequate strategic support resources, adequate infrastructure, service delivery methods to ensure efficient and effective operations, service delivery goals and current performance status, service sustainability, and staffing resources.

***2020-2021 Budget Process***

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2020-2021 City Manager's Budget Request combined with the overall City of San José Budget Principles, and the Service Delivery Framework to approach the 2020-2021 budget development process.

In December 2019, the Administration directed City departments to develop 2020-2021 budget proposals using a draft version of the 2020-2021 Budget Balancing Strategy Guidelines. At that time, departments were directed to submit General Fund proposals mindful that a small General Fund shortfall was anticipated and that the City continues to operate on a very thin margin. Given the challenging budget environment, departments were directed to focus on opportunities to reduce costs while minimizing impacts to direct services, generate new revenues, and/or restructure departmental operations and staff to effectively deliver services. Departments could also develop proposals that use one-time bridge funding to bring about ongoing reductions that may take time to implement so as to minimize and/or avoid community and employee impacts. In addition, departments were directed to evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to reduce costs, close service delivery gaps and/or adjust to shifting community needs. Budget proposals requesting a net addition of General Fund resources were to be limited to those that address truly significant community or organizational risks and/or respond to specific City Council direction. For special and capital funds, departments were directed to develop proposals that balance within the total resources of the fund, identify the impact on fees or rates and, to the extent possible, minimize fee and rate increases.

The City's short-term goal is to balance the budget with no significant service level or employee impacts. The long-term goal continues to be to build capacity to address our significant service delivery and infrastructure needs while ensuring that the General Fund revenues and expenditures remain in alignment. This long-term goal is tempered by the potential of a weakened economic environment in future years, necessitating the City's continued careful approach to allocating its scarce resources.

The Mayor is scheduled to issue a proposed March Budget Message on March 6, 2020, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide guidance for the preparation of the City Manager's 2020-2021 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 22, 2020 and April 29, 2020, respectively. As part of the 2020-2021 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2020-2021 Budget Balancing Strategy Guidelines, with any desired revisions. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Proposed Budget Study Sessions and Public Hearings to discuss the budget proposals and the associated impacts on performance measures and service delivery. The Administration will also work with the City Council to provide informational meetings to the community on the Proposed Budget. Additional input by the City Council and community will be incorporated into the budget through these Proposed Budget Study Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2020.

## 2021-2025 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2021-2025 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, three plausible alternative forecast scenarios are presented – an Optimistic Case, a Pessimistic Case, and a Recession Case, that modify revenue assumptions. These cases are compared with the Base Case, with committed additions, to show the range of growth rates for revenues and the associated operating margins.

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

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

### *2021-2025 General Fund Forecast*

The following table displays the projected General Fund revenues and expenditures over the next five years and the total cumulative shortfall. In addition to the cumulative shortfall, the incremental shortfalls and surplus (assuming each preceding shortfall or surplus 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 or surplus attributed to a particular fiscal year. To the extent that a shortfall is not resolved or a surplus is not expended on an ongoing basis, it is important to understand that the remaining budget gap or surplus will carry over to the following year.

**2021-2025 General Fund Five-Year Forecast**
**($ in Millions)**

| | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| **Projected Revenues** | $1,244.2 | $1,229.7 | $1,265.1 | $1,305.4 | $1,347.1 |
| **Projected Expenditures** | $1,243.6 | $1,240.2 | $1,261.7 | $1,304.2 | $1,344.9 |
| **Total Cumulative Surplus/(Shortfall)** | $0.5 | ($10.5) | $3.5 | $1.2 | $2.2 |
| **Total Incremental Surplus/(Shortfall)** | **$0.5** | **($11.1)** | **$14.0** | **($2.2)** | **$1.0** |
| **% of Budget (Based on Expenditures)** | **0.04%** | **(0.89%)** | **1.11%** | **(0.17%)** | **0.08%** |

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2019-2020; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

In the 2021-2025 Forecast, small incremental General Fund surpluses and shortfalls between -$11.1 million and $14.0 million are anticipated. These margins are relatively narrow when put into context with the size of the projected General Fund budget, ranging from -0.9% to 1.1% of the projected annual budget of $1.2 billion to $1.3 billion. However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast, including programs funded on a one-time basis in 2019-2020 and unmet/deferred infrastructure and maintenance needs.

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

When reconciling next year's Forecast to the 2019-2020 Adopted Budget, the very small projected surplus of $0.5 million for 2020-2021 is the result of improved revenues of $24.2 million, offset by increased costs of $28.4 million. General Fund revenues are estimated to improve by a net of $24.2 million when compared to the ongoing revenue performance assumed in the 2019-2020 Adopted Budget. The largest changes are the result of the shifting of the Development Fee Program from the General Fund to individual funds. It is important to note that the overall cost of the programs are not impacted by this technical shift; the revenues and costs are simply being reallocated into separate funds that will be budgeted separately from the General Fund. After factoring out the shifts associated with the Development Fee Program, General Fund revenues increased by approximately $49 million from the 2019-2020 Adopted Budget. Overall, revenue performance in 2019-2020 continues to reflect moderate growth and is estimated to exceed current budgeted levels. In 2020-2021, several revenue categories are forecasted to grow year-over-year, including: Property Tax ($26.3 million), which is based off the most recent information provided the County of Santa Clara; Sales Tax ($9.4 million), which is due to stronger than anticipated growth in General Sales Tax and Local Sales Tax; and Business Taxes ($5.7 million), which is primarily due to stronger than anticipated growth for higher Cannabis Business Tax revenue.

On the expenditure side, a number of upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of $28.4 million in 2020-2021. As with General Fund revenues, the largest expenditure changes are associated with the reallocation of the Development Fee Program into individual funds. Outside of these adjustments, the largest changes are associated with employee salary increases ($24.7 million) and retirement costs ($22.1 million) in accordance with existing labor agreements, estimation of future salary costs, and actuarial assumptions approved by the City's Retirement Boards. Other significant personnel-related cost changes are attributable to compensation related to non-management step and management pay-for-performance assumptions ($5.3 million), health plan cost increases ($2.1 million), increases for living and minimum wage adjustments ($1.4 million), upward compensation adjustments recently approved for the Dispatch/Communications job classifications ($1.4 million), and the annualization of six positions added during 2019-2020 for IT project management as part of the 2018-2019 Annual Report ($1.3 million). The next largest increases include: increases for city-wide vehicle operations and maintenance, electricity, gas, and Police fleet replacements ($1.68 million); contractual increases for city-wide janitorial services as previously approved by the City Council to primarily account for living wage and benefit increases ($687,000); contractual increases and cost-of-living adjustment in accordance with agreements with respective City partners for the operation of several cultural facilities ($502,000); City facilities general maintenance ($255,000) and waste collection ($201,000) cost increases; various contractual increases for information systems and software license agreements city-wide ($338,000); realignment among funding sources and estimated costs associated with the cost share agreement with San José State University for operation of the King Library ($218,000); self-contained breathing apparatus ($100,000) equipment requirements for firefighters and the repair and maintenance of fire station exhaust systems ($75,000); and, increased Animal Care and Services cleaning and materials and supplies costs ($100,000) to maintain current service levels.

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

### *General Fund Committed Additions*

Cost estimates for 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 2020-2024 Adopted Capital Improvement Program, or for projects approved by the City Council during 2019-2020. The costs of the additions total $125,000 in 2020-2021 and increase to $21.4 million by the end of the Forecast period.

**2020-2024 General Fund Committed Additions
Maintenance and Operations Costs**

| | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| New Parks and Recreation Facilities | $73,000 | $666,000 | $915,000 | $937,000 | $991,000 |
| New Traffic Infrastructure Assets | 52,000 | 154,000 | 209,000 | 270,000 | 316,000 |
| Fire Training Center | | 18,000 | 213,000 | 221,000 | 230,000 |
| Measure T Bond | | 2,053,000 | 4,413,000 | 10,407,000 | 19,895,000 |
| **Total** | **$125,000** | **$2,891,000** | **$5,750,000** | **$11,835,000** | **$21,432,000** |

These Committed Additions are related to new parks and recreational facilities, new traffic infrastructure assets, a Fire Training Center, and the new projects funded by Measure T Bond funds. A detailed listing of all committed additions with operating and maintenance costs are included in this 2021-2025 General Fund Forecast and can be found in *Section 3 - Committed Additions to the Base General Fund Forecast* of this document.

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

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

***Alternative Forecast Scenarios***

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented in Section 4 of the report 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 2020-2021 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

**General Fund Operating Margins**
**(Base, Optimistic, Pessimistic, and Recession Scenarios)**

| | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | Five-Year Surplus/ (Shortfall) |
|---|---|---|---|---|---|---|
| Base Case | $0.5 M | ($11.1 M) | $14.0 M | ($2.2 M) | $ 1.0 M | $2.2 M |
| Optimistic Case | $13.4 M | $7.3 M | $30.1 M | $11.3 M | $16.7 M | $78.8 M |
| Pessimistic Case | ($13.1 M) | ($19.8 M) | $4.2 M | ($12.1 M) | ($6.6 M) | ($47.4 M) |
| Recession Scenario | ($38.3 M) | ($53.7 M) | ($19.4 M) | ($33.7 M) | ($32.9 M) | ($178.0 M) |

- *Base Case* – The Base Case Forecast is built on the assumption of slowing, but still positive, economic growth. This region has significantly benefitted from a high level of venture capital investment in the technology industry, solid employment growth, and an extremely strong real estate market. Over the forecast period, activity in most of these areas is expected to moderate, which will result in a slowing rate of local expansion and ultimately lower growth in the City's revenues. In the Base Case Forecast, General Fund revenue collections are anticipated to experience slow growth over the forecast period, with local employment growth turning slightly negative in 2021. In this scenario, the total General Fund surplus over the five-year period totals $2.2 million.

- *Optimistic Case* – The Optimistic Case assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. Venture capital investments, the key driver of the technology sector of the economy, are extremely high in each year of the forecast in the Optimistic Case. As a result, the area's largest technology employers are doing much better than in the Base Case. Local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Inflation is also expected to be higher than in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax. In this scenario, there is a General Fund surplus of $78.8 million over the five-year period.

- *Pessimistic Case* – The Pessimistic Case assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case. Significantly lower growth is assumed for several of the key determinants of the City's revenue; local employment, local housing prices and number of property sales, and local inflation are all lower than those of the Base Case. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown In this scenario, the total General Fund shortfall over the five-year period totals $47.4 million.

- *Recession Case* – The Recession Case assumes the economic effects of a downturn are considerably worse than the economic conditions envisioned in the Pessimistic Case. Local employment levels would fall significantly, with home prices also dropping. Inflation, which is already low in the Base Case, almost turns negative. The Recession Case Forecast assumes the recession begins in 2021 and lasts through 2022. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by the recession. Further, this scenario also assumes increased retirement contributions required by the City as a result of lower investment returns. In this scenario, the total General Fund shortfall over the five-year period totals $178.0 million.

***Capital Revenue Forecast***

Section V of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2020-2021 Capital Budget and the 2021-2025 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 [2021-2025]). 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 2020-2024 Adopted CIP. As shown below, revenues are anticipated to increase slightly as compared to the Adopted CIP, from $360.9 million to $363.9 million.

**Capital Revenue Forecast Comparison Summary**
**($ in Thousands)**

| | 2020-2024 CIP | 2021-2025 Forecast | Difference | % Change |
|---|---|---|---|---|
| Construction and Conveyance Tax | $180,000 | $180,000 | 0 | 0% |
| Building and Structure Construction Tax | 75,000 | 79,000 | 4,000 | 5% |
| Construction Excise Tax | 101,000 | 100,000 | (1,000) | (1%) |
| Municipal Water System Fees | 375 | 375 | 0 | 0% |
| Residential Construction Tax | 1,000 | 1,000 | 0 | 0% |
| Sanitary Sewer Connection Fee | 3,500 | 3,500 | 0 | 0% |
| Storm Drainage Connection Fee | 1,000 | 1,000 | 0 | 0% |
| **TOTAL** | **$360,875** | **$363,875** | **$3,000** | **1%** |

Real estate activity (primarily housing sales) determines the collection level of the Construction and Conveyance Tax. After reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. Collections began rebounding again in 2009-2010, and reached peak levels of over $40 million again in 2017-2018 and 2018-2019.

However, due to declining median sale prices coupled with lower sales activity, collections in this extremely volatile revenue category are forecasted to drop to $38 million in 2019-2020, drop again to $36 million in 2020-2021 and remain at that level through the remainder of the forecast period. Estimated revenues in the 2021-2025 Forecast are projected to generate $180.0 million, which is consistent with the estimated used to develop the 2020-2024 Adopted CIP.

The remaining economically sensitive capital revenue categories are linked to private development activity. Based on projections provided by the PBCE Department, construction activity valuation is anticipated to be lower than the prior year with $1.73 billion in 2019-2020, a 3% decrease compared to $1.79 billion in 2018-2019. This level of activity is expected to decrease to $1.1 billion in 2020-2021 through 2024-2025 due to a decrease in residential, commercial, and industrial new construction activity and commercial and industrial alterations activity as projects move through the development pipeline.

Building and Structure Construction Tax collections are projected to total $79.0 million over the forecast period, $4 million (or 5%) above the estimate included in the 2020-2024 Adopted Capital Improvement Program. It is projected that collections will drop from the 2019-2020 estimate of $24 million to $19 million in 2020-2021 and remain flat at $15 million through the remainder of the forecast period as projects are completed and activity levels slightly decrease. Construction Excise Tax collections are projected to total $100 million over the five-year forecast period, with proceeds estimated at $20 million annually. This collection level is consistent with the 2020-2024 Adopted CIP.

**NEXT STEPS IN THE 2020-2021 BUDGET PROCESS**

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

***March 2020***

- 2020-2021 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

***April 2020***

- 2020-2021 Proposed Capital Budget and 2021-2025 Capital Improvement Program and 2020-2021 Proposed Operating Budget Released

***May 2020***

- 2020-2021 Proposed Fees and Charges Released

- 2020-2021 Community Budget Meetings

- City Council Study Sessions and Initial Public Hearing on 2020-2021 Proposed Operating Budget, 2020-2021 Proposed Capital Budget and 2021-2025 Proposed Capital Improvement Program, and 2020-2021 Proposed Fees and Charges

***June 2020***

- 2020-2021 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2020-2021 Operating Budget, 2020-2021 Capital Budget and 2021-2025 Capital Improvement Program, and 2020-2021 Fees and Charges Adopted by City Council

## CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. A very small General Fund surplus of $0.5 million is projected in 2020-2021, followed by shortfalls and a surplus ranging from -$11.1 million to $14.0 million. These margins are narrow when considering the size of the General Fund budget that totals $1.2 billion to $1.4 billion annually over the forecast period.

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document, and it is important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2019-2020; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

The revenue and expenditure projections for 2020-2021 will continue to be refined over the next several months as additional information becomes available. This includes additional Property Tax roll growth data that is updated each month, or any new economic data that would substantially alter assumed revenue growth across economically sensitive categories. Based on this additional data, any necessary adjustments will be incorporated into the 2020-2021 Proposed and Adopted Operating Budgets, as appropriate.

This document also provides the recommended 2020-2021 City Manager's Budget Request (Budget Balancing Strategy Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. The over-arching goals of these guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner.

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

David Sykes
City Manager

*Five-Year Economic Forecast*
*and*
*Revenue Projections*

*2021-2025*

# ELEMENTS OF THE GENERAL FUND FORECAST

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

### Overview

This document provides four Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, Pessimistic Case, and Recession Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2020-2021 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast, however, three alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment that affect the City's revenue collections, including the contemplation of a recession beginning in 2020-2021.

Although potential implications of the coronavirus (COVID-19) have been discussed internally and with consulting economists over the past couple of months as the City developed its forecast models, a specific impact associated with a flu-like pandemic was not incorporated due to the limited information available and uncertainty over how broadly the disease would spread. As this Forecast document is being finalized, early economic impacts of COVID-19 are being felt, with global financial markets sharply down and several large conventions within the Bay Area scaled back or cancelled, including Facebook F8 that was originally scheduled at the San José McEnery Convention Center in May 2020. The City will closely monitor the events associated with COVID-19 to measure their impact as part of the 2020-2021 Proposed Budget process.

- **Base Case** – The Base Case Forecast is built on the assumption of slowing, but still positive, economic growth. This region has significantly benefitted from a high level of venture capital investment in the technology industry, solid employment growth, and an extremely strong real estate market. Over the forecast period, activity in most of these areas is expected to moderate, which will result in a slowing rate of local expansion and ultimately lower growth in the City's revenues. In the Base Case Forecast, General Fund revenue collections are anticipated to experience slow growth over the forecast period, with local employment growth turning slightly negative in 2021.

- **Optimistic Case** – The Optimistic Case assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. Venture capital investments, the key driver of the technology sector of the economy, are extremely high in each year of the forecast in the Optimistic Case. As a result, the area's largest technology employers are doing much better than in the Base Case. Local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Inflation is also expected to be higher than in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.

# Elements of The General Fund Forecast

## Assumptions Regarding the Economic Environment

### Overview

- **Pessimistic Case** – The Pessimistic Case assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case. Significantly lower growth is assumed for several of the key determinants of the City's revenue; local employment, local housing prices and number of property sales, and local inflation are all lower than those of the Base Case. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown.
- **Recession Case –** The Recession Case assumes the economic effects of a downturn are considerably worse than the economic conditions envisioned in the Pessimistic Case. Local employment levels would fall significantly, with home prices also dropping. Inflation, which is already low in the Base Case, almost turns negative. The Recession Case Forecast assumes the recession begins in 2021 and lasts through 2022. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by the recession. Further, this scenario also assumes increased retirement contributions required by the City as a result of lower investment returns.

### Base Case Forecast

As with all forecasts, this General Fund Forecast is based on a series of assumptions regarding the overall economic environment, both now and in the future. These assumptions were reached after reviewing the projections included in a number of economic forecasts. The economic conditions and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the City Manager's 2020-2021 Proposed Operating Budget, scheduled for release on April 29, 2020.

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

# ELEMENTS OF THE GENERAL FUND FORECAST

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

## Base Case Forecast

### Current National Economic Conditions

The United States is currently experiencing the longest economic expansion in the Country's history. The U.S. unemployment rate ranged from 3.5% to 4.0% in 2019, and stood at 3.6% in January 2020, according to the U.S. Department of Labor's Bureau of Labor Statistics. However, while employment rates are extremely strong, wages, which are the largest single source of income in the economy, have been growing only modestly (2.9% annual growth in 2019 and 3.1% annual growth in 2018). This nominal wage growth continues to cause downward pressure on the overall economy.

Changes in interest rates can also significantly impact economic growth. The Federal Reserve, the central bank of the United States which is tasked with maintaining the stability of the country's financial system, is always striving to achieve maximum employment and price stability. At the December 2019 Federal Open Market Committee, it was decided that the federal funds rate would remain unchanged as the overall economy appears to be growing and the labor market remains strong. Jerome Powell, Federal Reserve Chairman announced that, "the [U.S.] expansion is in its 11$^{th}$ year, the longest on record. Growth in household spending moderated toward the end of last year, but with a healthy job market, rising incomes, and upbeat consumer confidence, the fundamentals supporting household spending are solid."[1] Due to these positive economic signs, it is currently anticipated the Federal Reserve will leave interest rates unchanged over the course of the next year.

Some of the key drivers to the U.S. economy include new housing construction, automotive manufacturing and sales, energy production, and a robust technology sector, which have all remained relatively strong throughout 2019.

The very low interest rates that have been generated by Federal Reserve actions have helped the nation's housing market. New home sales and new housing starts both remained strong in 2019. Housing is a key indicator of future economic growth, with most recessions being preceded by a downturn in the housing market. Looking forward, with interest rates projected to remain low, the housing market will likely remain strong in 2020. According to Lawrence Yun, National Association of Realtors Chief Economist, "We don't foresee the Fed raising the federal funds rates in 2020. A rate cut of at least 25 basis points in early 2020 is the likely scenario." Mortgage rates are projected to continue to trend downward, which makes home buying more affordable. Given these conditions, the National Association of Realtors predicts home sales (existing and new homes combined) to increase approximately 4% in 2020. Additionally, although the lack of inventory has been a constraint on the housing market, housing starts (the number of new residential construction projects) are anticipated to improve in 2020.[2]

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[1] Federal Reserve, Press Release, January 29, 2020
[2] National Association of Realtors, Realtor Magazine, January-February 2020

# ELEMENTS OF THE GENERAL FUND FORECAST

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

### Base Case Forecast

The automotive sector represents a large and important employment sector in the economy and a base component of the U.S.'s industrial production sector. Although auto sales in 2019 have slowed to approximately 16.5 million (compared to 17 million in 2018), this still represents a very healthy rate of sales. However, a portion of these new auto sales are sometimes financed by consumers at unsustainable rates, with some consumers purchasing new cars before the previous vehicle has been completely paid for. This can lead to consumers having auto loans that encompass the unpaid balance of the previous automobile, as well as the purchase price of the new vehicle. Though on a smaller scale, this phenomenon is reminiscent to the housing boom and subsequent bust that was experienced in the early 2000s and worth monitoring.

It is important to note that the housing and automobile sectors are highly sensitive to interest rates. As interest rates are predicted to remain low, this will likely have a continued positive effect on auto sales and housing sales in 2020.

The energy sector is one of the backbones of the United States economy, with petroleum accounting for approximately one-third of the nation's energy production. While oil production had been generally decreasing for many years, beginning in 2009, more cost-effective drilling and production technologies helped boost oil production.[3] United States crude oil and petroleum product net imports fell for many years, and beginning in September 2019 the United States became a net exporter (instead of a net importer) of crude oil and petroleum products for the first time since the 1940's.

The average crude oil price experienced sharp declines in 2015-2016, with the average Brent price per barrel dropping from $96 in 2014 to $41 in 2016. Beginning in 2017, production decreases and healthy economic growth resulted in oil prices increasing to an average Brent price per barrel of $54 in 2017 and $72 in 2018. In 2019, the Brent crude oil prices totaled an average $64 per barrel, and based on production and demand currently anticipated, the Energy Information Administration (EIA) is forecasting the average Brent crude oil price will average $65 per barrel in 2020 and $68 per barrel in 2021.[4] The crude oil prices are consistently monitored and the forecasted price per barrel can change many times throughout the year.

Venture capital, the driving force of the technology sector, continued to have strong growth in 2019, finishing the year with $136.5 billion invested, and following a record-setting year in 2018 of $140.2 billion invested. There was a total of 237 mega deals (deals over $100 million) in 2019, which represented an 11.8% increase over the previously historic 2018 level. Additionally, in 2019, a total of 73 unicorn companies (companies with valuations exceeding $1 billion) emerged. In 2019, exits (initial public offerings (IPO's) of stock and mergers/acquisitions) came in at a record high of $256.4 billion, with IPO's being the primary driver for the exits. Bobby Franklin, President and Chief Executive Officer of NVCA stated "2019 showed that industry trends from

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[3] U.S. Energy Information Administration, U.S. Energy Facts Explained, Updated August 28, 2019
[4] U.S. Energy Information Administration, Short-Term Energy Outlook, February 2020

### Base Case Forecast

the historic 2018 are the new normal for the venture industry with mega-rounds and mega-funds becoming increasingly common trends in the startup ecosystem. While there are lingering uncertainties surrounding global macroeconomic trends, U.S. public policies and the 2020 election that could impact the industry, the flood of exit dollars going back to limited partners, the robust fundraising environment, and large amounts of dry powder available at many venture firms should allow the industry to sustain this new level of investment activity in 2020."[5]

### National Economic Outlook

The United States economy has been steadily expanding over the last decade. However, slow growth across most sectors of the economy appears likely in the near term. The December 2019 UCLA Anderson Business School Forecast predicts continued economic expansion through the entire three-year forecast period. In the middle of the forecast (2021) there is a slowdown of economic growth, but the U.S. Gross Domestic Product (GDP) does not actually turn negative. Once this period of economic softness passes, the Forecast returns to a typical growth pattern of 2%-3% for the GDP.

The real GDP represents the value of all goods and services produced for a specific period of time for a country. The GDP includes multiple factors (such as consumption and investment) and is often used to determine the overall health of an economy, including whether an economy is growing or experiencing a recession. In the United States, the real GDP increased 2.3% in 2019, compared with an increase of 2.9% in 2018, according to the Bureau of Economic Analysis.[6]

A modest rate of inflation is a key driver for business and consumer demand and for future property and sales taxes. The Consumer Price Index (CPI) rose 0.2% in December 2019 after rising 0.3% in November (seasonally adjusted).[7] The inflation rate is anticipated to remain close to 2% through 2020.

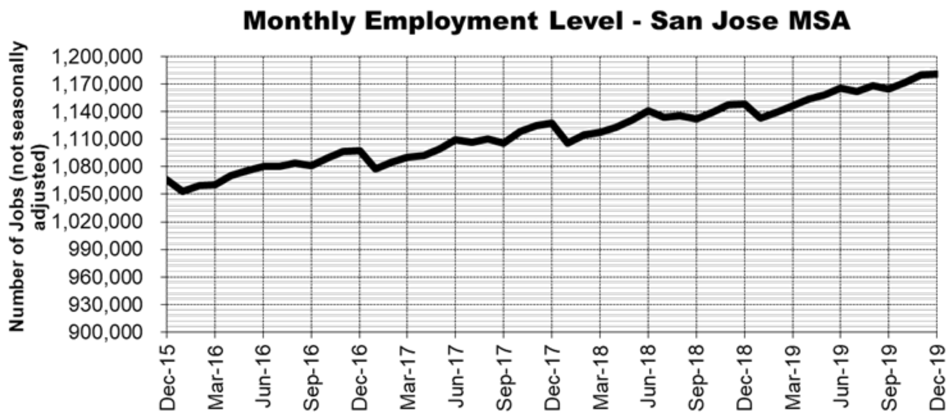
### Current City of San José Economic Conditions

The Silicon Valley continues to show positive, but moderating economic performance from the extremely strong growth experienced in recent years.

[5] National Venture Capital Association and PitchBook, Venture Monitor, 4th Quarter 2019
[6] U.S. Department of Commerce, Bureau of Economic Analysis, January 30, 2020
[7] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index Detailed Report, December 2019

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

## Base Case Forecast




The December 2019 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.11 million was 1.3% higher than the December 2018 level of 1.09 million. Between December 2018 and December 2019, 32,500 jobs were added. This includes 7,800 jobs in manufacturing (predominantly computer and electronic products), 6,600 jobs in professional and business services, 6,400 jobs in the information sector, 6,400 government jobs, and 3,400 jobs in private educational and health services (largely within healthcare).[8]

As noted in the January 2020 Beacon Employment Report, 2019 was an impressive year for California employment growth. Over the year, the State's unemployment rate fell from 4.1% to 3.7%. In addition, the year ended with the State's labor force expanding for a fourth straight month. Taner Osman, a Research Manager at Beacon Economics and the UCR Center for Forecasting, stated "December marked the end of an impressive year for the state's economy with California adding over 300,000 jobs. That rate of growth far exceeds the national growth rate and was quicker than the State's growth rate in 2018 of 1.6%."[9]

The unemployment rates at the local, State, and national levels remain low. In December 2019, the unemployment rate for the San José Metropolitan Statistical Area of 2.2% was slightly below the November 2019 unemployment rate of 2.3% and the December 2018 rate of 2.5%. In this region, the December 2019 unemployment rate continued to be lower than the unadjusted unemployment rate for the State (3.7%) and the nation (3.4%).

**Unemployment Rate (Unadjusted)**

| | Dec 2018 | Nov 2019 | Dec 2019** |
|---|---|---|---|
| San Jose Metropolitan Statistical Area* | 2.5% | 2.3% | 2.2% |
| State of California | 4.1% | 3.7% | 3.7% |
| United States | 3.7% | 3.3% | 3.4% |

* San Benito and Santa Clara Counties
Source: California Employment Development Department.
** December 2019 estimates are preliminary and may be updated.

[8] State of California Employment Development Department Labor Market Information Division Press Release, January 24, 2020
[9] Beacon Economics, Employment Report, January 2020

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

### Base Case Forecast

Overall construction activity through December 2019 has increased 59.3% from 2018-2019 levels. The increase is primarily due to strong commercial activity that has occurred since the beginning of the fiscal year, coupled with an extremely high level of industrial activity that occurred in July 2019. The 2019-2020 Adopted Budget was developed with the expectation that private development activity would remain strong, but would likely moderate over the course of the year.

**Private Sector Construction Activity (Valuation in $ Millions)**

| | YTD December 2018 | YTD December 2019 | % Change |
|---|---|---|---|
| Residential | $ 299.4 | $ 232.8 | (22.2%) |
| Commercial | $ 243.9 | $ 442.9 | 81.6% |
| Industrial | $ 208.4 | $ 522.0 | 150.5% |
| **TOTAL** | **$ 751.7** | **$ 1,197.7** | **59.3%** |

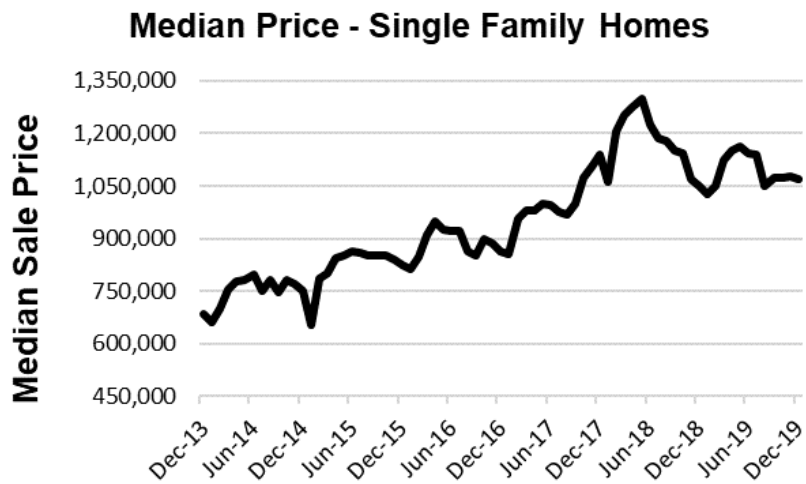
Of the three construction activity sectors, residential activity is the only sector to decline from the previous year level. As summarized in the table, through December 2019, residential permit valuation totaled $232.8 million, which represents a 22.2% decline from the high level experienced through December 2018. Residential activity through December 2019 included 880 multi-family units and 268 units for single-family construction for a total of 1,148 units.

Commercial valuation through December 2019 experienced growth of 81.6% from the prior year level ($442.9 million in 2019-2020 and $243.9 million in 2018-2019). The commercial activity in the month of December was a modest $47.2 million, with new construction ($17.6 million) accounting for most of the commercial activity.

In addition, industrial construction valuation through December was significantly higher than prior year levels, with receipts totaling $522.0 million in 2019-2020, up over 150% from the prior year level. This increase is primarily due to an extremely high level of new construction activity in July, setting a valuation record of $100 million. Alterations accounted for most of the industrial activity in November and December ($58.2 million, 80.2%).

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

### Base Case Forecast




Beginning in spring 2012, the median sale price for homes had consistently experienced year-over-year growth, which continued through October 2018. For over a year, however, Santa Clara County began experiencing a slow down in the local real estate market, with median sale prices dropping, the average days on market increasing, and the number of sales decreasing. In fall 2019, the real estate market appears to have begun stabilizing, with median home prices and property sales once again growing compared to prior year levels. According to data from the Santa Clara County Association of Realtors, the median single-family home price peaked at $1.3 million in May 2018 (which represented a 30.0% increase from the May 2017 home price), but then began steadily decreasing. During the period from November 2018 through October 2019, year-over-year median prices steadily decreased each month compared to the prior year in the range of 3%-13%. However, in November 2019, prices increased 0.7% from the prior year and December 2019 saw the median single-family home price grow year-over-year by 2.0% to $1.07 million.

In addition to the median home prices dropping for a prolonged period and recently starting to rebound, the number of property transfers (sales) also recently began to experience growth. In December 2019, the number of property transfers grew 12.3% from the prior year level; however, the year-to-date sales through December 2019 is slightly below (0.2%) the same period in the prior fiscal year. In addition, while single-family and multi-family dwellings are continuing to sell relatively quickly, they are on the market longer than the prior few years. The average days-on-market for single-family and multi-family dwellings through December 2019 totaled 38 days, compared to an average 25 days experienced in the first half of 2018-2019 and an average 18 days experienced through the first half of 2017-2018.

#### City of San José Economic Outlook

Over the five-year forecast, similar to the national economy, the local economy is expected to enter a period of slower economic growth. Unemployment levels, which have consistently been well below national levels, are anticipated to remain low. However, slowing venture capital investment, a key determinant of employment levels in Silicon Valley, coupled with anticipated weaker national and global demand, is expected to result in slightly negative employment growth in 2021-2022. Over the following three years employment is expected to recover, along with home prices, returning Silicon Valley to a moderate growth economic environment.

# ELEMENTS OF THE GENERAL FUND FORECAST

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

### Base Case Forecast

Many policies and decisions made at the national level significantly influence the local economy. Defense spending continues to be a high priority for the current administration and is anticipated to continue for several years. As modern defense is extremely reliant on technology, increased defense spending positively impacts the local economy. Foreign investment, primarily in technology and real estate, are vital to the local economy. Uncertainty regarding trade policies, especially with China, will continue to be closely monitored as any significant change adversely impact the Silicon Valley.

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

### Optimistic Case Forecast

In the Optimistic Case Forecast, the local real estate market begins to rise substantially and the area's largest tech employers are doing much better than the Base Case Forecast. Local economic conditions are robust and the area's largest technology employers continue to expand at a very high rate, which results in rapid employment increases. In addition, venture capital investments are extremely high in each year of the Forecast. Since most venture capital spending in Silicon Valley are wages, incomes experience a significant increase. In this scenario, local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and are expected to experience growth through the entire forecast period. Also in this scenario, the growth in the national economy is higher than that of the Base Case Forecast. As a result of the positive national outlook, local inflation is also higher.

The Optimistic Case Forecast is based partly on the assumption that the real estate sector, nationally and locally, continues to increase due to higher home prices and an increase in the number of new home starts over the next several years. While mortgage rates will be higher, employment increases and higher wages will spur a greater number of home purchases. More home purchases and increased home prices drive increased property tax revenue. As a partial result of more rapid new home construction, the country's overall employment levels continue to improve.

Under the Optimistic Case Forecast, the economically sensitive revenues are expected to experience somewhat stronger performance as general increases in employment and wages offset the negative influences of higher interest rates and promotes increased spending. These factors generate more Sales Tax for the City. Property Tax growth rates are lower than they have been over the past several years, but are much higher than the growth rate assumed in the Base Case Forecast. Utility taxes grow in spite of the increased price of electricity due to the increased consumption. Unlike the Base Case Scenario where increases in electricity prices cause consumers to conserve energy to combat higher prices, in the Optimistic Case, higher prices are not a deterrent

# ELEMENTS OF THE GENERAL FUND FORECAST

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

### Optimistic Case Forecast

from usage, thereby driving increases to Utility Taxes. As well, Transient Occupancy Taxes are increasing as the stronger economy feeds the higher inflation that contributes to higher room rates and room taxes, and new hotel construction further increases the supply of available rooms. In contrast, Gasoline Taxes are expected to decrease given that the growth in inflation in the Optimistic Case causes an increase in gasoline prices, which lowers gasoline consumption and lowers Gasoline Tax collections.

### Pessimistic Case Forecast

The Pessimistic Case Forecast assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case Forecast. The difference in the Pessimistic Case is that the lower growth rate is expected to continue through the duration of the five-year projection. The Pessimistic Case Forecast assumes home prices decline deeper than in the Base Case Forecast, and as a result of the lower home prices and property sales, Property Tax revenue decreases significantly. There is also the potential that Property Tax revenue could be further impacted by Proposition 8, which results when the County Assessor reassesses property values when the market value of property has decreased. However, since current real estate prices and sales volumes are so strong, it will take a few years for the impact of the declining home prices to be realized with lower Property Tax collections. In the Pessimistic Case Forecast, employment levels are lower, which, coupled with the lower inflation rates assumed, and a decline in car sales, result in lower Sales Tax revenue. In addition, as economic activity drops, occupancy rates and average room rates both fall as well, resulting in significantly lower Transient Occupancy Tax collections throughout the entire forecast.

Utility Taxes decline due to the softer economy causing electricity usage to drop. Additionally, expected electricity price increases cause consumers to conserve more power, therefore, the utility bills do not rise as much as would normally occur.

### Recession Case Forecast

The Recession Case Forecast assumes the economic effects of a downturn are considerably worse than the economic conditions envisioned in the Pessimistic Case Forecast. The Recession Case Forecast assumes the United States stock market collapsing, causing local venture capitalists to withdraw funding. Local employment levels would fall significantly, with home prices also dropping. Inflation, which is already low in the Base Case Forecast, almost turns negative. The Recession Case Forecast assumes the recession begins in 2020-2021 and lasts through 2021-2022. Beginning in 2022-2023, economic recovery begins.

# ELEMENTS OF THE GENERAL FUND FORECAST

## ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

### Recession Case Forecast

The Recession Case Forecast assumes home prices decline deeper than in the Pessimistic Case Forecast, and as a result of the lower home prices and property sales, Property Tax revenue experiences even larger drops. Similar to the Pessimistic Case Forecast, since current real estate prices and sales volumes are so strong, it will take a few years for the impact of the declining home prices to be realized with lower Property Tax collections. In the Recession Case Forecast, Sales Tax revenue declines sharply beginning in 2020-2021 and lasting through 2021-2022. Additionally, Transient Occupancy Tax collections fall as a result of depressed business investment and low inflation negatively impacting hotel room rates. Utility Tax revenue, which is closely correlated with employment levels, drop significantly in the Recession Case Forecast. Due to anticipated lower investment returns, the City's required retirement contributions are increased beginning in 2020-2021, exacerbating the recessionary economic conditions.

### Impact of Forecasted Economic Conditions on Revenue Collections

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

An in-depth analysis of the General Fund revenue categories was completed to develop 2020-2021 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2019-2020 and build upon those projections to develop the 2020-2021 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 2020-2021 Proposed Operating Budget scheduled to be released on April 29, 2020.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown to increase from $1.22 billion in 2019-2020 to $1.28 billion in 2024-2025, for an average growth rate of 3% per year.

**General Fund 2021-2025 Forecast**
**Revenue Summary**

| | Modified Budget | Forecast | | | | |
|---|---|---|---|---|---|---|
| **General Fund Revenue Category** | **2019-2020** | **2020-2021** | **2021-2022** | **2022-2023** | **2023-2024** | **2024-2025** |
| | | | | | | |
| General Revenues | | | | | | |
| Property Tax | 364,000,000 | 376,300,000 | 392,029,000 | 407,907,000 | 424,712,000 | 442,295,000 |
| Sales Tax | 258,300,000 | 267,700,000 | 275,115,000 | 284,304,000 | 296,103,000 | 307,532,000 |
| Transient Occupancy Tax | 20,000,000 | 20,800,000 | 21,424,000 | 21,852,000 | 22,290,000 | 22,735,000 |
| Franchise Fees | 48,641,000 | 48,121,000 | 48,342,000 | 49,362,000 | 50,345,000 | 51,482,000 |
| Utility Tax | 99,645,000 | 96,400,000 | 97,162,000 | 99,435,000 | 101,682,000 | 104,214,000 |
| Telephone Line Tax | 20,000,000 | 20,000,000 | 20,034,000 | 20,066,000 | 20,102,000 | 20,138,000 |
| Business Tax | 72,200,000 | 77,900,000 | 78,799,000 | 79,841,000 | 80,906,000 | 82,009,000 |
| Licenses and Permits* | 62,009,468 | 19,745,330 | 20,216,000 | 20,830,000 | 21,503,000 | 22,195,000 |
| Fees, Rates, and Charges* | 59,095,920 | 30,657,828 | 31,388,000 | 32,342,000 | 33,387,000 | 34,462,000 |
| Fines, Forfeitures and Penalties | 16,213,000 | 16,622,000 | 16,780,000 | 16,860,000 | 17,007,000 | 17,186,000 |
| Revenue from Money and Property | 13,144,000 | 14,327,800 | 14,743,000 | 15,259,000 | 15,748,000 | 16,236,000 |
| Revenue from Local Agencies | 17,289,710 | 13,199,000 | 13,565,000 | 13,935,000 | 14,325,000 | 14,733,000 |
| Revenue from the State | 23,080,546 | 12,430,000 | 12,430,000 | 12,430,000 | 12,430,000 | 12,430,000 |
| Revenue from Federal | 5,331,650 | 121,000 | - | - | - | - |
| Other Revenue | 36,677,362 | 9,104,126 | 8,932,000 | 8,969,000 | 9,004,000 | 9,045,000 |
| Gas Tax | 16,300,000 | 17,000,000 | 17,156,000 | 17,275,000 | 17,399,000 | 17,326,000 |
| **Total General Revenues** | **1,131,927,656** | **1,040,428,084** | **1,068,115,000** | **1,100,667,000** | **1,136,943,000** | **1,174,018,000** |
| | | | | | | |
| **Transfers & Reimbursements** | | | | | | |
| Overhead Reimbursements | 56,272,963 | 67,642,193 | 69,253,000 | 71,357,000 | 73,663,000 | 76,035,000 |
| Transfers | 27,727,381 | 28,181,744 | 28,808,000 | 28,979,000 | 29,619,000 | 30,111,000 |
| Reimbursements for Services | 975,220 | 745,997 | 764,000 | 787,000 | 812,000 | 839,000 |
| **Total Transfers & Reimbursements** | **84,975,564** | **96,569,934** | **98,825,000** | **101,123,000** | **104,094,000** | **106,985,000** |
| | | | | | | |
| **Total General Fund Revenues** | **1,216,903,220** | **1,136,998,018** | **1,166,940,000** | **1,201,790,000** | **1,241,037,000** | **1,281,003,000** |
| | | | | | | |
| Beginning Fund Balance | 364,812,662 | 107,193,000 | 62,748,000 | 63,343,000 | 64,367,000 | 66,114,000 |
| | | | | | | |
| **Grand Total Sources** | **1,581,715,882** | **1,244,191,018** | **1,229,688,000** | **1,265,133,000** | **1,305,404,000** | **1,347,117,000** |
| **Growth %** | | | **-1.17%** | **2.88%** | **3.18%** | **3.20%** |

*Revenue in the Licenses and Permits and Fees, Rates and Charges categories significantly reduce in 2020-2021 due to the Development Fee Programs moving from the General Fund to individual Fee Program Funds.

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 2021-2025 General Fund Forecast.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Property Tax

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. In 2019-2020 Property Tax receipts of $367.6 million are projected, which is slightly (1.0%) above the modified budget estimate of $364.0 million and $37.4 million (11.3%) above the 2018-2019 actual collection level of $330.2 million. A significant portion of the growth from the prior year is due to increased Secured Property Tax receipts, which includes higher general Secured Property Tax receipts ($20.7 million), Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax receipts ($11.9 million), and Educational Revenue Augmentation Fund (ERAF) revenue ($7.1 million). In 2020-2021, overall Property Tax collections are expected to increase 2.4% to $376.3 million. This includes underlying growth of 5% in the general Secured Property Tax category (bringing the estimate to $314.0 million in 2020-2021), partially offset by lower estimated ERAF revenue of $7.0 million (lowering the 2020-2021 estimate to $16.0 million). Additional information about each of the Property Tax sub-categories is provided below.

**Secured Property Taxes** account for over 90% of the revenues in this category. In 2019-2020, Secured Property Tax receipts are anticipated to total $342.1 million, including $299.0 million in general Secured Property Taxes, $23.0 million in ERAF revenue, and $20.1 million from SARA Residual Property Tax receipts. This collection level is up 13.1% from the 2018-2019 receipts, primarily reflecting projected growth in general Secured Property Tax receipts of 7.5%, additional SARA Residual Property Tax receipts of $11.9 million, and higher ERAF revenue of $7.1 million. In 2020-2021, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2020, are expected to increase by approximately 3% to $351.0 million. This primarily reflects the net impact of a 5% increase in general Secured Property Tax receipts, partially offset by a reduction to anticipated ERAF receipts.

The general Secured Property Tax receipts growth of 7.5% in 2019-2020 primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2%, and increased valuation due to changes in ownership or new construction. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. On a County-wide basis, the 2019-2020 roll growth was driven primarily by changes in ownership (55.0%), change in the CCPI (23.4%), and new construction (15.9%).

In 2020-2021, the general Secured Property Tax receipts are estimated to grow by 5%. The CCPI adjustment for the 2020-2021 tax roll is 2%, which is consistent with the prior year level. In addition, while the high property sale prices will continue to be a positive factor driving growth in this category, the rate of growth is anticipated to be lower in 2020-2021 than has been experienced in recent years. This lower rate of growth is attributable to the local real estate market cooling off in calendar year 2019. The average median single-family home price of $1.10 million in 2019 dropped 6.7% from the median price of $1.17 million in 2018. Additionally, the number of sales continued to decline, which negatively impacts growth. The total number of property transfers for

## REVENUE FORECAST

### Property Tax

single-family and multi-dwelling homes declined approximately 5%, from 7,083 sales in calendar year 2018 to 6,750 sales in calendar year in 2019.

In addition to the changes in assessed value, Secured Property Tax collections are impacted by excess ERAF revenue. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In 2018-2019, the City received $15.9 million primarily from excess 2017-2018 ERAF funds. In 2019-2020, based on information provided by Santa Clara County (that receives information from the State of California), excess ERAF receipts are estimated to total approximately $23.0 million, which has been incorporated into the 2019-2020 Secured Property Tax estimate. This unusually high funding level represents an approximately 45% increase from the 2018-2019 collection level. It is currently anticipated in 2020-2021 the excess ERAF receipts will return to levels experienced in 2018-2019 ($16 million).

The final component of the Secured Property Tax category is the SARA Residual Property Tax receipts. As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution in 2017-2018. In 2017-2018, receipts totaled $11.8 million, but dropped to $8.2 million in 2018-2019. This decrease was due to outstanding Supplemental Education Revenue Augmentation Fund (SERAF) loans that were paid off in 2019. In 2019-2020, SARA residual property tax revenue is estimated at $20 million, and it is anticipated receipts will grow approximately 5% to $21 million in 2020-2021.

It should be noted that final data on the actual tax levy for 2020-2021 is not yet available as adjustments are made through June 30, 2020. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Some of the adjustments, however, are not reflected until the latter months of a given fiscal year, such as the reassessments of commercial property. As this information becomes available, refinements to the Property Tax estimates may be brought forward during the 2020-2021 budget process.

**Unsecured Property Taxes** are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through January and information provided by Santa Clara County, Unsecured Property Tax receipts are estimated at $15.4 million in 2019-2020, which is approximately 2% below the unusually high collection level in 2018-2019. In 2020-2021 Unsecured Property Taxes are estimated at $15.4 million, which is consistent with current year receipts.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Property Tax

For the other Property Tax categories, 2019-2020 collections are estimated at approximately $10 million in 2019-2020 and 2020-2021. **SB 813 Property Tax** receipts are estimated at $6 million in 2019-2020 and 2020-2021; **Aircraft Property Tax** receipts are estimated at $3 million in 2019-2020 and 2020-2021; and **Homeowners Property Tax Relief** revenue are anticipated to total approximately $900,000 in 2019-2020 and 2020-2021.

In the out years of the Forecast, annual Property Tax receipts are projected to increase approximately 4.1% to 4.2% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

### Sales Tax

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. The 2019-2020 Adopted Budget for Sales Tax totaled $258.3 million, which allowed for a 2.0% drop from the 2018-2019 collection level of $263.5 million. A majority of Sales Tax revenue is disbursed from the California Department of Tax and Fee Administration (CDTFA). Based on information received through February 2020 (which reflects Sales Tax activity from July 2019 through December 2019), it is currently anticipated that 2019-2020 Sales Tax revenue will total $261.5 million. It is important to note that the 2019-2020 Sales Tax estimate does not include any revenue related to the Revenue Capture Agreement between the City and eBay that was approved by the City Council on September 24, 2019. Any revenue the City receives as a result of the agreement will be disbursed by the CDTFA in February 2020, and will then need to be analyzed and reconciled by the City of San José.

In June 2018, the United States Supreme Court made a historic ruling with the South Dakota vs. Wayfair, Inc. decision, which provides states with the authority to require online retailers to collect sales tax even without a local presence in that state. The 2019-2020 budget was built on the assumption that revenue totaling $5.0 million would be received ($4.0 million for General Sales Tax and $1.0 million for Local Sales Tax) as a result of the Supreme Court's ruling. Out-of-state online retailers began complying with the new Sales Tax guidelines beginning in April 2019; however, marketplace facilitators were not required to comply until October 2019. The impact of marketplace facilitators, including eBay, is still unknown as compliance just recently began. As additional information is received and analyzed, it will be included in the 2020-2021 Proposed Operating Budget. Below is a discussion of the three Sales Tax sub-categories: General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax.

When the 2019-2020 Adopted Budget was developed, **General Sales Tax** was anticipated to total $204.8 million in 2018-2019 and drop slightly to $204.6 million in 2019-2020. The 2019-2020 estimate was the result of factoring out one-time adjustments related to a 2018-2019 overpayment from the CDTFA attributable to 2017-2018 activity ($9.0 million), assumed 2.5% underlying growth from the 2018-2019 estimate, and an estimated $4.0 million anticipated to be received for

## REVENUE FORECAST

### Sales Tax

out-of-state internet sales. However, because 2018-2019 receipts ended the year at $209.8 million, the 2019-2020 budgeted estimate allows for a 2.5% decline. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 2019 and February 2020, respectively. Based on these collections, it is anticipated that 2019-2020 General Sales Tax receipts will total $208 million, which is $3.4 million above the 2019-2020 Adopted Budget estimate. In 2020-2021 General Sales Tax revenue is anticipated to grow approximately 2.5% to $213 million.

On September 24, 2019 the City Council approved the Revenue Capture Agreement Between City of San José and eBay, Inc. As part of this memorandum, the City Council adopted a resolution authorizing the City Manager to negotiate and execute a Revenue Capture Agreement between the City and eBay, beginning in 2019 and ending in 2034. This agreement may result in the City receiving additional General Sales Tax revenue ranging from $5.0 million up to possibly $29.5 million annually. As previously discussed, revenue adjustments related to this category will not be brought forward for City Council consideration until the funds are distributed from the CDTFA and analyzed by the City.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. The 2019-2020 Local Sales Tax budgeted estimate totals $47.0 million, which was the result of factoring out one-time adjustments of approximately $2 million related to the 2018-2019 overpayment from the CDTFA attributable to 2017-2018 activity, assumed 2.5% underlying growth from the 2018-2019 estimate, and an estimated $1.0 million anticipated to be received for out-of-state internet sales. Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 2019 and February 2020, respectively. Based on these collections, it is anticipated that 2019-2020 Local Sales Tax receipts will meet the budgeted estimate of $47 million. In 2020-2021 Local Sales Tax revenue is anticipated to grow approximately 2.5% to $48 million.

**Proposition 172 Sales Tax** collections (representing the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total $6.5 million in 2019-2020 and grow approximately 2.5% to $6.7 million in 2020-2021.

In the out years of the Forecast, annual Sales Tax performance is expected to show growth of 2.8% to 4.2% annually.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Transient Occupancy Tax

In 2019-2020, Transient Occupancy Tax (TOT) receipts in the General Fund are projected to reach $20.2 million, reflecting a 1.9% decrease from the 2018-2019 collection level of $20.5 million. This anticipated decrease is a departure from the preceding decade of consecutive annual growth, attributable to sustained regional economic performance. The total number of rooms sold through December 2019 represents a slight decrease (0.5%) relative to year-to-date performance through December 2018, and the cumulative average occupancy rate decreased 4.4% from 78.5% to 74.1%. Average daily room rates are also down 1.8% from December 2018 (from $195.08 to $191.50), as is average revenue-per-available room, which dropped 11.1% from December 2018 (from $153.10 to $141.96).

In 2020-2021, TOT receipts are projected at $20.8 million, reflecting growth of 3% from the 2019-2020 estimate. This figure incorporates the City's internal review of available data along with information received from the City's consultants, who take into account the number of additional hotel rooms expected to come on-line – including the 731 rooms added in the latter half of 2019, forecasted economic and convention performance, airport passenger activity, and other correlated economic variables. As TOT collections have historically exhibited wide positive and negative annual fluctuation and, given the prior historically high average daily room rates and occupancy rates, the out years of the Forecast assume moderate growth ranging from 2.0% to 3.0%. However, the growth assumptions used in the development of this Forecast are more conservative than those assumed by the City's consultant, Conventions, Sports and Leisure (CSL), which projected potential annual growth ranging from 2% to 8% over the forecast period.

### Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, City-Generated Tow, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at $48.2 million in 2019-2020, which is slightly below the prior year receipts of $48.4 million. In 2020-2021, Franchise Fees are expected to decrease slightly to $48.1 million, which primarily reflects drops in the Cable and City-Generated Tow Franchise Fees, partially offset by growth in Electricity and Gas receipts (2%).

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 2019-2020 are based on calendar year 2019 and revenues in 2020-2021 will be based on calendar year 2020). 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 2019-2020 will be received in April 2020.

In the **Electricity Franchise Fee** category, collections in 2019-2020 are anticipated to reach $22.0 million, reflecting growth of approximately 1% from the 2018-2019 receipts. This estimate takes

## Revenue Forecast

### Franchise Fees

into consideration the actual collection patterns for electricity utility tax receipts in calendar year 2019. In 2020-2021, Electricity Franchise Fee collections are projected to increase by approximately 2% to $22.4 million.

In the **Gas Franchise Fee** category, the 2019-2020 estimated collections of $5.0 million reflects a 2.7% increase from prior year receipts of $4.9 million. This estimate takes into consideration the actual collection patterns for gas utility tax receipts in calendar year 2019. In 2020-2021 collections are projected to grow 2% to $5.1 million; however, receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

**Commercial Solid Waste** (CSW) Franchise Fee collections are estimated to reach budgeted levels of $12.0 million in 2019-2020, 2.3% above the prior year collections, which is primarily due to the 2019-2020 CPI-based increase of 2.4%. Collections reflect the revised methodology for assessing this fee that became effective July 1, 2012. On October 19, 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure is a base of $5 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District. This revised structure is subject to an annual increase based on the percentage change in the CPI rate during the prior two calendar years. It should be noted that this increase is not automatic, and is subject to City Council approval each year. Therefore, the 2020-2021 estimate of $12.0 million is consistent with the 2019-2020 estimate and does not automatically assume a CPI adjustment. This adjustment will be brought forward as a proposed change in the 2020-2021 Proposed Operating Budget.

In the **Cable** Franchise Fee category, the estimated 2019-2020 collections of $8.5 million is 6.0% below the prior year receipts of $9.0 million. In addition, revenue in 2020-2021 is anticipated to drop an additional 5% to $8.1 million. As people continue to move from cable to less expensive streaming options (that do not include a Franchise Fee), this revenue source is anticipated to continue to decline.

**City Generated Tow Fees** in 2019-2020 are projected at $300,000, reflecting a 47% decline from the 2018-2019 actual collection level. The decline in this revenue category is reflective of the new City-Generated Tow Services Delivery Model that was approved by the Transportation and Environment Committee in February 2020 and will be evaluated by the City Council in March 2020. In order to provide financial relief to tow operators, changes to tow agreements are recommended to be implemented, retroactive to January 2020. Due to the burden placed on tow operators and the need for changes to the City-Generated Tow Fees, revenues are anticipated to drop to $150,000 in 2020-2021.

Remaining franchise fees include the **Great Oaks Water and Nitrogen Gas Pipeline** categories. Nitrogen Gas Pipeline receipts are estimated at $65,000 in 2019-2020 and 2020-2021. Great Oaks Water fees are anticipated to reach $250,000 in 2019-2020 and grow by 2% to $260,000 in 2020-2021.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Franchise Fees

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase by 0.5% to 2.3%. However, it is important to keep in mind that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels.

### Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2019-2020 are anticipated to total $95.3 million, representing a 4% drop from the 2018-2019 collection level of $99.3 million. In 2020-2021, Utility Tax collections are projected to increase approximately 1% to $96.4 million. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases; however, it does take into account changes already approved. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

The **Electricity Utility Tax** is anticipated to generate $46.0 million in 2019-2020, a 1% increase from prior year levels. In 2020-2021, Electricity Utility Tax revenues are estimated to increase 2% to $47.0 million. This increase does not reflect a rate change; however, consumption and population increases are anticipated, which results in increased electricity usage.

**Gas Utility Taxes** are projected at $10.4 million in 2019-2020, a 6.6% decrease from 2018-2019 levels based on actual collection patterns and anticipated consumption levels. In 2020-2021 collections are projected to increase approximately 2% to $10.6 million, however, receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

**Water Utility Tax** receipts of $17.0 million are anticipated to be received in 2019-2020, an increase of approximately 3% from 2018-2019 collection levels. In 2020-2021, receipts are projected to increase approximately 2% to $17.3 million based on the annualization of water rate increases that occurred effective January 2020.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Receipts (excluding compliance revenue) in 2019-2020 are projected at $21.9 million, a 15.6% drop from the 2018-2019 collection level. In 2020-2021, receipts are projected to decrease an additional 2% to $21.5 million. The decline in this revenue category is the result of wireless consumers shifting to less expensive prepaid wireless plans, competition with cellular companies that keep prices down, and that the data component of wireless plans is not taxable.

In the out years of the Forecast, conservative growth ranging from 0.8% to 2.5% annually is projected overall in the Utility Tax category. There is significant volatility and uncertainty regarding the performance in this category based on potential changes in rates and consumption levels. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

# Elements of The General Fund Forecast

## Revenue Forecast

### Telephone Line Tax

Based on the current collection trend, receipts (excluding compliance revenue) in 2019-2020 and 2020-2021 are estimated to total $20.0 million, which is consistent with the 2018-2019 actuals. Given the steady nature of collections in this category, receipts are anticipated to remain relatively flat (growth of less than 0.5%) in the out years of the Forecast as well.

### Business Taxes

This category includes General Business Tax, Cardroom Tax, Disposal Facility Tax, and Cannabis Business Tax. Business Taxes are estimated to reach $77.0 million in 2019-2020, a 2.8% increase from prior year levels. In 2020-2021, Business Taxes revenues are anticipated to increase an additional 1.2% to $77.9 million.

In 2019-2020, **General Business Tax** proceeds are anticipated to reach $28.0 million, which is consistent with the 2018-2019 collection level. In 2020-2021, General Business Tax revenue is anticipated to grow by the annual inflation rate change of 2%, which will result in 2020-2021 revenue totaling $28.6 million.

Based on current performance, collections in the **Cardroom Tax** category are estimated at $19.0 million in 2019-2020, a slight increase from the prior year collection level of $18.9 million. In 2020-2021, receipts are anticipated to remain flat at $19.0 million.

**Disposal Facility Taxes** (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream can vary due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. Based on current collection trends, 2019-2020 DFT collections are estimated at $13.0 million, representing a 7.5% increase from 2018-2019 collection levels. In 2020-2021, receipts are anticipated to remain flat at $13.0 million. DFT revenues had slowly declined over time as a result of continued waste diversion efforts. However, due to China's ban on imports of items such as unsorted paper and some plastics, DFT activity has recently increased again. Until this ban is eliminated or other recycling solutions are realized, the DFT revenue is anticipated to remain at elevated levels.

**Cannabis Business Tax** collections began after the November 2016 California Marijuana Legalization Initiative (Proposition 64) was approved by voters and recreational marijuana use was legalized in California. As a result, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. Based on current collection trends, it is anticipated Cannabis Business Tax receipts will total $17.0 million in 2019-2020, which is 7.0% above the prior year collections. In 2020-2021 receipts are projected to grow by approximately 2% to $17.3 million, which reflects an assumption that some of the recent growth of new customers will taper off, and that other dispensaries from neighboring jurisdictions may begin operations next year.

In the remaining years of the forecast, overall, the Business Tax category is expected to experience changes ranging from 1.2% to 1.4% per year.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Licenses and Permits and Fees, Rates, and Charges

The Licenses and Permits and Fees, Rates, and Charges categories contain fees and charges collected by various departments. Historically, a significant portion of the revenue captured in these categories were associated with development-related fees. However, beginning in 2020-2021, all revenue and expenditures related to the Development Fee Programs will no longer be captured in the General Fund, but will be allocated to specific Development Fee Program Funds as part of the 2020-2021 budget process. As before, the Development Fee Programs will remain at 100% cost recovery. The movement into separate funds is designed to improve the internal administration and tracking of resources, and to provide greater transparency since these new funds will have separate source and use statements included within the 2020-2021 Proposed Operating Budget document. Further information regarding the reallocation of the Development Fee Programs from the General Fund to individual funds can be found in the Expenditure Forecast section of this document.

Remaining non-development fees are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. In 2020-2021, the Licenses and Permits category is estimated at $19.75 million and the Fees, Rates, and Charges category is estimated at $30.7 million.

In the out years of the Forecast, both the Licenses and Permits and Fees, Rates, and Charges categories are expected to experience annual growth ranging from 2.4% to 3.2%. The growth rates in the out years are tied to the expected increases in personnel costs, which the fees are designed to recover, including salary, retirement, and health costs.

### Fines, Forfeitures and Penalties

The Fines, Forfeitures and Penalties category is expected to generate $16.8 million in 2019-2020 and $16.6 million in 2020-2021. The largest component of this revenue category is Parking Fines, which are expected to generate approximately $12.7 million in 2019-2020 and 2020-2021. In the out years of the Forecast, annual growth of approximately 0.5% to 1.1% is projected in this revenue category.

### Revenue from the Use of Money and Property

The Revenue from the Use of Money and Property category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, interest income, and small cell lease revenue. Overall revenue in this category is anticipated to generate $14.9 million in 2019-2020 and reduce slightly to $14.3 million in 2020-2021. In the out years of the Forecast, growth of 2.9% to 3.5% annually is assumed in the Money and Property category.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Revenue from Local Agencies

In 2019-2020, revenue of $18.0 million is projected from other local agencies, such as the Central Fire District payment for fire services provided to County residents by the San José Fire Department, the County of Santa Clara payment for the Paramedic Program, and the Successor Agency to the Redevelopment Agency of San José (SARA). In 2020-2021, revenue in this category is projected at $13.2 million, which is $4.8 million below the 2019-2020 estimate. The decrease in 2020-2021 revenue is primarily due to reimbursements and grants that are not secured on an ongoing basis being eliminated.

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on information provided by the Central Fire District, payments of $7.95 million are anticipated in 2019-2020, which includes a one-time true-up payment of approximately $150,000. In 2020-2021, collections are projected to increase to $8.2 million, which reflects the elimination of the true-up payment and underlying growth of 5%. In 2020-2021, reimbursement totaling $970,000 is also expected from local agencies for services provided by the Animal Care and Services Program. This collection level is consistent with the 2019-2020 estimate.

The Forecast assumes reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program), which totals $2.8 million in 2019-2020 and 2020-2021. Funding for the Paramedic Program includes the equipment reimbursement component (Annex B, Category A funds; $1.4 million) and service-related component (Annex B, Category B funds; $1.4 million).

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately 0.5%.

### 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 $12.4 million in 2020-2021 and remain flat through the out years of the Forecast. Tobacco Settlement payments account for the majority of revenue in this category and are estimated at $10.6 million in 2020-2021, which is consistent with the amount projected for 2019-2020.

The State grants and reimbursements total $1.8 million in 2020-2021, with the largest reimbursements for the Auto Theft program ($800,000), Vehicle License Fees Collection in Excess ($500,000), and Abandoned Vehicles Abatement program ($400,000). Vehicle License Fees Collection in Excess account for the Vehicle License Fee revenues that are collected by the Department of Motor Vehicles as a result of certain compliance procedures that are equally apportioned to counties and cities on a population basis.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues. In 2020-2021 revenue of $121,000 is anticipated for the second year of grant funding for the Northern California Regional Intelligence Center – Police 2019.

### Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including cost reimbursements for the Investment Program, payments from Comcast and AT&T required under the Franchise Agreement, and proceeds from the Sale of Surplus Property. In 2019-2020, this category is expected to generate $36.7 million, which includes one-time revenue of $10.2 million for the outstanding Supplemental Education Revenue Augmentation Fund (SERAF) loan that was repaid in 2019-2020 and $4.7 million related to commercial paper proceeds for the City Hall campus expansion.

In 2020-2021, the Other Revenue estimate of $9.1 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2020-2021 costs or agreements and the elimination of one-time funding sources. In 2020-2021 payments from Comcast and AT&T are estimated at $1.7 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities. There are associated City-Wide Expenses allocations for this purpose. The cost reimbursement for the Investment Program is estimated at $1.3 million based on the current allocation of staff to this function. In addition, the proceeds from the Sale of Surplus Property category is estimated at $1.0 million in 2020-2021 based on the anticipated assets that will be sold next fiscal year.

In the out years of the Forecast, annual collections are expected to experience growth and declines ranging from -1.9% to 0.5% annually.

### Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2019-2020 are projected to reach $16.8 million, which is approximately 1% higher than the prior year actuals. Several factors impact collections, including falling gas prices that would support increased consumption and, as an offsetting factor, the move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In 2020-2021, collections in this category are projected grow approximately 1% to $17.0 million. In the out years of the Forecast, annual collections are expected to experience growth and declines ranging from -0.4% to 0.9% annually.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2020-2021, a total of $67.6 million in overhead reimbursements are projected based on 2020-2021 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2020-2021 salaries for those positions for which an overhead rate is applied. The 2020-2021 overhead reimbursements include overhead payments from the new Development Fee Program funds totaling $10.2 million. Currently, the Development Fee Program overhead is captured within the fee revenue received into the General Fund. In the remaining years of the Forecast, annual growth ranging from 2.4% to 3.2% is assumed, reflecting increases in costs, which the overhead rate is designed to recover, including increased personal services costs.

### Transfers

The Transfers category is projected at $28.2 million in 2020-2021, which is slightly above the 2019-2020 estimated collection level of $28.0 million. The largest component of this category ($18.3 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 2020-2021, these reimbursements have been built to cover the direct base costs as well as indirect costs.

Additional large transfers programmed for 2020-2021 include the Construction and Conveyance Tax Fund transfer ($3.5 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($1.75 million) for general use and pavement maintenance activities; the General Purpose Parking Fund ($707,000); and the transfer from the Convention and Cultural Affairs Fund ($360,000) for reimbursement of City oversight of the fund.

In the remaining years of the Forecast, annual increases range from 0.6% to 2.2%. The reimbursement from the Airport Maintenance and Operation Fund for police and fire services is expected to increase in the out years based on the increased costs for those services.

### Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program, Voluntary Employee Beneficiary Association (VEBA) Fund, and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2020-2021 of $746,000. In the remaining years of the Forecast, annual growth ranging from 2.4% to 3.2% is anticipated to recover the projected costs.

# ELEMENTS OF THE GENERAL FUND FORECAST

## REVENUE FORECAST

### Beginning Fund Balance

The $107.2 million forecast estimate of available 2020-2021 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of $40.0 million is carried forward at the current level based on the assumption that this amount will not be used in 2019-2020 and will be available for use in 2020-2021. The current funding level is approximately enough to cover General Fund payroll costs for approximately two weeks in an emergency. (On the expenditure side, the Contingency Reserve is set at $40.0 million in 2020-2021 and increases in the out years of the forecast to $42.5 million by 2024-2025 to comply with the City Council policy to set aside at least 3% of expenditures in this Reserve.)

- A total of $23.0 million in fund balance will be achieved in 2019-2020 for use in 2020-2021 from a combination of excess revenues and expenditure savings as well as the liquidation of prior-year carryover encumbrances. Consistent with past practice, the Administration will closely monitor actual General Fund performance through the remainder of the year and may bring forward adjustments to this estimate as appropriate later in the budget process.

- An additional $44.2 million reflects the anticipated liquidation of reserves. Of this amount, $35.5 million will be transferred to the new Development Fee Program Funds in 2020-2021 as follows: $21.0 million from the Building Development Fee Program Reserve; $6.0 million from the Public Works Development Fee Program Reserve; $5.0 million from the Fire Development Fee Program Reserve; $1.5 million from the Planning Development Fee Program Reserve; $1.5 million from the City-Wide Planning Fee Program Reserve; and $500,000 from the Public Works Small Cell Permitting Fee Program Reserve. This funding will be transferred to the new Development Fee Program Funds in 2020-2021, and will be used for costs associated with the respective development fee program. Other current year reserves that will be used to support base costs programmed in 2020-2021 include the Police Sworn Hire Ahead Program Reserve ($7.2 million), Parks Rehabilitation Strike and Capital Infrastructure Team Reserve ($725,000), Public Life and Parks Activation Reserve ($500,000), Citywide Retail Attraction Program Reserve ($187,500), and Pest Management Reserve ($80,000).

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue and expenditure savings, including liquidations of carryover encumbrances will increase slightly each year from $22.7 million in 2021-2022 to $23.6 million in 2024-2025. In addition, it is assumed that the Contingency Reserve will be carried over each year and will grow slightly from $40.0 million in 2021-2022 to $42.5 million in 2024-2025. In total, the Beginning Fund Balance ranges from $107.2 million in 2020-2021 (of which $44.2 million reflects the liquidation of reserves discussed above) to $66.1 million in 2024-2025.

# ELEMENTS OF THE GENERAL FUND FORECAST

## EXPENDITURE FORECAST

General Fund expenditure categories were analyzed in depth to develop the 2020-2021 expenditure estimates in this Forecast. These estimates will be re-examined and updated during the preparation of the 2020-2021 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $1.2 billion in 2020-2021 to $1.3 billion in 2024-2025, representing an average annual growth rate of 2.0%.

**2021-2025 General Fund Forecast Expenditure Summary**

| Expenditure Category | Modified Budget 2019-2020 | 2020-2021 | 2021-2022 | Forecast 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| **Personal Services** | | | | | | |
| Salaries and Other Compensation | 550,709,119 | 531,279,000 | 546,667,000 | 565,800,000 | 585,603,000 | 606,099,000 |
| Retirement | 347,816,286 | 340,417,000 | 349,816,000 | 343,924,000 | 353,179,000 | 357,886,000 |
| Health and Other Fringe Benefits | 67,630,944 | 64,761,000 | 67,065,000 | 69,593,000 | 72,355,000 | 75,366,000 |
| | **966,156,349** | **936,457,000** | **963,548,000** | **979,317,000** | **1,011,137,000** | **1,039,351,000** |
| **Non-Personal/Equipment** | **152,287,008** | **121,803,000** | **126,606,000** | **127,920,000** | **130,992,000** | **132,395,000** |
| **City-Wide** | | | | | | |
| City-Wide Expenses | 127,929,288 | 73,745,000 | 71,443,000 | 71,944,000 | 72,454,000 | 72,900,000 |
| Capital Projects | 68,969,500 | 5,770,000 | 5,770,000 | 5,770,000 | 5,770,000 | 5,770,000 |
| Transfers | 40,467,078 | 63,220,000 | 28,685,000 | 29,184,000 | 29,215,000 | 29,245,000 |
| Earmarked Reserves | 185,906,659 | 2,527,000 | 1,277,000 | 1,277,000 | 1,277,000 | 1,277,000 |
| Contingency Reserve | 40,000,000 | 40,000,000 | 40,000,000 | 40,500,000 | 41,500,000 | 42,500,000 |
| | **463,272,525** | **185,262,000** | **147,175,000** | **148,675,000** | **150,216,000** | **151,692,000** |
| **Committed Additions** | | | | | | |
| New Parks and Recreation Facilities Maintenance and Operations | | 73,000 | 666,000 | 915,000 | 937,000 | 991,000 |
| New Traffic Infrastructure Assets Maintenance and Operations | | 52,000 | 154,000 | 209,000 | 270,000 | 316,000 |
| Fire Training Center | | - | 18,000 | 213,000 | 221,000 | 230,000 |
| Measure T (Public Safety) | | - | 2,053,000 | 4,413,000 | 10,407,000 | 19,895,000 |
| | | **125,000** | **2,891,000** | **5,750,000** | **11,835,000** | **21,432,000** |
| **Total Base Expenditures (w/ Committed Additions)** | **$ 1,581,715,882** | **$ 1,243,647,000** | **$ 1,240,220,000** | **$ 1,261,662,000** | **$ 1,304,180,000** | **$ 1,344,870,000** |
| **% Growth** | | | *-0.3%* | *1.7%* | *3.4%* | *3.1%* |

Adjustments are made to this Forecast to account for one-time additions/deletions included in the 2019-2020 Adopted Budget, and to annualize partial-year allocations. Various one-time additions totaling over $50 million, excluding $26 million committed for capital projects, are scheduled to expire in June 2020. Notable one-time allocations include the: Sworn Hire Ahead Program, Police Recruitment and Background Services, Proactive Community Policing/Foot Patrol in High Needs Neighborhoods, and Downtown Foot Patrol Program managed by the Police Department; Senior Nutrition Program, Transitional Jobs Program (San José Bridge), Pest Management, Reuse Program and Facilities Staffing, Public Life and Parks Activation, and Project Hope Expansion managed by the Parks, Recreation and Neighborhood Services Department; replacement of PCs and Operating Systems License Costs coordinated by the Information Technology Department; Diridon Station Area Development Planning, Planning Development Fee Staffing, and Integrated Permitting System Staff Support provided through Planning, Building and Code Enforcement; Emergency Management Training and Exercise and 2020 Census Outreach Support coordinated by the City Manager's Office; Beautify San José Street Landscape Maintenance Program; and, Climate Smart San Jose Plan Implementation.

# ELEMENTS OF THE GENERAL FUND FORECAST

## EXPENDITURE FORECAST

Many of these programs and services will be re-evaluated for continued funding beyond the 2019-2020 fiscal year, with recommendations included in the 2020-2021 Proposed Operating Budget as appropriate, and in the context of other budgetary needs.

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 (2020-2021) projection for personal services costs in this Forecast has been calculated at a detailed level, using a January 2020 extract from the City's payroll system as the starting point. This included the most recent salary, retirement plan, and health plan information for each position. The individual position-level information was then reviewed, corrected, and updated to ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Further, 2019-2020 ongoing position additions (cost increases) and reductions (cost savings), as appropriate, were annualized and all categories of benefit costs in the coming year were projected.

For the 2020-2021 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $936.5 million projected personal services total for 2020-2021, salaries and other compensation costs amount to $531.3 million (56.7% of projected personal services), retirement costs amount to $340.4 million (36.4% of projected personal services), and health and other fringe benefits costs amount to $64.8 million (6.9% of projected personal services).

Following is a discussion of the factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. The out-years are projected to inflate at an average annual rate of approximately 2.6%.

Personal Services variances to the prior 2020-2024 Five-Year Forecast are primarily attributable to the removal of costs associated with the Development Fee Programs (Building, Fire, Planning, and Public Works), which will be moved into separately budgeted funds as part of the 2020-2021 budget process. As before, the Development Fee Programs will remain at 100% cost recovery. The movement into separate funds is designed to improve the internal administration and tracking of resources, and to provide greater transparency since these new funds will have separate source and use statements included within the 2020-2021 Proposed Operating Budget document.

# ELEMENTS OF THE GENERAL FUND FORECAST

## EXPENDITURE FORECAST

### Personal Services

*Salaries and Other Compensation*:

Pay increases for all employees, salary step increases for current non-management employees, and pay for performance for management employees are assumed in each year of this Forecast. Most agreements with the City's bargaining units extend through June 30, 2021. The Association of Building, Mechanical and Electrical Inspectors (ABMEI) and the International Association of Fire Fighters, Local 230 (IAFF) have agreements that expire June 30, 2023. The San José Police Officers' Association (POA) agreement will expire June 30, 2020. The newly established Peace Officer Park Rangers Association (POPRA) is currently in negotiations with the City to reach an agreement.

Except for employees represented by SJPOA and IAFF, Local 230, non-management step increases have been calculated at a 2.5% step increase rate. For SJPOA and IAFF, a 5% step increase rate was applied in this Forecast.

A Salaries and Benefits Reserve funding is included in each year of this Forecast that sets aside funds to: 1) account for potential pay increases and other compensation beyond the expiration date of the various bargaining unit agreements; 2) allocate funding for pay for performance for management employees; and 3) to reserve resources for anticipated increases to employee benefits such as health and dental. For 2020-2021, this reserve totals $20.8 million and would require City Council action before any form of distribution could be made. As contracts in the out-years of the forecast are determined, subsequent Forecast documents will be updated to reflect the latest information at that time. The out-years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

The Overtime budget in the General Fund totals $40.0 million for 2020-2021, with most of these funds allocated to Police Department ($28.2 million) and Fire Department ($10.2 million) operations. The out-years of the Forecast continue these costs, with small adjustments using salary step as the inflationary factor.

*Retirement*:

The City's two retirement systems, the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan, provide defined retirement benefits to eligible employees. Both retirement plans use investment income and employer and employee contributions to provide eligible retirees with pensions and retiree healthcare benefits. Each system also maintains two benefit levels: Tier 1 and Tier 2.

Employees represented by SJPOA and IAFF, Local 230 are members of the Police and Fire Department Retirement Plan and have different retirement benefits with the corresponding different City contributions and rates. Within the Police and Fire Department Retirement Plan, effective August 4, 2013, the City provides for a lower defined benefit plan (Tier 2) for new and rehired Police members. Effective January 2, 2015, a lower defined benefit plan (Tier 2) was

## Personal Services

implemented for new and rehired Fire members. With the passage of Measure F, former Tier 1 members previously or newly rehired to the City are placed within the Tier 1 defined benefit plan.

Within the Federated Retirement System, effective September 30, 2012, the City provides for a lower defined benefit plan (Tier 2) for new employees in that system. Federated employees who joined the City between September 30, 2012 and September 27, 2013 are eligible for retiree healthcare coverage (Tier 2A). Effective September 27, 2013, however, new employees no longer receive retiree healthcare coverage (Tier 2B). With the passage of Measure F, former Tier 1 members previously or newly rehired to City are placed within the Tier 1 defined benefit plan.

Effective March 31, 2017 for members of the Police and Fire Department Retirement Plan and June 18, 2017 for members of the Federated City Employees' Retirement System, employees with previous CalPERS or reciprocal retirement system experience are eligible to join the Tier 1 defined benefit pension plan for their respective retirement systems. These employees need to have been employed at their previous agency before January 1, 2013, have less than a six month break in service before joining the City, and not have concurrent service.

On December 4, 2012, a defined contribution plan (Tier 3) for new employees in Unit 99 (Senior Staff, Executive Staff, and senior managers under the City Manager's Appointing Authority; City Council Office staff; professional and management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor; and some employees in the City Clerk's Office) was approved. Effective February 4, 2013, new employees to the City hired directly into Unit 99 have the ability to make the one-time election to participate in the defined benefit Tier 2B plan or the Tier 3 plan. The Tier 3 plan provides for a City contribution of 3.75%.

For 2020-2021, retirement costs total $340.4 million for the General Fund, a decrease of $7.4 million from the 2019-2020 Modified Budget of $347.8 million. As discussed previously, the decrease is attributable to moving the Development Fee Programs out of the General Fund and into separate funds. Retirement costs represent 27.4%, a similar level to previous years, of the total General Fund base expenditure budget with committed additions and reflect the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. These assumptions included holding the discount rate steady at 6.75% for both systems' pension contributions.

A portion of the City's retirement contributions ($34.9 million in the General Fund and $46.4 million in all funds) are associated with retiree healthcare. Prior to Measure F, these contributions were frozen at certain levels for Federated and Police and Fire systems. Subsequent to the passage of Measure F, each board adopted annual contribution amounts for retiree health care, subject to various actuarial assumptions that are evaluated each year.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, Table 1 details the General Fund's retirement costs and for the Federated Retirement System and the Police and Fire Department Retirement

## EXPENDITURE FORECAST

### Personal Services

Plan. These amounts are broken out by Tier 1 contributions (normal cost), Tier 2 contributions, the UAL, and retiree healthcare. In previous years, retirement contributions were also expressed as a percentage rate of salary for Tier 1 and Tier 2 employees.

However, as Tier 1 is now a closed system, spreading the UAL cost across a shrinking pool of Tier 1 employees distorted the apparent cost of a Tier 1 employee. For reference, Tier 1 normal cost contributions and Tier 2 contributions are also displayed in the tables below as a rate, illustrating the long-term cost savings the City will achieve with the transition of its workforce from Tier 1 to Tier 2. Over this Forecast, the General Fund retirement costs are expected to grow from $340.4 million ($454.3 million in all funds) in 2020-2021 to $357.9 million ($488.1 million in all funds) in 2024-2025.

Though these amounts are increasing, it is important to note that retirements contributions as a percentage of ongoing General Fund expenditures slightly decreases across the forecast period, from 27.4% in 2020-2021 to 26.5% in 2024-2025. As shown in Table 1 below, this decrease is largely driven by a reduction to the required Police UAL contribution starting in 2022-2023.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution amounts for 2020-2021 and the Cheiron-projected amounts for the out-years of the Forecast. It should be noted that the City budgetary amounts differ from the Federated and Police and Fire Retirement Board approved amounts due to the budgetary spread across vacant, as well as filled, positions. Cheiron applies retirement contributions to an assumed level of filled positions.

### TABLE 1 – 2021-2025 CITY RETIREMENT BUDGETED CONTRIBUTION AMOUNTS
**GENERAL FUND**
**($ in Millions)***

| Retirement Plan | 2019-2020 | 2020-2021** | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Federated Retirement Plan** | | | | | | |
| Tier 1 Pension (Normal Cost) | $17.7 | $13.5 | $12.4 | $11.3 | $10.4 | $9.4 |
| *Tier 1 Pension (Normal Cost) Rate* | *19.3%* | *18.0%* | *17.8%* | *17.7%* | *17.6%* | *17.5%* |
| Tier 2 Pension+ | $8.3 | $7.8 | $8.3 | $9.2 | $10.1 | $11.0 |
| *Tier 2 Pension Rate* | 8.3% | *7.9%* | *7.9%* | *7.9%* | *7.9%* | *7.9%* |
| Unfunded Actuarial Liability | $78.8 | $69.7 | $71.8 | $74.2 | $76.7 | $79.1 |
| Retiree Health Care | $12.3 | $9.5 | $9.3 | $8.9 | $8.9 | $9.0 |
| **Total Federated Contributions** | **$117.1** | **$100.5** | **$101.8** | **$103.6** | **$106.1** | **$108.5** |
| | | | | | | |
| **Police Retirement Plan** | | | | | | |
| Tier 1 Pension (Normal Cost) | $31.3 | $35.6 | $29.8 | $27.3 | $24.6 | $22.6 |
| *Tier 1 Pension (Normal Cost) Rate* | 31.4% | *31.8%* | *32.2%* | *32.7%* | *33.3%* | *34.0%* |
| Tier 2 Pension+ | $9.6 | $8.4 | $10.0 | $12.1 | $14.2 | $16.1 |
| *Tier 2 Pension Rate* | 14.1% | *14.2%* | *14.2%* | *14.2%* | *14.2%* | *14.2%* |
| Unfunded Actuarial Liability | $70.0 | $80.0 | $84.2 | $75.3 | $76.7 | $78.6 |
| Retiree Health Care | $14.5 | $15.3 | $16.1 | $16.6 | $17.4 | $18.1 |
| **Total Police Contributions** | **$125.4** | **$139.3** | **$140.1** | **$131.3** | **$132.9** | **$135.4** |
| | | | | | | |
| **Fire Retirement Plan** | | | | | | |
| Tier 1 Pension (Normal Cost) | $24.0 | $25.8 | $25.3 | $24.2 | $23.0 | $21.7 |
| *Tier 1 Pension (Normal Cost) Rate* | 32.3% | *33.2%* | *33.4%* | *33.6%* | *33.9%* | *34.2%* |
| Tier 2 Pension+ | $3.0 | $2.6 | $3.9 | $5.1 | $6.3 | $7.6 |
| *Tier 2 Pension Rate* | 15.4% | *15.5%* | *15.6%* | *15.6%* | *15.6%* | *15.6%* |
| Unfunded Actuarial Liability | $55.0 | $61.2 | $67.2 | $67.8 | $72.6 | $72.0 |
| Retiree Health Care | $9.4 | $10.1 | $10.6 | $10.9 | $11.3 | $11.7 |
| **Total Fire Contributions** | **$91.4** | **$99.7** | **$107.0** | **$108.0** | **$113.2** | **$113.0** |
| | | | | | | |
| **Other Retirement Contributions** | **$0.8** | **$0.9** | **$0.9** | **$1.0** | **$1.0** | **$1.0** |
| | | | | | | |
| **Total General Fund** | **$334.7** | **$340.4** | **$349.8** | **$343.9** | **$353.2** | **$357.9** |
| | | | | | | |
| **Total All Funds** | **$429.7** | **$454.3** | **$469.9** | **$466.8** | **$479.8** | **$488.1** |

+Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of Unfunded Actuarial Liability (UAL) related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

* City budgetary amounts differ from the Federated and Police and Fire Retirement Boards approved amounts due to the budgetary spread of retirement contributions across vacant, as well as filled positions. Cheiron, the Boards' actuary, applies retirement contributions to an assumed level of filled positions.

** The expenditures related to the Development Fee Programs were previously budgeted in the General Fund, but starting in 2020-2021, will be reallocated to its own individual budgeted fund.

Source: Cheiron Letters dated January 15, 2020 (Federated) and January 29, 2020 (Police and Fire).

## EXPENDITURE FORECAST

### TABLE 2 – 2021-2025 BOARD APPROVED CITY CONTRIBUTION AMOUNTS ALL FUNDS ($ in Millions)

| Retirement Plan | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Federated Retirement Plan** | | | | | | |
| Tier 1 Pension (Normal Cost) | $28.8 | $25.5 | $23.3 | $21.4 | $19.5 | $17.7 |
| *Tier 1 Pension (Normal Cost) Rate* | 19.3% | *18.0%* | *17.8%* | *17.7%* | *17.6%* | *17.5%* |
| Tier 2 Pension+ | $13.3 | $14.3 | $15.8 | $17.5 | $19.0 | $20.6 |
| *Tier 2 Pension Rate* | 8.3% | *7.9%* | *7.9%* | *7.9%* | *7.9%* | *7.9%* |
| Unfunded Actuarial Liability | $137.4 | $148.5 | $156.8 | $162.5 | $168.5 | $174.2 |
| Retiree Health Care | $21.8 | $21.0 | $20.2 | $19.4 | $19.6 | $19.8 |
| **Total Federated Contributions** | **$201.3** | **$209.3** | **$216.1** | **$220.8** | **$226.6** | **$232.3** |
| | | | | | | |
| **Police Retirement Plan** | | | | | | |
| Tier 1 Pension (Normal Cost) | $29.0 | $29.0 | $27.1 | $25.0 | $22.7 | $20.6 |
| *Tier 1 Pension (Normal Cost) Rate* | 31.4% | *31.8%* | *32.2%* | *32.7%* | *33.3%* | *34.0%* |
| Tier 2 Pension+ | $6.2 | $8.3 | $10.1 | $12.0 | $14.0 | $15.7 |
| *Tier 2 Pension Rate* | 14.1% | *14.2%* | *14.2%* | *14.2%* | *14.2%* | *14.2%* |
| Unfunded Actuarial Liability | $70.0 | $80.0 | $84.2 | $75.3 | $76.7 | $78.6 |
| Retiree Health Care | $14.6 | $15.3 | $16.1 | $16.6 | $17.4 | $18.1 |
| **Total Police Contributions** | **$119.8** | **$132.6** | **$137.5** | **$128.9** | **$130.8** | **$133.0** |
| | | | | | | |
| **Fire Retirement Plan** | | | | | | |
| Tier 1 Pension (Normal Cost) | $23.4 | $23.6 | $22.7 | $21.6 | $20.4 | $19.3 |
| *Tier 1 Pension (Normal Cost) Rate* | 32.3% | *33.2%* | *33.4%* | *33.6%* | *33.9%* | *34.2%* |
| Tier 2 Pension+ | $2.6 | $3.2 | $4.1 | $5.2 | $6.3 | $7.4 |
| *Tier 2 Pension Rate* | 15.4% | *15.5%* | *15.6%* | *15.6%* | *15.6%* | *15.6%* |
| Unfunded Actuarial Liability | $55.0 | $61.2 | $67.2 | $67.8 | $72.6 | $72.0 |
| Retiree Health Care | $9.4 | $10.1 | $10.6 | $10.9 | $11.3 | $11.7 |
| **Total Fire Contributions** | **$90.4** | **$98.1** | **$104.6** | **$105.5** | **$110.6** | **$110.4** |
| | | | | | | |
| **Total City Contributions** | **$411.5** | **$440.0** | **$458.2** | **$455.2** | **$468.0** | **$475.7** |

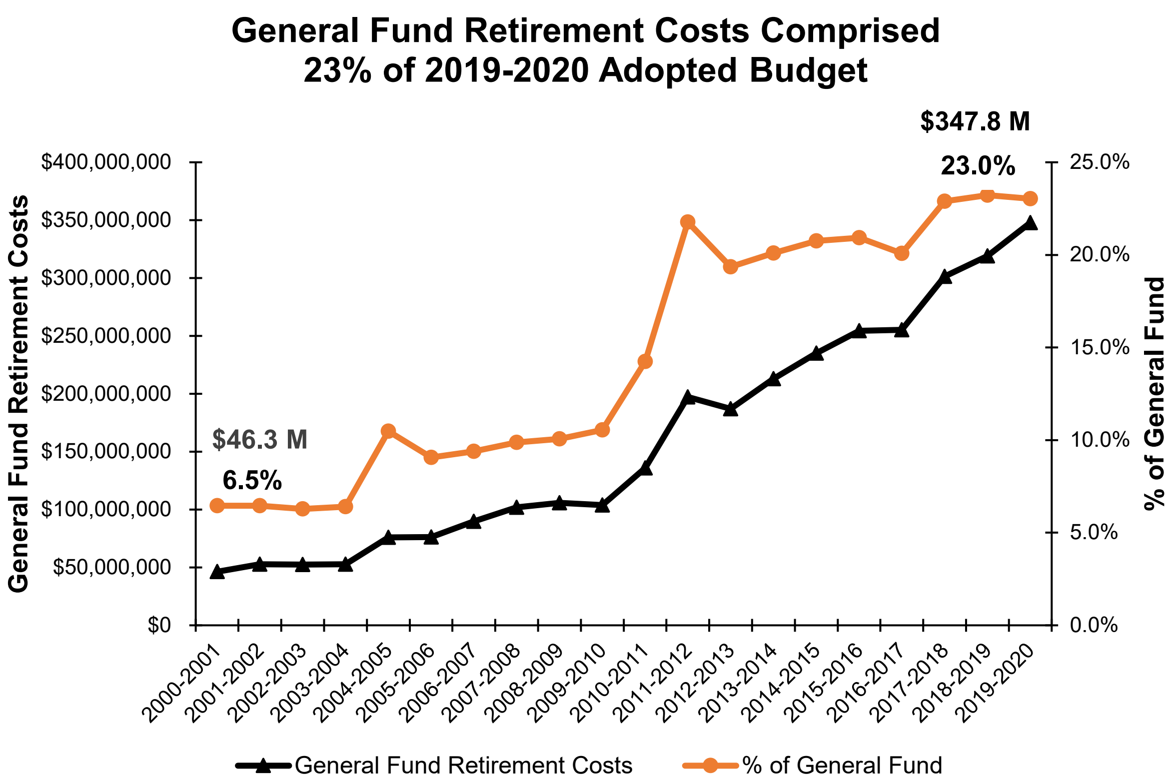
+Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of Unfunded Actuarial Liability (UAL) related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

Source: Cheiron Letters dated January 15, 2020 (Federated) and January 29, 2020 (Police and Fire).

## EXPENDITURE FORECAST

### Personal Services

The chart below describes the history of retirement costs as a share of the total General Fund Adopted Budget. In 2001-2002, retirement costs of $46.3 million accounted for 6.5% of the General Fund, while in 2019-2020, those costs totaled 23.0% of the General Fund Adopted Budget. It is important to note that, because adopted budgets include carryover costs from the previous year, fund balance, and other one-time elements, this percentage is lower than the ongoing average contribution of approximately 27.4% reflected in the Forecast.




*Health and Other Fringe:*

A projected health rate increase of 9.0% is included in the 2020-2021 Forecast effective January 2021 based on national and City trend information received from the City's Human Resources Department benefits consultant. The annual health increase assumptions are held constant at 4.5% annually for the out-years of the forecast.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, no dental rate increase is anticipated in 2020-2021. For the out-years, the Forecast assumes annual dental rate increases of 3% based on City trends and actuarial analysis. There are no changes to the life insurance rates in this Forecast based on projected provider charges. There are no changes to the unemployment insurance rate in this Forecast based on projected future claims.

## 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 $121.8 million in 2020-2021. To determine this ongoing funding level, the City Manager's Budget Office: comprehensively reviews all budgetary actions approved for funding solely in 2019-2020, and decreases or increases corresponding funding levels to account for these one-time additions/deletions; annualizes all partial-year reductions or increases that were approved for 2019-2020; and, analyzes historical usage, rate adjustments, contractual obligations, fleet management, and overall expenditures to project future needs for key non-personal/equipment allocations – utilities, vehicle maintenance and operations, contractual services, and data processing (software/information system maintenance). The resulting 2020-2021 estimate represents a decrease of $30.5 million from the 2019-2020 Modified Budget level of $152.3 million, primarily due to the removal of rebudgeted funds for initiatives or projects continuing into 2019-2020 from the prior year, and the shifting of development fee supported activities from the General Fund to the respective funds for each fee program to be established in 2020-2021.

Departmental funding levels for utilities ($22.9 million), including gas, electricity, and water, for 2020-2021 increase by $509,000 in this Forecast to reflect projected rate increases, the prorated or annualized costs of new facilities coming online, and estimated changes in consumption. Vehicle maintenance and operations costs in the General Fund, including fuel, inventory, and fleet staffing, are also increased by $1.1 million, primarily due to increased consumption, fuel, and parts costs for the maintenance of vehicles recently added to the City's fleet. The 2020-2021 non-personal/equipment base also includes an adjustment ($114,000) for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles – a slight increase from the $4.0 million base budget level – based on the current replacement schedules and projected costs for these vehicles. Police vehicle replacement costs are expected to increase in the remaining years of the Forecast, based on the anticipated replacements that will be necessary in those years. Over the five-year period, Police vehicle replacement costs are expected to total $25.7 million. Additional non-personal/equipment increases are included in this Forecast, primarily for: contractual increases for city-wide janitorial services as previously approved by the City Council to primarily account for living wage and benefit increases ($687,000); City facilities general maintenance ($255,000) and waste collection ($201,000) cost increases; various contractual increases for information systems and software license agreements city-wide ($338,000); realignment among funding sources and estimated costs associated with the cost share agreement with San José State University for operation of the King Library ($218,000); self-contained breathing apparatus ($100,000) equipment requirements for firefighters and the repair and maintenance of fire station exhaust systems ($75,000); and, increased Animal Care and Services cleaning costs ($100,000).

Growth rates ranging from 1.04% to 3.94% are assumed in the out-years of the Forecast, relative to non-personal/equipment base levels in each of the preceding four years, largely varying due to the projected Police vehicle replacement costs in those years. Excluding these adjustments for vehicle replacements, the average growth rate for the non-personal/equipment category is estimated at 2.1% annually.

# ELEMENTS OF THE GENERAL FUND FORECAST

## EXPENDITURE FORECAST

### City-Wide

**City-Wide Expenses** in the first year of the Forecast (2020-2021) total $73.7 million, a decrease of $39.6 million from the 2019-2020 Adopted Budget of $113.3 million, largely due to the removal of one-time allocations in 2018-2019 that were rebudgeted to 2019-2020 ($24.3 million) and removal of one-time budget actions in 2019-2020 that are subject to re-evaluation ($14.0 million), and various technical adjustments to ongoing allocations ($1.3 million).

The line-items in this category are primarily made up of cross-departmental, large grant, and general city-wide expenditures. Forecast funding levels for 2020-2021 include cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2020-2021 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims ($18.4 million); San José BEST and Safe Summer Initiative Programs ($6.1 million); General Liability Claims ($6.0 million); Sick Leave Payments Upon Retirement ($5.0 million); Homeless Rapid Rehousing ($4.0 million); ESCO Debt Service ($3.0 million); Digital Inclusion Program ($2.2 million); Property Tax Administration Fee ($1.9 million); Elections and Ballot Measures ($1.9 million); Sidewalk Repairs ($1.8 million); Banking Services ($1.7 million); Property Leases ($1.7 million); Homeless Response Team ($1.6 million); San José Works – Youth Jobs Initiative ($1.5 million); Tech Museum of Innovation Subsidy ($1.3 million); Public, Educational and Government Access Facilities – Capital ($1.3 million); Insurance Premiums ($1.2 million); Workers' Compensation State License ($1.2 million); and, San José Learns ($1.0 million).

For continuing initiatives authorized in 2020-2021, City-Wide Expenses are projected to decrease overall by approximately $1.2 million, largely due to lower projected Workers' Compensation Claims payments ($1.7 million) and the elimination of funding for reaching the end of several multi-year grants, including: Internet Crimes Against Children State Grant 2018-2020 ($640,000); Silicon Valley Energy Watch 2019 ($218,000); and Northern California Regional Intelligence Center – Police 2019 ($111,000). These decreases are partially offset by various base budget increases for: Insurance Premiums ($466,000); the establishment of the Sidewalk and Trees Hardship allocation ($413,000 shift from the Transportation Department's non-personal/equipment allocation); and various cost-of-living adjustments (3% increase) to ongoing allocations.

While the majority of City-Wide Expenses are expected to remain at 2020-2021 levels during the Forecast period, some categories are expected to experience modest year-over-year growth, including the: Arena Authority ($234,000 to $264,000); Children's Discovery Museum ($327,00 to $368,000); Hammer Theater Center Operations and Maintenance ($309,000 to $350,000); History San José ($850,000 to $957,000); Homeless Response Team ($1.6 million to $1.8 million); Mexican Heritage Plaza Maintenance and Operations ($452,000 to $508,000); Property Leases ($1.7 million to $1.9 million); San José Museum of Art ($541,000 to $609,000); Sports Authority ($404,000 to $454,000); Tech Museum of Innovation ($1.3 million to $1.5 million); Sanitary Sewer Fees ($540,00 to $608,000); San José BEST and Safe Summer Initiative Programs ($6.1 million to $6.8 million); Insurance Premiums ($1.2 million to $1.6 million); and, Property Tax Administration Fee ($1.9 million to $2.1 million).

# ELEMENTS OF THE GENERAL FUND FORECAST

## EXPENDITURE FORECAST

### City-Wide

Overall, Workers' Compensation Claims payments are projected to continue to gradually decrease over the Forecast period, from $18.4 million to $17.7 million.

The General Fund **Capital Projects** category totals $5.8 million in 2020-2021 and remains at this level in each year of the Forecast. The largest item in this category is fire apparatus replacement ($3.75 million), which assumes that the Fire Construction and Conveyance Tax Fund will contribute $400,000 annually for these costs over the five-year period. Capital Projects funding also includes the continuation of annual allocations for: the unanticipated maintenance of City facilities ($1.25 million); fuel tank and methane monitoring control and replacement ($470,000); and, annual capital requirements to maintain power backup for the City Hall and the 9-1-1 Police Communications Building ($200,000) and for Arena repairs ($100,000).

The **Transfers** category totals $63.2 million in 2020-2021 and averages $29.1 million in the remaining years of the Forecast. One-time transfers, totaling $35.5 million, are reflected in 2020-2021 to establish initial reserves for the respective Development Fee Programs, as those funds are recommended to be established effective in 2020-2021. These transfers are offset by the liquidation of corresponding reserves. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for the construction of City Hall is the largest recurring line-item in this category at $19.0 million in 2020-2021, increasing to $19.7 million through the remainder of the Forecast. Other transfers include: funding to cover a portion of the debt service payments and operating costs for the Los Lagos Golf Course ($1.8 million through 2021-2022, increasing to $2.0 million in 2022-2023); funding for capital rehabilitation and enhancements at the SAP Center in accordance with the San José Arena Management Agreement with Sharks Sports and Entertainment ($2.3 million); funding for the Vehicle Maintenance and Operations Fund for general fleet replacement ($1.5 million); funding to support the Silicon Valley Regional Interoperability Authority in the Construction and Conveyance Tax Fund – Communications ($1.3 million through 2021-2022, increasing to $1.5 million in 2022-2023) as revenues are insufficient to cover required costs; funding to support the Construction and Conveyance Tax Fund – Service Yards to supplement debt service payments associated with the Central Service Yard ($500,000, increasing to $750,000 in 2021-2022) as revenues are insufficient to cover required costs; and, payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($986,000 to $1.1 million annually).

Debt service costs for the Los Lagos Golf Course is funded through the Municipal Golf Course Fund; however, projected revenues are not enough to completely cover costs. The 2020-2021 transfer from the General Fund for the golf course subsidy ($1.8 million) decreases $8.9 million from the 2019-2020 level ($10.7 million), which provided for the payoff of remaining debt obligations associated with the Rancho del Pueblo Golf Course and paid down a portion of the debt related to the Los Lagos Golf Course. This transfer increases to $2.0 million annually starting in 2022-2023.

# ELEMENTS OF THE GENERAL FUND FORECAST

## EXPENDITURE FORECAST

### City-Wide

The **Earmarked Reserves** category totals $2.5 million in 2020-2021 and decreases to $1.3 million in 2021-2022 and throughout the Forecast. This category includes the Deferred Infrastructure and Maintenance Reserve of $1.3 million in 2020-2021 to fund critical capital maintenance or address urgent technology needs, which will be allocated during development of the 2020-2021 Proposed Budget. Annual funding of $427,000, an increase of $65,000 from 2019-2020, is also allocated to the Artificial Turf Replacement Reserve to set aside funding for the cost of replacing artificial turf fields in various neighborhood parks. These funds are available from the projected field reservation revenues collected above the estimated costs to reserve and maintain the fields. Additionally, the annual allocation to the Cultural Facilities Maintenance Reserve is maintained at $850,000 throughout the Forecast to address the growing deferred infrastructure rehabilitation needs at these facilities.

The Forecast does not include several Earmarked Reserves that may remain unspent in 2019-2020 and later recommended for rebudget or use in 2020-2021. Some of the larger current Earmarked Reserves include the: Emergency Operations Center FF&E Reserve; Fire Training Center Replacement Reserve; Information Technology Sinking Fund Reserve; Salaries and Benefits Reserve; Budget Stabilization Reserve; Workers' Compensation/General Liability Catastrophic Reserve; Sick Leave Payments Upon Retirement Reserve; Cultural Facilities Capital Maintenance Reserve; and City Health Plan Restructuring Reserve.

Per City Council policy, the **Contingency Reserve** ($40.0 million) is projected at the level necessary to comply with the City Council policy to maintain a minimum 3% Contingency Reserve and allows for anticipated rebudget adjustments that will be incorporated into the 2020-2021 budget. This amount would be sufficient to cover approximately one pay period of payroll costs (two weeks). This amount steadily increases each year of the Forecast, ending at $42.5 million in 2024-2025 to remain in compliance with the reserve policy.

### 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 for which the City is committed to fund by in accordance with 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, 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.

## EXPENDITURE FORECAST

### Committed Additions to the Base General Fund Forecast

Committed Additions total $125,000 in 2020-2021 and increase to approximately $21.4 million by 2024-2025, primarily due to the anticipated projects from the passage of Measure T – The Disaster Preparedness, Public Safety and Infrastructure Bond. Several Measure T facilities are anticipated to come online within the five-year forecast period and include Fire Station 32, 36, and 37 (approximately $4.3 million annually per fire station).

The Police Training Facility, expected to come online in 2023-2024, will also trigger the activation of the South San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility. Additional maintenance and operations funding were factored for the Emergency Operations Center, relocation of the Office of Emergency Management, and the Police Air Support Unit Hangar expansion. In total, the maintenance and operations funding for Measure T facilities coming online will increase from $2.1 million in 2021-2022 to approximately $19.9 million by 2024-2025.

The Committed Additions also include maintenance and operations costs associated with non-bond projects such as new parks and recreation facilities, new traffic infrastructure assets, and the Fire Training Center relocation from its current location on Montgomery Street. The non-bond projects committed additions costs in the Forecast range from $125,000 in 2020-2021 to $1.5 million by 2024-2025.

# Elements of The General Fund Forecast

## Operating Margin

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2020-2021, a small General Fund surplus of $544,000 is projected. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. In the remaining years of the Forecast, General Fund shortfalls are projected in 2021-2022 ($-11.1 million) and 2023-2024 ($-2.2 million) and General Fund surpluses are projected in 2022-2023 ($14.0 million) and 2024-2025 ($1.0 million). These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from -0.9% to 1.1% of the projected annual budget. Over the five-year period, total surpluses of $2.2 million are anticipated, which equates to approximately $450,000 annually. This average shortfall figure equates to 0.03% of the projected General Fund annual budget, which ranges from $1.2 billion to $1.3 billion.

The following table shows how the projected surpluses and shortfalls have changed in the most recent forecasts. It is assumed that each preceding surplus or shortfall is addressed completely with ongoing solutions in the year it appears. Each year of the February 2020 Forecast is compared to the corresponding year in the February 2019 Forecast.

**2021-2025 General Fund Forecast**
**Changes in Operating Margin**
**($ in Millions)**

| | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| **February 2019** Incremental Surplus/(Shortfall) | **($15.6)** | **($13.7)** | **$11.4** | **($1.7)** | **N/A** |
| **June 2019*** Incremental Surplus/(Shortfall) | ($10.9) | N/A | N/A | N/A | N/A |
| **February 2020** Incremental Surplus/(Shortfall) | **$0.5** | **($11.1)** | **$14.0** | **($2.2)** | **$1.0** |

* As a result of 2019-2020 Adopted Budget actions, the anticipated deficit in 2020-2021 was reduced by $4.75 million as the ongoing component of the 2020-2021 Future Deficit Reserve allocation.

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2019-2020; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

# ELEMENTS OF THE GENERAL FUND FORECAST

## OPERATING MARGIN

For the February 2020 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2020-2021 and the remaining four years of the forecast period. The 2020-2021 projected surplus of $550,000 is the net result of numerous revenue and expenditure changes as described in this document.

In the out-years of this Forecast, the General Fund has an operating margin ranging from a deficit of $11.1 million to a surplus of $14.0 million annually. Major factors contributing to this improvement are lower retirement costs and higher growth in several revenue categories, including Property Tax and Sales Tax. These margins are extremely narrow when put into context of the size of the projected General Fund budget of over $1 billion.

*Five-Year Economic Forecast*
*and*
*Revenue Projections*

*2021-2025*

Section 2

Base General Fund Forecast

## BASE CASE

# February 2020 Forecast

## REVENUE SUMMARY

| REVENUE SUMMARY | MODIFIED BUDGET 2019-2020 | FEBRUARY FORECAST 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| PROPERTY TAX | 364,000,000 | 376,300,000 | 392,029,000 | 407,907,000 | 424,712,000 | 442,295,000 |
| | | **3.38%** | **4.18%** | **4.05%** | **4.12%** | **4.14%** |
| SALES TAX | 258,300,000 | 267,700,000 | 275,115,000 | 284,304,000 | 296,103,000 | 307,532,000 |
| | | **3.64%** | **2.77%** | **3.34%** | **4.15%** | **3.86%** |
| TRANSIENT OCCUPANCY TAX | 20,000,000 | 20,800,000 | 21,424,000 | 21,852,000 | 22,290,000 | 22,735,000 |
| | | **4.00%** | **3.00%** | **2.00%** | **2.00%** | **2.00%** |
| FRANCHISE FEES | 48,641,000 | 48,121,000 | 48,342,000 | 49,362,000 | 50,345,000 | 51,482,000 |
| | | **(1.07%)** | **0.46%** | **2.11%** | **1.99%** | **2.26%** |
| UTILITY TAX | 99,645,000 | 96,400,000 | 97,162,000 | 99,435,000 | 101,682,000 | 104,214,000 |
| | | **(3.26%)** | **0.79%** | **2.34%** | **2.26%** | **2.49%** |
| TELEPHONE TAX | 20,000,000 | 20,000,000 | 20,034,000 | 20,066,000 | 20,102,000 | 20,138,000 |
| | | **0.00%** | **0.17%** | **0.16%** | **0.18%** | **0.18%** |
| BUSINESS TAX | 72,200,000 | 77,900,000 | 78,799,000 | 79,841,000 | 80,906,000 | 82,009,000 |
| | | **7.89%** | **1.15%** | **1.32%** | **1.33%** | **1.36%** |
| LICENSES AND PERMITS | 62,009,468 | 19,745,330 | 20,216,000 | 20,830,000 | 21,503,000 | 22,195,000 |
| | | **(68.16%)** | **2.38%** | **3.04%** | **3.23%** | **3.22%** |
| FEES, RATES, AND CHARGES | 59,095,920 | 30,657,828 | 31,388,000 | 32,342,000 | 33,387,000 | 34,462,000 |
| | | **(48.12%)** | **2.38%** | **3.04%** | **3.23%** | **3.22%** |
| FINES, FORFEITURES & PENALTIES | 16,213,000 | 16,622,000 | 16,780,000 | 16,860,000 | 17,007,000 | 17,186,000 |
| | | **2.52%** | **0.95%** | **0.48%** | **0.87%** | **1.05%** |
| MONEY & PROPERTY | 13,144,000 | 14,327,800 | 14,743,000 | 15,259,000 | 15,748,000 | 16,236,000 |
| | | **9.01%** | **2.90%** | **3.50%** | **3.20%** | **3.10%** |
| REVENUE FROM LOCAL AGENCIES | 17,289,710 | 13,199,000 | 13,565,000 | 13,935,000 | 14,325,000 | 14,733,000 |
| | | **(23.66%)** | **2.77%** | **2.73%** | **2.80%** | **2.85%** |
| REVENUE FROM THE STATE OF CALIFORNIA | 23,080,546 | 12,430,000 | 12,430,000 | 12,430,000 | 12,430,000 | 12,430,000 |
| | | **(46.15%)** | **0.00%** | **0.00%** | **0.00%** | **0.00%** |
| FEDERAL REVENUE | 5,331,650 | 121,000 | 0 | 0 | 0 | 0 |
| | | **(97.73%)** | **N/A** | **N/A** | **N/A** | **N/A** |
| OTHER REVENUE | 36,677,362 | 9,104,126 | 8,932,000 | 8,969,000 | 9,004,000 | 9,045,000 |
| | | **(75.18%)** | **(1.89%)** | **0.41%** | **0.39%** | **0.46%** |
| GAS TAX | 16,300,000 | 17,000,000 | 17,156,000 | 17,275,000 | 17,399,000 | 17,326,000 |
| | | **4.29%** | **0.92%** | **0.69%** | **0.72%** | **(0.42%)** |
| **TOTAL GENERAL REVENUES** | **1,131,927,656** | **1,040,428,084** | **1,068,115,000** | **1,100,667,000** | **1,136,943,000** | **1,174,018,000** |
| | | **(8.08%)** | **2.66%** | **3.05%** | **3.30%** | **3.26%** |

## BASE CASE

## February 2020 Forecast

## REVENUE SUMMARY

| REVENUE SUMMARY | MODIFIED BUDGET 2019-2020 | FEBRUARY FORECAST 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| **TRANSFERS & REIMBURSEMENTS** | | | | | | |
| OVERHEAD REIMBURSEMENTS | 56,272,963 | 67,642,193 | 69,253,000 | 71,357,000 | 73,663,000 | 76,035,000 |
| TRANSFERS | 27,727,381 | 28,181,744 | 28,808,000 | 28,979,000 | 29,619,000 | 30,111,000 |
| REIMBURSEMENTS FOR SERVICES | 975,220 | 745,997 | 764,000 | 787,000 | 812,000 | 839,000 |
| **TOTAL TRANSFERS & REIMBURSEMENTS** | **84,975,564** | **96,569,934** | **98,825,000** | **101,123,000** | **104,094,000** | **106,985,000** |
| | | **13.64%** | **2.34%** | **2.33%** | **2.94%** | **2.78%** |
| **TOTAL GENERAL FUND REVENUES** | **1,216,903,220** | **1,136,998,018** | **1,166,940,000** | **1,201,790,000** | **1,241,037,000** | **1,281,003,000** |
| | | **(6.57%)** | **2.63%** | **2.99%** | **3.27%** | **3.22%** |
| BEGINNING FUND BALANCE | 364,812,662 | 107,193,000 | 62,748,000 | 63,343,000 | 64,367,000 | 66,114,000 |
| **GRAND TOTAL SOURCES** | **1,581,715,882** | **1,244,191,018** | **1,229,688,000** | **1,265,133,000** | **1,305,404,000** | **1,347,117,000** |
| | | **(21.34%)** | **(1.17%)** | **2.88%** | **3.18%** | **3.20%** |

## BASE CASE

# February 2020 Forecast

## EXPENDITURE SUMMARY

| | MODIFIED BUDGET 2019-2020 | FEBRUARY FORECAST 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| **PERSONAL SERVICES** | | | | | | |
| Salaries and Other Compensation | 550,709,119 | 531,279,000 | 546,667,000 | 565,800,000 | 585,603,000 | 606,099,000 |
| Retirement | 347,816,286 | 340,417,000 | 349,816,000 | 343,924,000 | 353,179,000 | 357,886,000 |
| Health and Other Fringe Benefits | 67,630,944 | 64,761,000 | 67,065,000 | 69,593,000 | 72,355,000 | 75,366,000 |
| **TOTAL PERSONAL SERVICES** | **966,156,349** | **936,457,000** | **963,548,000** | **979,317,000** | **1,011,137,000** | **1,039,351,000** |
| | | **(3.07%)** | **2.89%** | **1.64%** | **3.25%** | **2.79%** |
| **TOTAL NON-PERSONAL/EQUIPMENT** | **152,287,008** | **121,803,000** | **126,606,000** | **127,920,000** | **130,992,000** | **132,395,000** |
| | 30,484,008.00 | **(20.02%)** | **3.94%** | **1.04%** | **2.40%** | **1.07%** |
| **CITY-WIDE** | | | | | | |
| CITY-WIDE EXPENSES | 127,929,288 | 73,745,000 | 71,443,000 | 71,944,000 | 72,454,000 | 72,900,000 |
| CAPITAL PROJECTS | 68,969,500 | 5,770,000 | 5,770,000 | 5,770,000 | 5,770,000 | 5,770,000 |
| TRANSFERS | 40,467,078 | 63,220,000 | 28,685,000 | 29,184,000 | 29,215,000 | 29,245,000 |
| EARMARKED RESERVES | 185,906,659 | 2,527,000 | 1,277,000 | 1,277,000 | 1,277,000 | 1,277,000 |
| CONTINGENCY RESERVE | 40,000,000 | 40,000,000 | 40,000,000 | 40,500,000 | 41,500,000 | 42,500,000 |
| **TOTAL CITY-WIDE** | **463,272,525** | **185,262,000** | **147,175,000** | **148,675,000** | **150,216,000** | **151,692,000** |
| | | **(60.01%)** | **(20.56%)** | **1.02%** | **1.04%** | **0.98%** |
| **TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)** | **1,581,715,882** | **1,243,522,000** | **1,237,329,000** | **1,255,912,000** | **1,292,345,000** | **1,323,438,000** |
| | | **(21.38%)** | **(0.50%)** | **1.50%** | **2.90%** | **2.41%** |

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

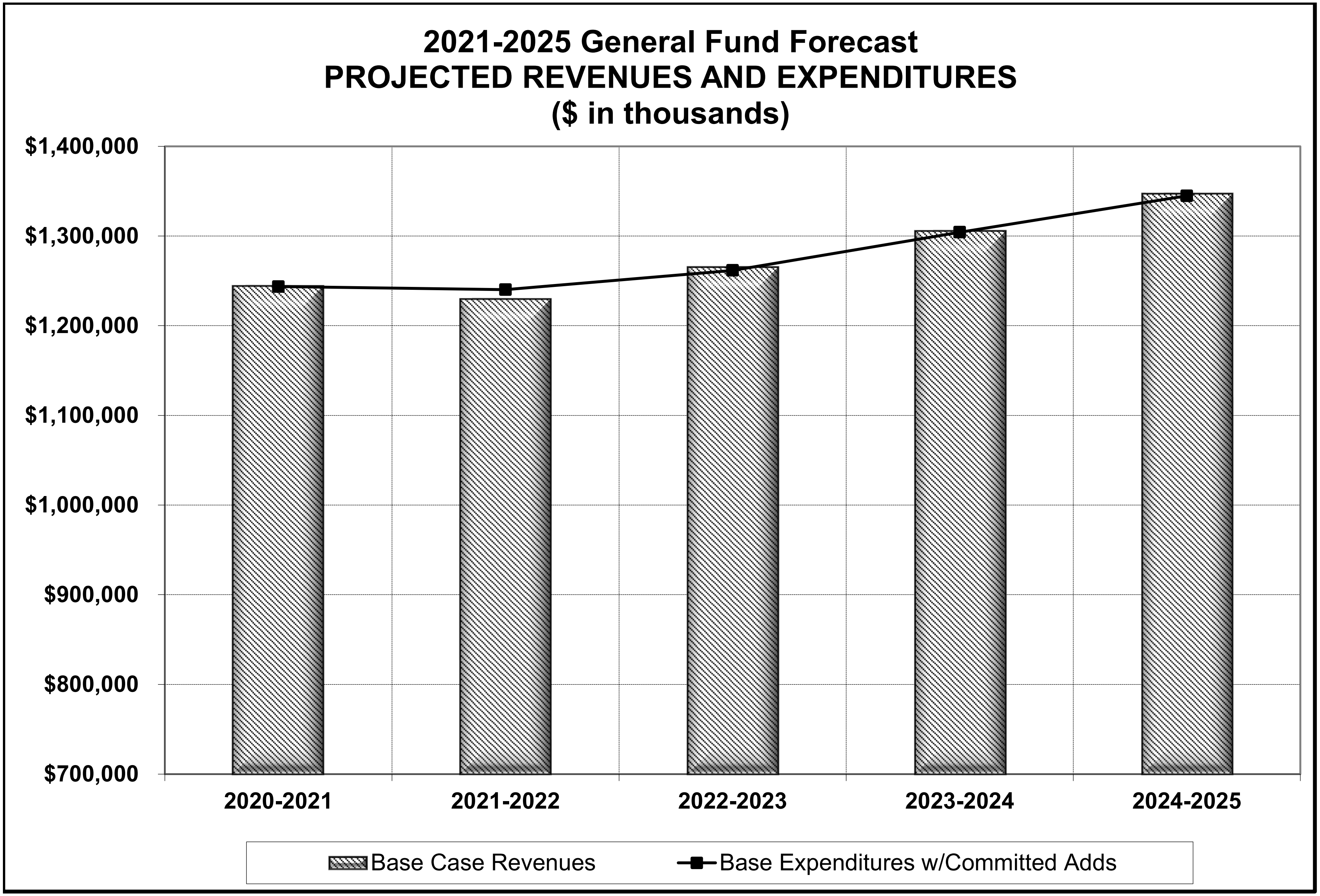
| **BASE EXPENDITURES** (w/o COMMITTED ADDITIONS) | MODIFIED BUDGET 2019-2020 | FEBRUARY FORECAST 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| **GRAND TOTAL REVENUE** | 1,581,715,882 | 1,244,191,018 | 1,229,688,000 | 1,265,133,000 | 1,305,404,000 | 1,347,117,000 |
| GROWTH RATE | | (21.34%) | (1.17%) | 2.88% | 3.18% | 3.20% |
| **TOTAL BASE EXPENDITURES** (w/o COMMITTED ADDITIONS) | 1,581,715,882 | 1,243,522,000 | 1,237,329,000 | 1,255,912,000 | 1,292,345,000 | 1,323,438,000 |
| GROWTH RATE | | (21.38%) | (0.50%) | 1.50% | 2.90% | 2.41% |
| **OPERATING MARGIN CHANGE** | | **669,018** | **(8,310,018)** | **16,862,000** | **3,838,000** | **10,620,000** |
| *From Prior Year* | | | | | | |

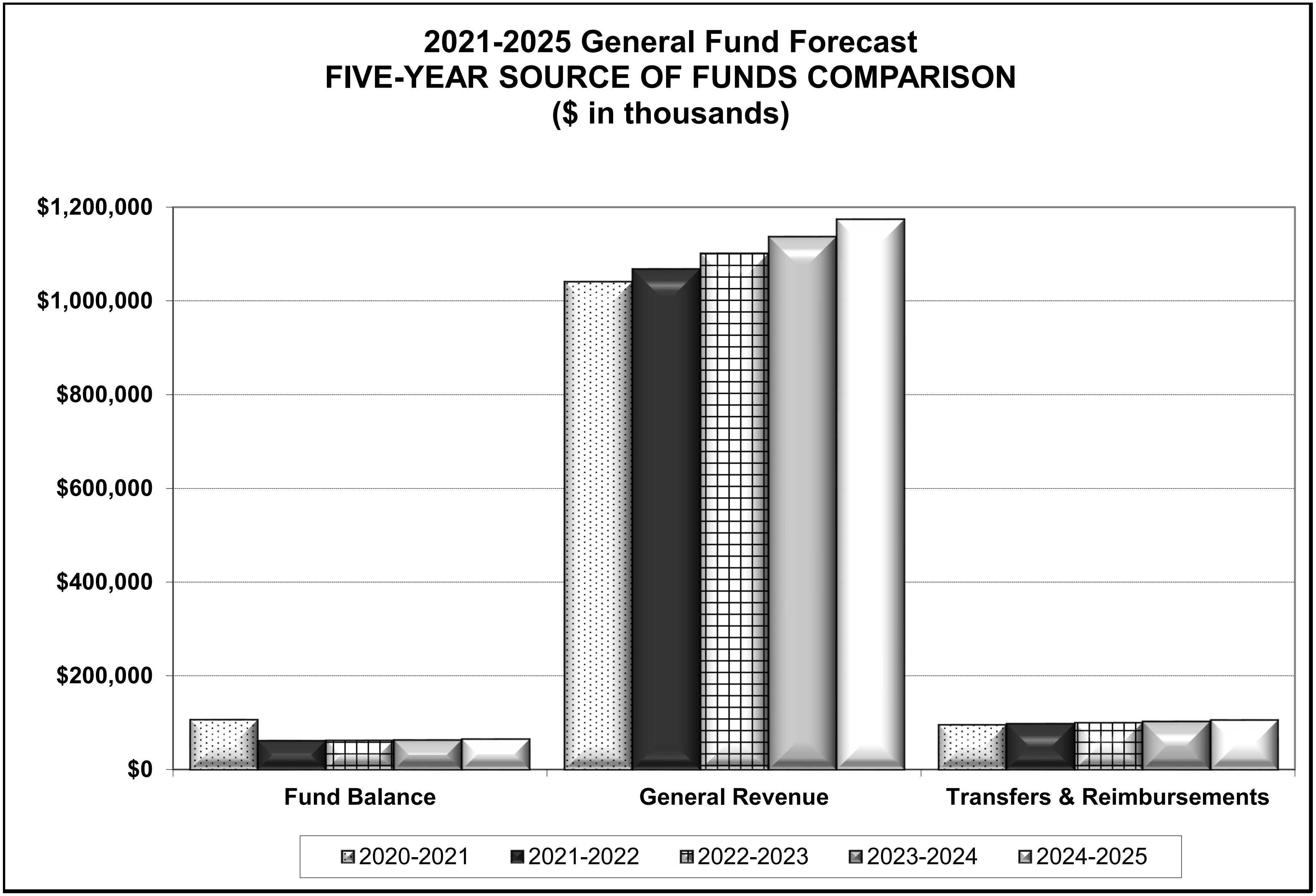
## BASE CASE

| February 2020 Forecast<br>EXPENDITURE SUMMARY | MODIFIED BUDGET<br>2019-2020 | FEBRUARY FORECAST<br>2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| ***COMMITTED ADDITIONS:*** | | | | | | |
| New Parks and Recreation Facilities Maintenance and Operations | - | 73,000 | 666,000 | 915,000 | 937,000 | 991,000 |
| New Traffic Infrastructure Assets Maintenance and Operations | - | 52,000 | 154,000 | 209,000 | 270,000 | 316,000 |
| Fire Training Center | - | - | 18,000 | 213,000 | 221,000 | 230,000 |
| Measure T (Public Safety) | - | - | 2,053,000 | 4,413,000 | 10,407,000 | 19,895,000 |
| **TOTAL COMMITTED ADDITIONS** | **0** | **125,000** | **2,891,000** | **5,750,000** | **11,835,000** | **21,432,000** |
| **TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)** | **1,581,715,882** | **1,243,647,000** | **1,240,220,000** | **1,261,662,000** | **1,304,180,000** | **1,344,870,000** |
| | | **(21.37%)** | **(0.28%)** | **1.73%** | **3.37%** | **3.12%** |

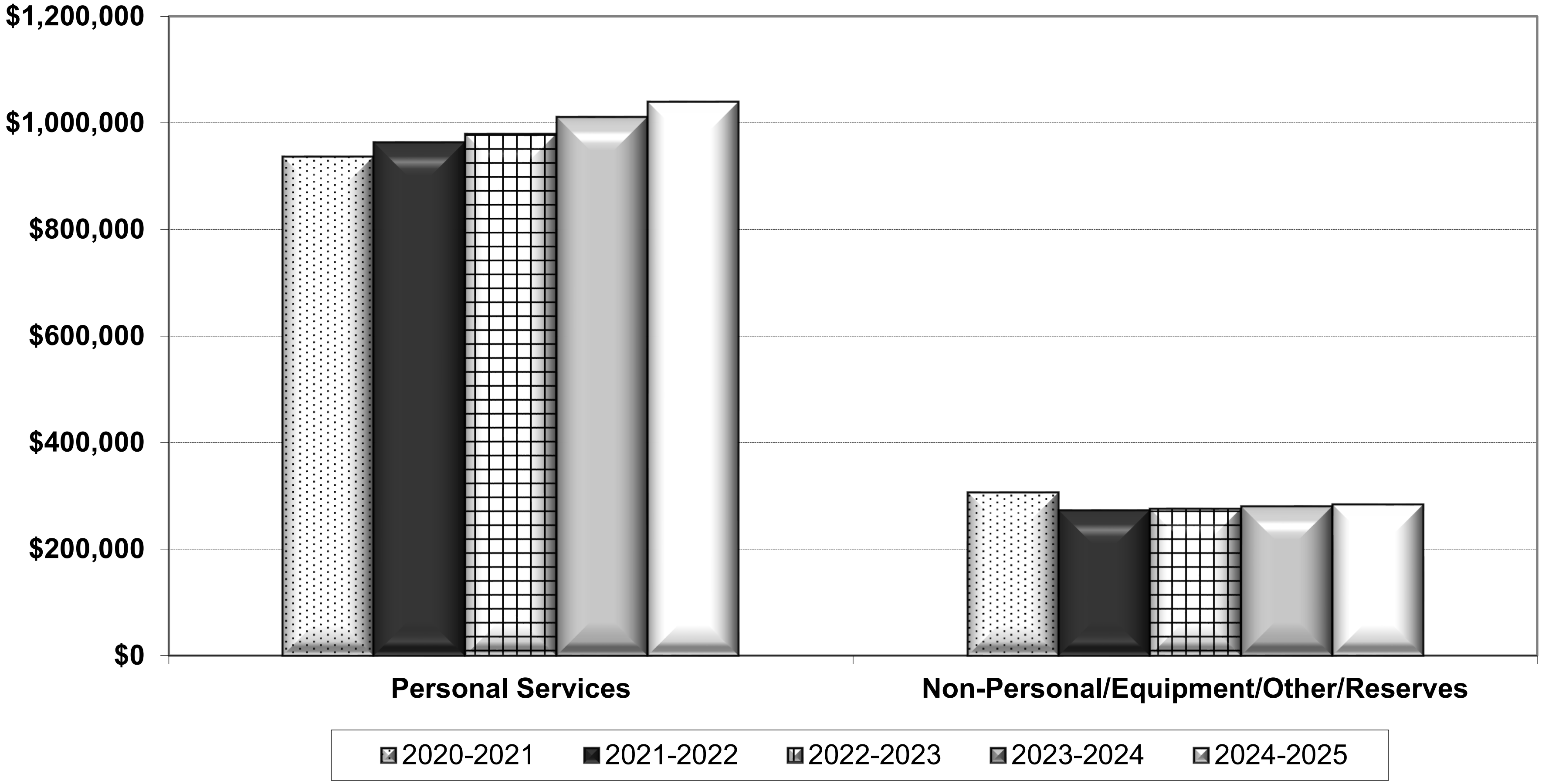
## *OPERATING MARGIN*

| **BASE EXPENDITURES (w / COMMITTED ADDITIONS)** | MODIFIED BUDGET<br>2019-2020 | FEBRUARY FORECAST<br>2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|---|
| **GRAND TOTAL REVENUE** | 1,581,715,882 | 1,244,191,018 | 1,229,688,000 | 1,265,133,000 | 1,305,404,000 | 1,347,117,000 |
| GROWTH RATE | | (21.34%) | (1.17%) | 2.88% | 3.18% | 3.20% |
| **TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)** | 1,581,715,882 | 1,243,647,000 | 1,240,220,000 | 1,261,662,000 | 1,304,180,000 | 1,344,870,000 |
| GROWTH RATE | | (21.37%) | (0.28%) | 1.73% | 3.37% | 3.12% |
| **OPERATING MARGIN** | **0** | **544,018** | **(10,532,000)** | **3,471,000** | **1,224,000** | **2,247,000** |
| **ONGOING OPERATING MARGIN CHANGE**<br>*From Prior Year* | | **544,018** | **(11,076,018)** | **14,003,000** | **(2,247,000)** | **1,023,000** |


2021-2025 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)
$1,400,000
$1,300,000
$1,200,000
$1,100,000
$1,000,000
$900,000
$800,000
$700,000
2020-2021
2021-2022
2022-2023
2023-2024
2024-2025
Base Case Revenues
Base Expenditures w/Committed Adds


2021-2025 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
Fund Balance
General Revenue
Transfers & Reimbursements
2020-2021
2021-2022
2022-2023
2023-2024
2024-2025

**2021-2025 General Fund Forecast**
**FIVE-YEAR USE OF FUNDS COMPARISON**
**($ in thousands)**




Note: Committed Additions ranging from $125,000 to $21.4 million annually during this Forecast are not displayed.

*Five-Year Economic Forecast and Revenue Projections*

*2021-2025*

Section 3

Committed Additions to the Base General Fund Forecast

# COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

**Committed Additions** involve future operating expenses for projects that have been previously approved by the City Council and deemed relatively unavoidable. The largest items in this category are Fire Stations 32, 36 and 37, Police Training Facility, and Police Substation activation as part of the Measure T: Disaster Preparedness, Public Safety, and Infrastructure Bond program. The remaining items included in this category are expenses that will be required to operate and maintain other approved capital projects scheduled for completion or will open within the five-year horizon of this forecast. These expenses are related to the maintenance and operations of projects such as new parks and recreational facilities, new traffic infrastructure assets, and a Fire Training Center. It should be noted that the estimated costs included in this category have been submitted by the various departments involved but have not yet been fully analyzed by the Budget Office. It can be anticipated that refinements of these estimates, as well as determining funding for fixtures, furnishings, and equipment will be completed prior to bringing them forward for consideration by the City Council in any given year.

A summary of the Committed Additions included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council's adoption of Budget Principle #8 during the 2008-2009 budget process, a **General Fund Capital Operating and Maintenance/Budget Principle #8** discussion is included in this section. Capital projects with maintenance and operating costs over $100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A of this section. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast, that have not been previously approved by the City Council, may be recommended for certification as part of the 2021-2025 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.

**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 Capital Improvement Program. Several parks are scheduled to come online over the next five years include, but are not limited to, all inclusive playgrounds for Almaden Lake, Emma Prusch, Lincoln Glen, and Rotary Playgarden; Communications Hill II – Hillsdale Fitness Staircase; Bruzzone Park; and Mercado Park. The city will assume operations and maintenance costs for Commodore Children's Park, River Oaks Park, North San Pedro Park, and Bassett Park — locations which received in-lieu payments for maintenance from the developers but the limited funding sources are expected to be depleted within the next five years. The Forecast also includes operating cost estimates for trail sections along Coyote Creek Trail, including Singleton, Phelan to Tully and Story to Phelan. The City currently has approximately 61 miles of trails.

| 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|
| 73,000 | 666,000 | 915,000 | 937,000 | 991,000 |

## Committed Additions To The Base General Fund Forecast

**New Traffic Infrastructure Assets Maintenance and Operations** – This category reflects the anticipated additional costs that are necessary to operate and maintain transportation-related projects included in the Capital Improvement Program. Funding to operate and maintain new traffic signals and streetlights (including those installed by developers), landscaping, and other traffic infrastructure is assumed in this category. Most of the included projects are related to traffic safety enhancements for pedestrians and bicyclists, such as Pedestrian Improvements, Traffic Signal Modifications/Construction, Tully Road Safety Corridor Improvements and Vision Zero projects: City-wide Pedestrian Safety and Traffic Calming and Quick Build projects.

| 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|
| 52,000 | 154,000 | 209,000 | 270,000 | 316,000 |

**New Public Safety Facilities Maintenance and Operations** – This category reflects the anticipated additional costs that are necessary to operate and maintain the new Fire Training Center relocation from the Montgomery St. location as a result of that parcel's sale to Google as approved by the City Council on December 4, 2018. The location of the Fire Training Center is anticipated to be relocated to the Central Service Yard.

| 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|
| 0 | 18,000 | 213,000 | 221,000 | 230,000 |

**Measure T Maintenance and Operations** – This category reflects the projected maintenance and operations costs of new disaster preparedness, public safety facilities, and infrastructure improvements that were included as part of the Measure T bond approved by the voters in November 2018.

Several Measure T facilities are anticipated to come online during the next five years including Fire Stations 32, 36, and 37 (approximately $4.3 million annually per fire station and primarily driven by the need for a new engine company at each station). Fire Station 37 will be located on a portion of the parking lot at Lincoln Glen Park. Staff anticipates a bid and award in the upcoming months, a construction start date in the second half of 2020, and opening in January 2022. Appraisals are pending for potential sites for Fire Station 32 and 36. The Police Training Facility, expected to come online in 2023-2024, will trigger the activation of the South San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility. Land acquisition for the new Police Training Facility is in progress, with maintenance costs of $3.6 million representing an early look at potential ongoing impacts of this facility. All estimates will be further refined once a site is selected and fully scoped, the results of which will be brought forward for City Council consideration.

Additional maintenance and operations funding were factored for the new Emergency Operations Center, Office of Emergency Management relocation, and the Police Air Support Unit Hangar expansion. In total, the maintenance and operations funding for Measure T facilities coming online will increase from $2.1 million in 2021-2022 to approximately $19.9 million by 2024-2025.

As the Measure T program becomes more fully developed in the coming year, the corresponding estimates for operations and maintenance costs will be updated accordingly. Future General Fund forecasts will also incorporate any incremental costs associated with the relocation of Fire Station 8 and 23 and improvements for the Police Headquarters and 911 Center.

| 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|
| 0 | 2,053,000 | 4,413,000 | 10,407,000 | 19,895,000 |

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

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

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

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for these projects were included as part of the approved Capital Improvement Program, approved by the City Council in June 2020 or align with previous City Council direction. All capital projects with annual maintenance and operating costs in the General Fund greater than $100,000 have been denoted in the chart. By 2024-2025, the costs to maintain and operate all City Council projects expected to come online during the five-year period are estimated at approximately $21.4 million annually, of which approximately $19.9 million is related to Measure T facilities as described above.

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

# CHART A - 2021-2025 GENERAL FUND FORECAST
## Net Operating Impact of Committed Additions

| | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| **NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS** | | | | | |
| All Inclusive Almaden Lake | - | 45,000 | 56,000 | 57,000 | 58,000 |
| All Inclusive Emma Prusch | - | 62,000 | 65,000 | 66,000 | 68,000 |
| All Inclusive Lincoln Glen Playground | 28,000 | 53,000 | 54,000 | 56,000 | 58,000 |
| All Inclusive Rotary Playgarden Extension | 5,000 | 61,000 | 64,000 | 65,000 | 67,000 |
| Bassett Park† | - | - | - | - | 29,000 |
| Bruzzone Park | - | 82,000 | 84,000 | 86,000 | 87,000 |
| Commodore Children's Park (Mabury Park)† | - | 109,000 | 112,000 | 115,000 | 119,000 |
| Communications Hill II - Hillsdale Fitness Staircase | - | 68,000 | 70,000 | 72,000 | 74,000 |
| iStar Turnkey Park | 29,000 | 39,000 | 40,000 | 41,000 | 42,000 |
| Mercado Park | - | 79,000 | 80,000 | 82,000 | 83,000 |
| Pellier Park | - | 12,000 | 20,000 | 21,000 | 21,000 |
| Penitencia Creek Dog Park | - | 11,000 | 45,000 | 46,000 | 47,000 |
| Police Athletic League Turf Replacement | - | 7,000 | 23,000 | 23,000 | 24,000 |
| RAMAC Turf Replacement | - | 13,000 | 23,000 | 23,000 | 24,000 |
| Rivers Oaks Park† | - | - | 122,000 | 125,000 | 127,000 |
| Welch Park and Neighborhood Center Improvements | 11,000 | 13,000 | 14,000 | 14,000 | 14,000 |
| TRAIL: Coyote Creek - Phelan to Tully | - | - | 27,000 | 28,000 | 30,000 |
| TRAIL: Coyote Creek - Singleton | - | - | - | 1,000 | 2,000 |
| TRAIL: Coyote Creek - Story to Phelan | - | 12,000 | 16,000 | 16,000 | 17,000 |
| **TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS** | **73,000** | **666,000** | **915,000** | **937,000** | **991,000** |
| **NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS** | | | | | |
| Branham and Snell Street Improvements | 2,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Charmeran Avenue Crosswalk | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Community Development Block Grant - Sidewalks | - | - | - | 9,000 | 9,000 |
| Development Installations - Pedestrian Safety Infrastructure | - | - | 1,000 | 1,000 | 1,000 |
| Development Installations - Signals | - | 38,000 | 44,000 | 51,000 | 57,000 |
| Development Installations - Streetlights | 3,000 | 9,000 | 15,000 | 22,000 | 29,000 |
| Fox Lane Crosswalk | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Koch Lane at Marsha Way Crosswalk | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| McKee Road Safety Corridor Improvements (OBAG) | - | 4,000 | 8,000 | 8,000 | 8,000 |
| Mount Pleasant Schools Area Bike/Ped Safety Improvements | 1,000 | 2,000 | 3,000 | 3,000 | 3,000 |
| Renascent Place at Senter Bike/Ped Improvements (AHSC) | 7,000 | 7,000 | 7,000 | 8,000 | 8,000 |
| Route 101/Blossom Hill Road Interchange | - | 5,000 | 7,000 | 7,000 | 7,000 |
| Safety: Pedestrian Improvements | 11,000 | 19,000 | 28,000 | 38,000 | 48,000 |
| Safety: Traffic Signal Modifications/Construction | 9,000 | 15,000 | 20,000 | 25,000 | 31,000 |
| Senter Road Pedestrian Safety Improvements (HSIP) | - | 10,000 | 10,000 | 10,000 | 10,000 |
| St. James Station at Basset Bike and Ped Improvements (AHSC) | 2,000 | 2,000 | 2,000 | 2,000 | 3,000 |
| Tully Road Safety Corridor Improvements (OBAG) | - | 8,000 | 12,000 | 12,000 | 12,000 |
| Vision Zero: City-wide Pedestrian Safety and Traffic Calming | 2,000 | 4,000 | 7,000 | 9,000 | 12,000 |
| Vision Zero: Quick Build Projects | 9,000 | 20,000 | 34,000 | 47,000 | 60,000 |
| W. San Carlos Urban Villages (OBAG) | - | - | - | 7,000 | 7,000 |
| White Road Pedestrian Safety Improvements (HSIP) | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| **TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS** | **52,000** | **154,000** | **209,000** | **270,000** | **316,000** |
| **NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS** | | | | | |
| Fire Training Center* | - | 18,000 | 213,000 | 221,000 | 230,000 |
| **TOTAL NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS** | **-** | **18,000** | **213,000** | **221,000** | **230,000** |
| **MEASURE T MAINTENANCE AND OPERATIONS**** | | | | | |
| Emergency Operations Center and OEM Relocation | - | - | 150,000 | 209,000 | 220,000 |
| New Fire Station 32 | - | - | - | 2,121,000 | 4,311,000 |
| New Fire Station 36 | - | - | - | 2,121,000 | 4,311,000 |
| Fire Station 37 | - | 2,053,000 | 4,175,000 | 4,242,000 | 4,311,000 |
| Police Training Facility | - | - | - | 869,000 | 3,645,000 |
| Police Air Support Unit Hangar | - | - | 88,000 | 95,000 | 97,000 |
| Police Substation Activation | - | - | - | 750,000 | 3,000,000 |
| **TOTAL MEASURE T MAINTENANCE AND OPERATIONS** | **-** | **2,053,000** | **4,413,000** | **10,407,000** | **19,895,000** |
| **TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS** | **125,000** | **2,891,000** | **5,750,000** | **11,835,000** | **21,432,000** |

†Parks that are currently being maintained by a developer. City responsibility for maintenance and operations begin when initial developer funding ends.
*Annual maintenance and operating costs in the General Fund greater than $100,000 that will require certification prior to construction.
**Capital projects authorized as part of the ballot Measure T - The Disaster Preparedness, Public Safety and Infrastructure Bond. Future certification of operating and maintenance costs greater than $100,000 will be required prior to authorizing construction.

*Five-Year Economic Forecast*
*and*
*Revenue Projections*

*2021-2025*

Section 4

Alternate Forecast Scenarios

# 2021-2025 General Fund Forecast
## PROJECTED FIVE-YEAR OPERATING MARGINS
### Alternate Forecast Scenarios

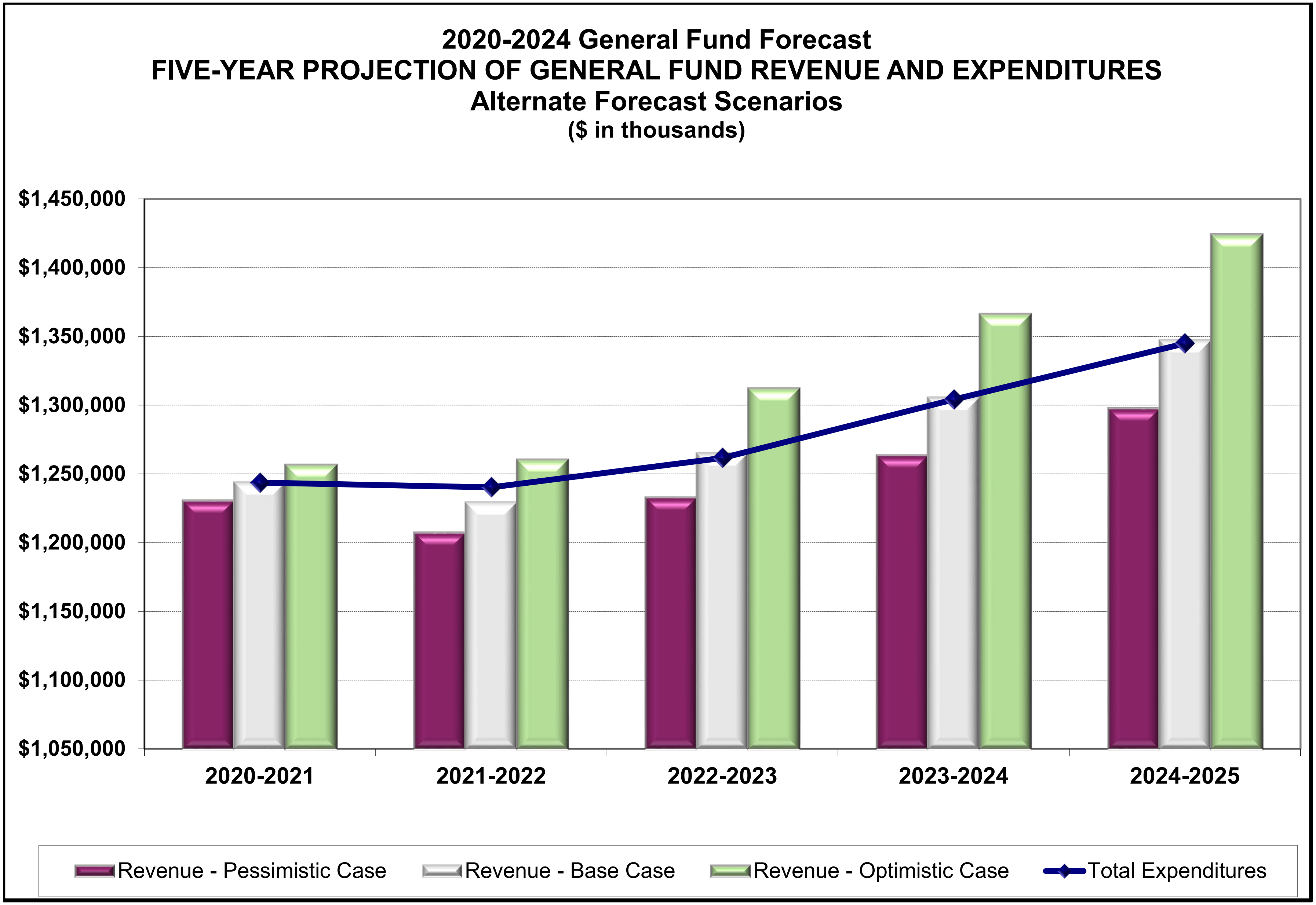
| BASE CASE | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| TOTAL REVENUES ($) | 1,244,191,018 | 1,229,688,000 | 1,265,133,000 | 1,305,404,000 | 1,347,117,000 |
| GROWTH RATE | | (1.17%) | 2.88% | 3.18% | 3.20% |
| TOTAL EXPENDITURES ($) | 1,243,647,000 | 1,240,220,000 | 1,261,662,000 | 1,304,180,000 | 1,344,870,000 |
| GROWTH RATE | | (0.28%) | 1.73% | 3.37% | 3.12% |
| **OPERATING MARGIN - BASE** | **544,018** | **(11,076,018)** | **14,003,000** | **(2,247,000)** | **1,023,000** |

| OPTIMISTIC CASE | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| TOTAL REVENUES ($) | 1,257,062,663 | 1,260,988,000 | 1,312,524,000 | 1,366,319,000 | 1,423,750,000 |
| GROWTH RATE | | 0.31% | 4.09% | 4.10% | 4.20% |
| TOTAL EXPENDITURES ($) | 1,243,647,000 | 1,240,220,000 | 1,261,662,000 | 1,304,180,000 | 1,344,870,000 |
| GROWTH RATE | | (0.28%) | 1.73% | 3.37% | 3.12% |
| **OPERATING MARGIN - OPTIMISTIC** | **13,415,663** | **7,352,337** | **30,094,000** | **11,277,000** | **16,741,000** |

| PESSIMISTIC CASE | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| TOTAL REVENUES ($) | 1,230,533,691 | 1,207,352,000 | 1,232,974,000 | 1,263,392,000 | 1,297,505,000 |
| GROWTH RATE | | (1.88%) | 2.12% | 2.47% | 2.70% |
| TOTAL EXPENDITURES ($) | 1,243,647,000 | 1,240,220,000 | 1,261,662,000 | 1,304,180,000 | 1,344,870,000 |
| GROWTH RATE | | (0.28%) | 1.73% | 3.37% | 3.12% |
| **OPERATING MARGIN - PESSIMISTIC** | **(13,113,309)** | **(19,754,691)** | **4,180,000** | **(12,100,000)** | **(6,577,000)** |

| RECESSION CASE | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| TOTAL REVENUES ($) | 1,205,373,545 | 1,155,504,000 | 1,168,520,000 | 1,191,342,000 | 1,215,299,000 |
| GROWTH RATE | | (4.14%) | 1.13% | 1.95% | 2.01% |
| TOTAL EXPENDITURES ($) | 1,243,647,000 | 1,247,504,000 | 1,279,938,000 | 1,336,501,000 | 1,393,384,000 |
| GROWTH RATE | | 0.31% | 2.60% | 4.42% | 4.26% |
| **OPERATING MARGIN - RECESSION** | **(38,273,455)** | **(53,726,545)** | **(19,418,000)** | **(33,741,000)** | **(32,926,000)** |

Note: The optimistic and pessimistic scenarios model changes in economically sensitive revenues with no changes in expenditures. The recession scenario models a further eroding of economically sensitive revenues and assumes an increased level of retirement contributions to offset lower investment returns.


2020-2024 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
($ in thousands)
$1,450,000
$1,400,000
$1,350,000
$1,300,000
$1,250,000
$1,200,000
$1,150,000
$1,100,000
$1,050,000
2020-2021
2021-2022
2022-2023
2023-2024
2024-2025
Revenue - Pessimistic Case
Revenue - Base Case
Revenue - Optimistic Case
Total Expenditures

# *Five-Year Economic Forecast and Revenue Projections*

## *2021-2025*

Section 5

Capital Revenue Forecast

# Capital Revenue Forecast

## Major Capital Revenues

### Overview

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

Construction and property resale-related Capital Program revenues are generally tracking at or above expectations for 2019-2020 and anticipated to end the year 15% above the 2019-2020 Adopted Capital Budget estimates. While property resale-related performance will positively influence future years, construction activity in the following five years is expected to moderate, with overall revenue estimates of $363.9 million slightly higher than the amounts assumed in the 2020-2024 Adopted CIP ($360.9 million). The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2020-2024 Adopted CIP.

**FORECAST COMPARISON SUMMARY**
**($ in Thousands)**

| | 2020-2024 CIP | 2021-2025 Forecast | Difference | % Change |
|---|---|---|---|---|
| **Construction and Conveyance Tax** | $180,000 | $180,000 | $0 | 0% |
| **Building and Structure Construction Tax** | 75,000 | 79,000 | 4,000 | 5% |
| **Construction Excise Tax** | 100,000 | 100,000 | 0 | 0% |
| **Municipal Water System Fees** | 375 | 375 | 0 | 0% |
| **Residential Construction Tax** | 1,000 | 1,000 | 0 | 0% |
| **Sanitary Sewer Connection Fee** | 3,500 | 2,500 | (1,000) | (29%) |
| **Storm Drainage Connection Fee** | 1,000 | 1,000 | 0 | 0% |
| **TOTAL** | **$360,875** | **$363,875** | **$3,000** | **1%** |

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

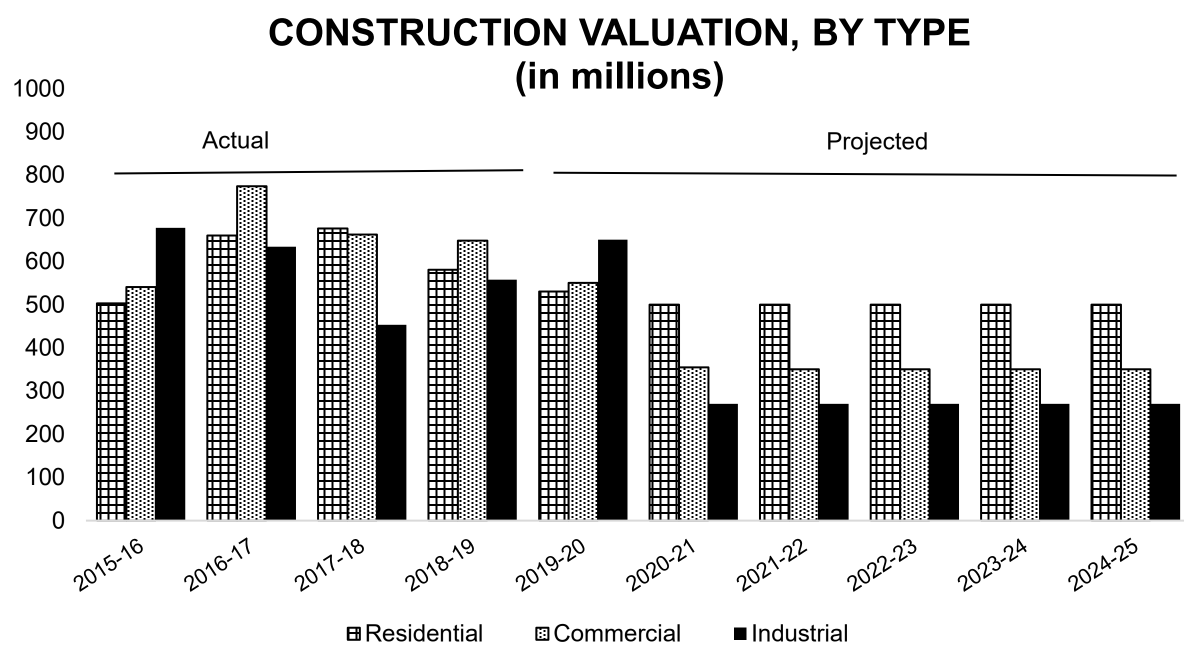
# CAPITAL REVENUE FORECAST

## CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this Forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides projections of construction activity related to residential, commercial, and industrial development. The valuation figures have been adjusted to 2019 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 (2021-2025)", which is included as Appendix C.

Based on projections provided by the PBCE Department, construction activity valuation is anticipated to be lower than the prior year with $1.73 billion in 2019-2020, a 3% decrease compared to $1.79 billion in 2018-2019. This level of activity is expected to decrease to $1.1 billion in 2020-2021 through 2024-2025 due to a decrease in residential, commercial, and industrial new construction activity, as well anticipated reductions in commercial and industrial alterations activity as projects move through the development pipeline.

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



## CONSTRUCTION ACTIVITY PROJECTIONS

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

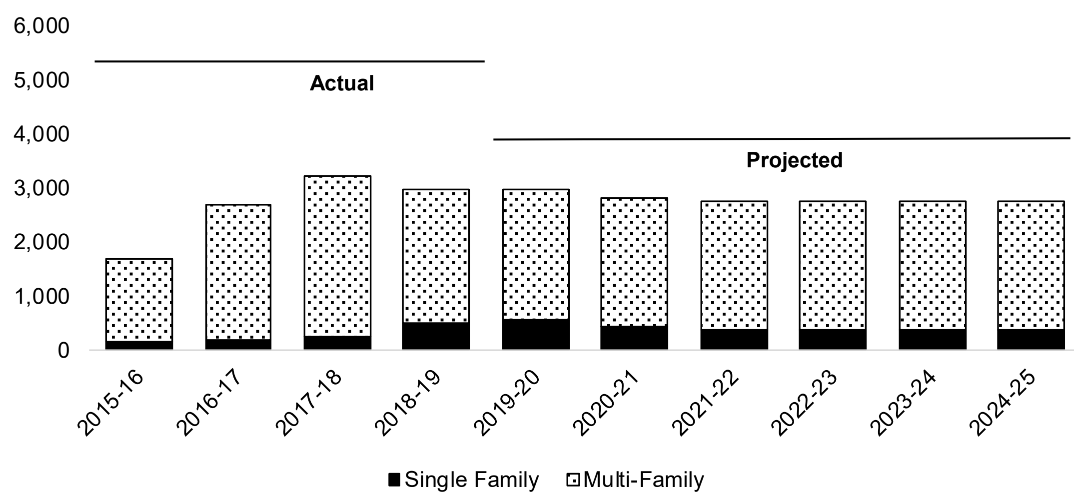
### A. Residential Construction Activity

A significant portion of development-related revenue in San José has traditionally been generated by residential construction. New construction activity peaked in 2013-2014 in this sector with a total of 4,724 dwelling units, decreased to 1,692 dwelling units in 2015-2016, rebounded to 3,241 new dwelling units in 2017-2018, and is anticipated to reach 2,980 in 2019-2020, a decrease of 0.2% from the prior year total of 2,985 units.

The total value of residential construction activity projected in this Forecast is $2.5 billion, consistent with the projected valuation included in the 2020-2024 Forecast. The PBCE Department expects residential construction activity to generate an estimated 2,825 new units in 2020-2021, decrease to 2,750 new units in 2021-2022, and then remain flat the remaining years of the Forecast. This represents an average of 2,765 units per year or 13,825 units over the forecast period. The activity level has increased by 1% compared to the 13,650 units included in the 2020-2024 Forecast.

This forecast expects a total of 11,875 multi-family dwelling units or approximately 86% of all dwelling units (single-family and multi-family) to be constructed. This represents a 0.2% decrease compared to the projections in the 2020-2024 Forecast. The number of new single-family dwelling units is estimated to be 1,950 during this forecast period, which is 11% higher than the projections in the 2020-2024 Forecast. Starting in 2016, the City Council has taken several actions to ease requirements for accessory dwelling units (ADU), and since 2017-2018, the amount of ADU construction has continued to increase. The trend of ADUs comprising a significant portion of single-family units is expected to continue. The following chart shows the number of new units, by housing type, anticipated in San José through 2024-2025.

**RESIDENTIAL CONSTRUCTION ACTIVITY**



## CONSTRUCTION ACTIVITY PROJECTIONS

### B. Commercial Construction Activity

In 2018-2019, commercial construction activity totaled $648 million, a decrease of 2% from 2017-2018, and a decrease of 16% from a peak in 2016-2017. In 2019-2020, the PBCE Department expects commercial activity to decrease 15% to $550 million in total permit valuation primarily due to a slight slowdown in commercial alterations. Going forward, commercial activity is expected to decrease as projects move through the development pipeline and construction is completed.

The total commercial construction valuation projected in this Forecast is $1.755 billion, a decrease of 0.3% from the previous five-year forecast at $1.760 billion because of a slight decline in commercial alterations. As discussed in the attached report provided by the PBCE Department, construction activity for the Valley Fair Shopping Mall expansion has begun to slow, but new commercial construction for Hampton Inn and an expansion of Capitol Toyota has replaced a portion of commercial activity. The Forecast assumes that new commercial construction activity will taper off somewhat in the out years, primarily driven by a lack of available land for large retail centers and national retail trend to smaller retail centers. Information provided by real estate trade groups for the 4th Quarter 2019 indicated that the San José office vacancy rate was 11.2%, research and development (R&D) vacancy rate was 1.8%, and retail vacancy rate was 10.9%[1].

### C. Industrial Construction Activity

In 2018-2019, industrial activity totaled $558 million, an increase of 23% from 2017-2018, primarily driven by an increase in industrial alterations. The PBCE Department expects valuation to increase to $650 million in 2019-2020, primarily due to new industrial construction, which through the first six months of the fiscal year surpassed $300 million and is forecasted at a valuation of $400 million for the year. Valuation then drops to $270 million annually for the forecast period, to reflect a more moderate level of activity. Information provided by real estate trade groups for the 4th Quarter 2019 indicated that the San José vacancy rate for industrial space was 2.8%[1].

It should be noted that the City Council has undertaken several actions to reduce the cost of new development in San José to create a predictable and competitive environment that supports the City's economic development goals of filling industrial buildings and encouraging new workplace development. The City Council approved incentives for high-rise residential developments and a partial suspension for construction taxes for building projects that fall under the refined land use definition of Office, Research and Development and Data Center. How these incentive programs impact the Building and Structure Construction Tax and the Construction Excise Tax are discussed later in this section.

[1] Cushman and Wakefield, MarketBeat Reports

## CONSTRUCTION ACTIVITY PROJECTIONS

### Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2021-2025) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on "major" projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but construction not yet commenced, and pending City approval). In addition, the City is divided into 15 planning areas and individual maps that show the projects in all status categories submitted since January 1, 2008 are provided, except for the Calero, Coyote, and San Felipe planning areas as no major development activity has occurred and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary. These maps can be used in conjunction with the activity data to help analyze the rate, type, and location of major development activity in San José.

## CONSTRUCTION AND CONVEYANCE TAX

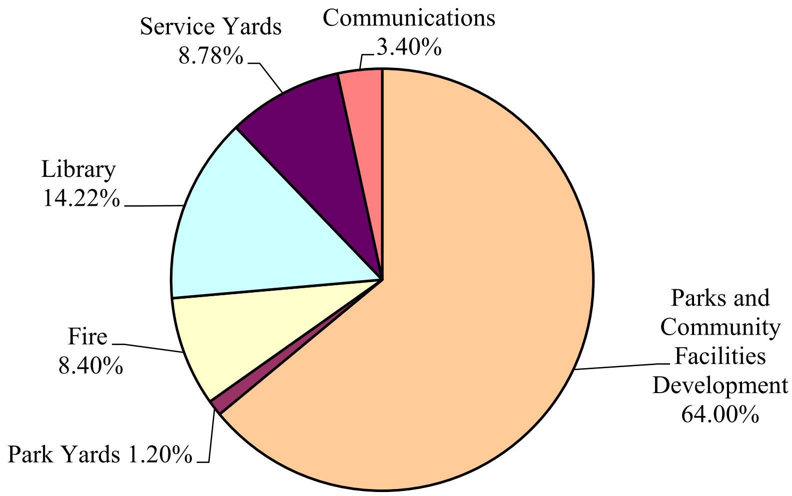
The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from $75 per unit located in a building containing at least 20 dwelling units to $150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

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds $100. The tax is imposed at a rate of $1.65 for each $500 of the value of the property. The Conveyance Tax accounts for approximately 99% of the total Construction and Conveyance Taxes collected.

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

## CONSTRUCTION AND CONVEYANCE TAX

### CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION




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

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

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

The five-year projection for Construction and Conveyance Tax revenue totals $180 million, which is consistent with the estimate used to develop the 2020-2024 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.

## CONSTRUCTION AND CONVEYANCE TAX

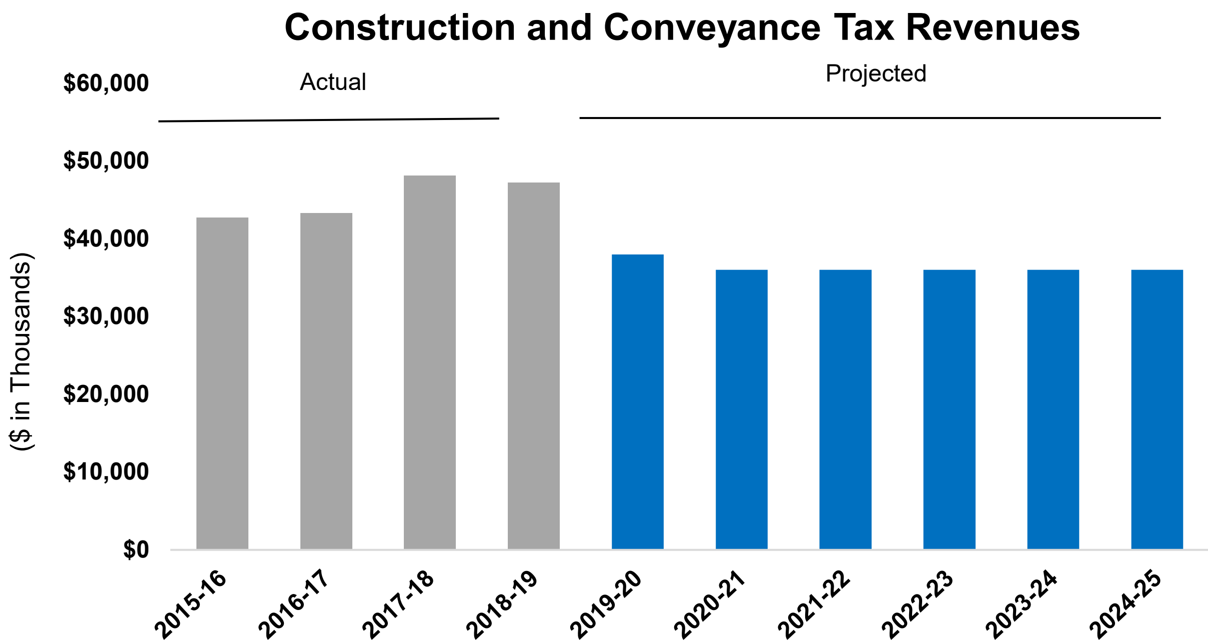
Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and reached peak levels of over $40 million again in 2017-2018 and 2018-2019.

Beginning in spring 2012, the median sale price for homes had consistently experienced year-over year growth, which continued through October 2018. For over a year, however, Santa Clara County began experiencing a slow down in the local real estate market, with median sale prices dropping, the average days on market increasing, and the number of sales decreasing. In fall 2019, the real estate market appears to have begun stabilizing, with median home prices and property sales once again growing compared to prior year levels. According to data from the Santa Clara County Association of Realtors, the single-family home price peaked at $1.3 million in May 2018 (which represented a 30.0% increase from the May 2017 home price), but then began steadily decreasing. During the period from November 2018 through October 2019, year-over-year median prices steadily decreased each month compared to the prior year in the range of 3%-13%. However, in November 2019, prices increased 0.7% from the prior year and December 2019 saw the median single-family home price grow year-over-year by 2.0% to $1.07 million.

In addition to the median home prices dropping for a prolonged period and recently starting to rebound, the number of property transfers (sales) also recently began to experience growth. In December 2019, the number of property transfers grew 12.3% from the prior year level; however, the year-to-date sales through December 2019 is slightly below (0.2%) the same period in the prior fiscal year.

C&C collections in 2019-2020 are projected to end the year at $38 million. This collection level is 20% below the actual receipts received in 2018-2019 ($47.2 million), which is reflective of the lower median sale price coupled with a reduction in property transfers that was recently experienced. Collections in this extremely volatile revenue category are forecasted to drop to $36 million in 2020-2021 and remain flat through the remainder of the forecast period. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.

## CONSTRUCTION AND CONVEYANCE TAX




## CONSTRUCTION VALUATION TAX RATES

The primary ongoing revenue stream for the Traffic Capital Program, which rehabilitates and improves the City's transportation infrastructure, is supplied by taxes levied on the valuation of private new construction and alteration activity. The two main taxes are the Building and Structure Construction Tax and the Construction Excise Tax. To balance the need to promote San José's job growth and economic development with necessary investment in transportation infrastructure, these tax rates have seen temporary suspensions regarding the definition of commercial and industrial classification of uses over the past several years. The tables below display the permanent tax rates without suspensions, and the rates in effect through March 31, 2024 with partial suspensions resulting from the identification of specific uses as approved by the City Council.

**Permanent Tax Rates without Partial Suspension:**

| | **Percentage Tax Based on Building Official's Valuation** | | |
|---|---|---|---|
| | | | |
| **Category** | **Building and Structure Construction Tax** | **Construction Excise Tax** | **Combined Tax Rate** |
| Residential | 1.75 % (of 88% of valuation) | 2.75 % (of 88% of valuation) | 4.5% (of 88% of valuation) |
| Commercial | 1.5% | 3.0% | 4.5% |
| Industrial | 1.0% | - | 1.0% |

## CONSTRUCTION VALUATION TAX RATES

### Tax Rates with Partial Suspension from April 1, 2019 through March 31, 2024:

| | Percentage Tax Based on Building Official's Valuation | | |
|---|---|---|---|
| | | | |
| **Category** | **Building and Structure Construction Tax** | **Construction Excise Tax** | **Combined Tax Rate** |
| Residential | 1.75 %<br>(of 88% of valuation) | 2.75 %<br>(of 88% of valuation) | 4.5%<br>(of 88% of valuation) |
| Commercial | 1.5% | 3.0% | 4.5% |
| Office - General Business | 1.5% | 0.5% | 2.0% |
| Office - Research and Development | 1.5% | 0.5% | 2.0% |
| Data Centers | 1.0% | - | 1.0% |
| Industrial | 1.0% | - | 1.0% |

Historically, revenues received from the Building and Structures Construction Tax and the Construction Excise Tax generally tracked in alignment with each other, though years of heavy industrial investment have always favored Building and Structure Construction Tax collections. In 2019-2020, the level of strong industrial activity and the change in tax rates have resulted in a more pronounced variance between the two revenue sources, with Building and Structures Construction Tax skyrocketing this year whereas Construction Excise tracking as anticipated. Even as industrial activity descends from its elevated levels, the partial suspension of the tax rates are designed to incent office-related development, while also directing a greater proportion of revenue into the Building and Structure Construction Tax Fund that restricts funding for improvements to major arterial and collector streets.

The City Council approved incentives for high-rise residential developments in 2007 and incentives remain in effect today. Completion deadlines of the current Downtown High-Rise Residential Development Incentive Program were extended by the City Council in September 2019 until December 31, 2023 for construction related taxes such as the Building and Structure Construction Tax and the Construction Excise Tax and the Affordable Housing Impact Fee.

## 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. 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

## BUILDING AND STRUCTURE CONSTRUCTION TAX

those that improve the Level of Service (LOS). LOS refers to the efficiency with which streets and roadways accommodate peak level traffic.

In 2019-2020, Building and Structure Construction Tax receipts through January totaled $17.6 million, up 65% from the $10.7 million collected through the same period last year, and already exceeded the 2019-2020 Adopted Budget estimate of $15 million. Based on these strong collections, actions were included in the 2019-2020 Mid-Year Budget Review to increase the budgeted estimates by $9 million to $24 million.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections total $79 million, $4 million above the estimate included in the 2020-2024 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2019-2020 estimate of $24 million to $19 million in 2020-2021 and to $15 million for the remainder of the forecast period as projects are completed and activity levels decrease.

In 2005, the City Council adopted the North San José Area Development Policy (Policy), which established a policy framework to guide the ongoing development of the area as an important employment center for San José. In order to provide public infrastructure requirements and to fund roadway improvements to mitigate the impacts of increased traffic generated by new development under the Policy, the City Council adopted the North San José Traffic Impact Fee to fund these improvements. In January 2012, the City Council adopted the North San José Traffic Impact Fee Incentive Program which reduced the traffic impact fee imposed on industrial development projects. This Program was amended in February 2013 and again in December 2013, further reducing the traffic impact fee to entice commercial/job-oriented development in North San José. With the lowering of the impact fees and the loss of San Jose Redevelopment Agency contributions, a large traffic infrastructure funding gap was created. In June 2014, as part of the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, Manager's Budget Addendum #8 described a new funding strategy to address the funding gap. The approved funding strategy dedicates future Building and Structure Construction Tax revenues generated from new development in North San José to be held in reserve for North San José transportation projects. It is anticipated that there will be several new major projects under construction in the North San José area during the forecast period. As the budget for the 2021-2025 Traffic Capital Program is developed, an estimate of the tax revenue from these projects will be set aside so that funding is available for the construction of North San José and Route 101/Mabury Road transportation improvement projects.

A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax is shown in the chart that follows the discussion of Construction Excise Tax performance.

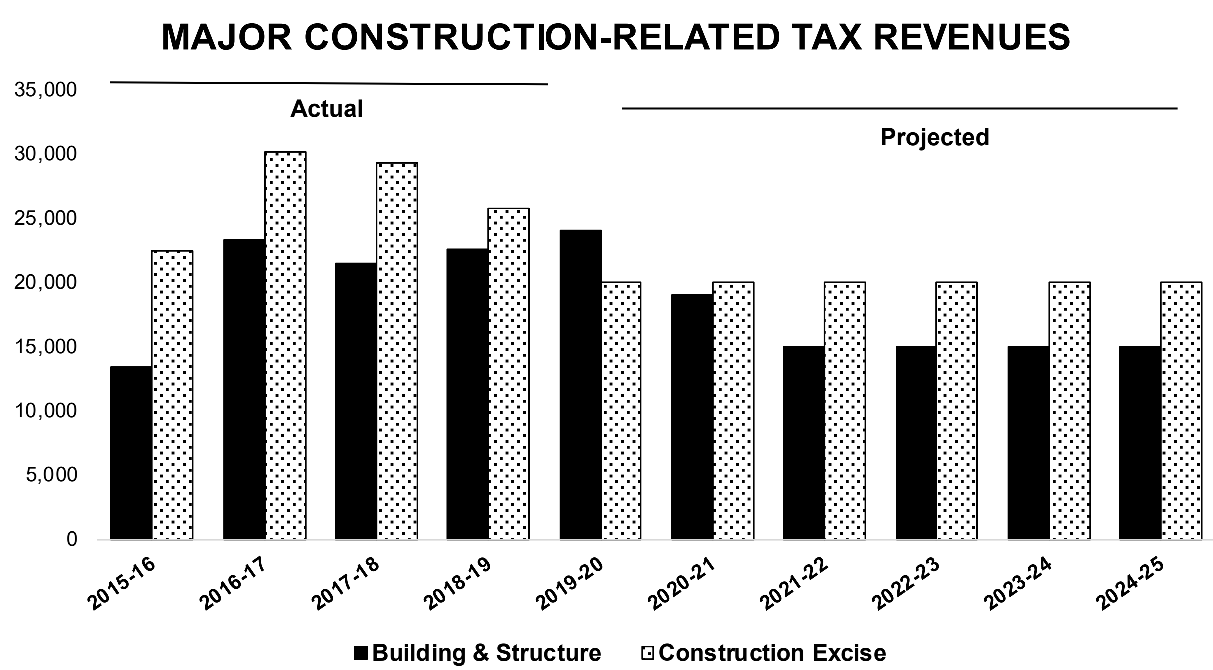
## CONSTRUCTION EXCISE TAX

The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. This general purpose tax may be used for any "usual current expenses" of the City. However, the City Council has historically used the majority of these funds for traffic improvements that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City's ability to obtain State and federal grants for transportation projects. A portion of these taxes has also been used as a budget balancing solution to address General Fund shortfalls in prior years.

In 2019-2020, tax receipts through January for the Construction Excise Tax Fund totaled $11.9 million, 15% below the $14.0 million collected through the same period last year and on target to meet the 2019-2020 Adopted Budget estimate of $20 million.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total $100 million over the five-year forecast period, with proceeds estimated at $20 million in 2020-2021 through 2024-2025. This collection level is equal to the total in the 2020-2024 Adopted CIP.

A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax and Construction Excise Tax are shown in the chart that follows.



## MUNICIPAL WATER SYSTEM FEES

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

Service Connection Fees are charged to developers to recover the actual costs associated with the construction of water main or fire hydrant installations when improvements are constructed by the City.

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

**MUNICIPAL WATER SYSTEM FEES**

($ in Thousands)

| | 2020-2024 CIP | 2021-2025 Forecast | Difference | % Change |
|---|---|---|---|---|
| Advance System Design Fee | 125 | 125 | - | 0% |
| Meter Installation Fee | 125 | 125 | - | 0% |
| Service Connection Fee | 125 | 125 | - | 0% |
| **TOTAL** | **375** | **375** | **-** | **0%** |

## RESIDENTIAL CONSTRUCTION TAX

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

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

In 2019-2020, receipts are projected to total $200,000 based on year-to-date activity levels. This collection level is on target to meet the budgeted estimates of $200,000 due strong residential development activity. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, collections are expected to remain at $200,000 in the forecast as a result of development remaining strong. A total of $1 million is expected over the five-year period of this forecast, which is equal to the total in the 2020-2024 Adopted CIP of $1 million.

## SANITARY SEWER CONNECTION FEE

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

In 2019-2020, receipts are projected to total $700,000 based on year-to-date activity levels, which is equal to the budgeted estimate of $700,000. Annual collections are expected to decrease to $500,000 in the forecast due to historical trends in this category. The 2021-2025 Forecast projection for this fee is $2.5 million, which is lower than the 2020-2024 Adopted CIP estimate of $3.5 million.

## STORM DRAINAGE CONNECTION FEE

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

In 2019-2020, receipts are projected to total $200,000 based on year-to-date activity levels, which is equal to the budgeted estimate of $200,000. The five-year forecast for Storm Drainage Connection Fees totals $1 million, with annual receipts of $200,000 for the period from 2020-2021 to 2024-2025. This collection level is equal to the estimate included in the 2020-2024 Adopted CIP of $1 million.

**ATTACHMENT A**

# CONSTRUCTION-RELATED REVENUE
# 2021-2025 FORECAST
**(in $ thousands)**

| | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 5 Yr Total |
|---|---|---|---|---|---|---|---|
| **Construction and Conveyance Tax** | | | | | | | |
| 2020-2024 Adopted CIP | 36,000 | 36,000 | 36,000 | 36,000 | 36,000 | N/A | 180,000 |
| 2021-2025 FORECAST | 38,000 | 36,000 | 36,000 | 36,000 | 36,000 | 36,000 | 180,000 |
| **Difference** | 2,000 | - | - | - | - | N/A | - |
| **Building and Structure Construction Tax** | | | | | | | |
| 2020-2024 Adopted CIP | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | N/A | 75,000 |
| 2021-2025 FORECAST | 24,000 | 19,000 | 15,000 | 15,000 | 15,000 | 15,000 | 79,000 |
| **Difference** | 9,000 | 4,000 | - | - | - | N/A | 4,000 |
| **Construction Excise Tax** | | | | | | | |
| 2020-2024 Adopted CIP | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | N/A | 100,000 |
| 2021-2025 FORECAST | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 100,000 |
| **Difference** | - | - | - | - | - | N/A | - |
| **Municipal Water Advance System Design Fee** | | | | | | | |
| 2020-2024 Adopted CIP | 25 | 25 | 25 | 25 | 25 | N/A | 125 |
| 2021-2025 FORECAST | 60 | 25 | 25 | 25 | 25 | 25 | 125 |
| **Difference** | 35 | - | - | - | - | N/A | - |
| **Municipal Water Meter Installation Fee** | | | | | | | |
| 2020-2024 Adopted CIP | 25 | 25 | 25 | 25 | 25 | N/A | 125 |
| 2021-2025 FORECAST | 75 | 25 | 25 | 25 | 25 | 25 | 125 |
| **Difference** | 50 | - | - | - | - | N/A | - |
| **Municipal Water Service Connection Fee** | | | | | | | |
| 2020-2024 Adopted CIP | 25 | 25 | 25 | 25 | 25 | N/A | 125 |
| 2021-2025 FORECAST | 105 | 25 | 25 | 25 | 25 | 25 | 125 |
| **Difference** | 80 | - | - | - | - | N/A | - |
| **Residential Construction Tax** | | | | | | | |
| 2020-2024 Adopted CIP | 200 | 200 | 200 | 200 | 200 | N/A | 1,000 |
| 2021-2025 FORECAST | 200 | 200 | 200 | 200 | 200 | 200 | 1,000 |
| **Difference** | - | - | - | - | - | N/A | - |
| **Sanitary Sewer Connection Fee** | | | | | | | |
| 2020-2024 Adopted CIP | 700 | 700 | 700 | 700 | 700 | N/A | 3,500 |
| 2021-2025 FORECAST | 700 | 500 | 500 | 500 | 500 | 500 | 2,500 |
| **Difference** | - | (200) | (200) | (200) | (200) | N/A | (1,000) |
| **Storm Drainage Connection Fee** | | | | | | | |
| 2020-2024 Adopted CIP | 200 | 200 | 200 | 200 | 200 | N/A | 1,000 |
| 2021-2025 FORECAST | 200 | 200 | 200 | 200 | 200 | 200 | 1,000 |
| **Difference** | - | - | - | - | - | N/A | - |
| **TOTAL** | | | | | | | |
| 2020-2024 Adopted CIP | 72,175 | 72,175 | 72,175 | 72,175 | 72,175 | N/A | 360,875 |
| 2021-2025 FORECAST | 83,340 | 75,975 | 71,975 | 71,975 | 71,975 | 71,975 | 363,875 |
| **Difference** | 11,165 | 3,800 | (200) | (200) | (200) | N/A | 3,000 |
| % Change from 2020-2024 CIP | 15% | 5% | 0% | 0% | 0% | N/A | 1% |

# *Five-Year Economic Forecast and Revenue Projections*

# *2021-2025*

Appendix A

# 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.

## Service Delivery Framework

*Five-Year Economic Forecast*
*and*
*Revenue Projections*

*2021-2025*

Appendix B

General Fund Revenue Descriptions

# PROPERTY TAX

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

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

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

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

# SALES AND USE TAX

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

On November 2, 1993, Proposition 172 (Public Safety Fund) 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 0.5% tax be diverted from the State to counties and cities on an ongoing basis for funding public safety programs.

The current distribution of the sales tax proceeds is outlined below, which includes a voter-approved 1/4 percent local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years) to fund essential City services such as: improving police response to reduce violent crimes and burglaries; improving 911/emergency medical and fire response times; repairing potholes and streets; expanding gang prevention; and maintaining the City's long-term financial stability.

### Sales Tax Rates

| | |
|---|---|
| State – General Fund | 3.9375% |
| State – Local Revenue Fund | 1.5625 |
| State – County Transportation Funds | 0.2500 |
| State – City of San José | 1.0000 |
| Public Safety Fund (Proposition 172)(1) | 0.5000 |
| ***Sub-Total Statewide Sales and Use Tax*** | ***7.2500*** |
| Local – City of San José(2) | 0.2500 |
| Santa Clara County Transit District(3) | 0.5000 |
| Santa Clara County Valley Transportation Authority(4) | 0.5000 |
| Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax(5) | 0.1250 |
| Santa Clara County Retail Transactions and Use Tax(6) | 0.1250 |
| Silicon Valley Transportation Solutions Tax(7) | 0.5000 |
| ***Total Sales and Use Tax*** | ***9.2500%*** |

(1) City of San José receives a portion of this Sales and Use Tax revenue that varies from year to year.
(2) Approved by voters in June 2016, and effective October 1, 2016, (limited to 15 years) to fund essential City services.
(3) Approved by voters in 1976; does not expire. Imposed by VTA.
(4) Approved by voters in November 2000, and effective April 1, 2006 (limited to 30 years). Imposed by VTA.
(5) Approved by voters in November 2008 to support BART and effective on July 1, 2012 (limited to 30 years). Imposed by VTA.
(6) Approved by voters in November 2012 and effective April 1, 2013 (limited to 10 years).
(7) Approved by voters in June 2016, and effective April 1, 2017 (limited to 30 years). Imposed by VTA.

## SALES AND USE TAX

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 foods, candy, and bottled water effective December 1, 1992.

## TRANSIENT OCCUPANCY TAX

The Transient Occupancy Tax is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The tax rate is currently 10%, of which 6% is placed in the Transient Occupancy Tax Fund and 4% 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 (6% percent of room rent) is restricted by Title 4 of the Municipal Code, Section 4.72, Ordinance number 23481 to the following uses:

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

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

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

The General Fund portion, or 40% of the Transient Occupancy Tax, was enacted as a general tax. The other 60% of the Transient Occupancy Tax is restricted for use in cultural development, supporting a convention and visitors bureau, and supporting the convention and cultural facilities of San José. Although not specifically related to the Transient Occupancy Tax, many hotels in San José also belong to the Convention Center Facilities District, which assesses an additional special tax on daily room rates of 4%. Revenues from the Convention Center Facilities District are restricted for debt service payments or capital improvements related to the Convention Center. Of the approximately 14% total tax assessed on room rates at most hotels, only the 4% portion of the Transient Occupancy Tax is deposited into the General Fund.

## FRANCHISE FEES

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

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

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

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

In 2006-2007, an additional 5.0% increase was approved by the City Council, which brought the fee to $3.67 per cubic yard. In 2009-2010, the elimination of the fee exclusion for the first 20,000 cubic yards hauled in the fiscal year was approved.

On October 19, 2010, the City Council amended the CSW fee to a fee for franchises based on geographic collection districts rather than volume. The base fee of $5.0 million per year for each of two geographic collection districts, plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District became effective July 1, 2012, and is subject to an annual Consumer Price Index (CPI) adjustment. The CSW fee is authorized by Title 9 of the Municipal Code, Chapter 9.08.

## FRANCHISE FEES

The City collects a **Cable Television Franchise Fee** from any company that provides cable television (Municipal Code, Title 15, Chapter 15.34). The current fee requires each State video franchise holder to pay the city a franchise fee that is 5% of gross revenues derived from subscriptions. Excluded from the gross receipts are amounts derived from installation, late charges, advertising, taxes, line extensions, and returned check charges.

The **Water Franchise Fee** was established in 1995-1996 (effective July 27, 1995, Title 15 of the Municipal Code, Section 15.40). The assessment of the fee is allowable under State law, which asserts that a city can collect a franchise fee from a water utility company for laying pipelines and operating them in public right-of-ways. The fee is equal to the greater of either: 1) 2% 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) 1% 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 County 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 (gas, electricity, telephone, and water) other than the corporation providing the utility (i.e., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). For the electricity, gas, and water categories, consumers pay 5% of their utility charges to the utility company that acts as a collection agent for the City. For the telephone utility tax, consumers pay 4.5% on all intrastate, interstate, and international communication services regardless of the technology used to provide such services. Private communication services, voice mail, paging, and text messaging are treated the same as traditional telephone services. In November 2008, voters approved Measure K that reduced the telephone utility rate from 5.0% to 4.5% and broadened the base for the tax and the definition of technologies covered by the tax. The tax is not applicable to State, County, or City agencies. Also, per State regulations, insurance companies and banks are exempted from the tax. This tax is authorized by Title 4 of the Municipal Code, Section 4.68.

## TELEPHONE LINE TAX

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

# BUSINESS TAXES

The **General Business Tax** was first adopted on July 15, 1963. The methodology used for calculating the Business Tax (Chapter 4.76 of the San José Municipal Code) was adopted in 1984 and adjusted in 1986. 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 were returned to the levels prior to November 1996. Those rates stayed in effect until San José voters approved the Business Tax Modernization measure on November 8, 2016. In addition to expanding the application of tax to more business classes, the Business Tax Modernization measure increased the base tax, the incremental tax, and the cap (the maximum amount of tax affecting large businesses). The Business Tax Modernization measure rates went into effect July 1, 2017 and will be adjusted annually on July 1st for inflation changes.

The following charts present the business tax rate structure after the Business Tax Modernization, along with the inflation adjusted rates for the periods listed. The updated rates that will take effect on July 1, 2020 are currently being analyzed and will be included in the 2020-2021 Proposed Budget, which is scheduled to be released on April 29, 2020.

### *Employee Count*

Every person engaged in business in the City shall pay a business tax based on employee count[1], unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

| Businesses: Employee Count [1] | July 2018- June 2019 | Effective July 1, 2019 [3] |
|---|---|---|
| Base Tax: 1-2 employees | $197.90 | $200.85 |
| Incremental Tax: 3-35 [2] | $30.90 | $31.80 |
| Incremental Tax: 36-100 [2] | $41.20 | $42.40 |
| Incremental Tax: 101-500 [2] | $51.50 | $53.00 |
| Incremental Tax: 501+ [2] | $61.80 | $63.65 |
| Cap | $154,500 | $159,135 |

[1] Businesses choose between calculating the number of employees based on full-time equivalent (FTE) or based on the number employers report to the California Employment Development Department (EDD).

[2] Incremental tax rates are applicable per employee.

[3] As prescribed in San José Municipal Code Section 4.76.365, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap.

# BUSINESS TAXES

### *Residential Rental Property Units*

Every person in the City engaged in the business of renting or leasing any residential real estate shall pay a business tax based on the number of rental units held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

| Residential Landlords: Rental Units | July 2018- June 2019 | Effective July 1, 2019 [2] |
|---|---|---|
| Base Tax: 1-2 units | $197.90 | $200.85 |
| Incremental Tax: 3-35 [1] | $10.30 | $10.60 |
| Incremental Tax: 36-100 [1] | $15.45 | $15.90 |
| Incremental Tax: 101-500 [1] | $20.60 | $21.20 |
| Incremental Tax: 501+ [1] | $25.75 | $26.50 |
| Cap | $154,500 | $159,135 |

### *Commercial (Non-Residential) Rental Property Units*

Every person in the City engaged in the business of renting or leasing any non-residential real estate shall pay a business tax based on the square footage of space held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

| Commercial Landlords | July 2018- June 2019 | Effective July 1, 2019 [2] |
|---|---|---|
| Base Tax | $197.90 | $200.85 |
| Flat Incremental Tax: per Square Foot [1] | $0.02575 | $0.0265 |
| Cap | $154,500 | $159,135 |

### *Mobile Home Parks Rental Units*

Every person in the City engaged in the business of renting or leasing any mobile home parks shall pay a business tax based on the number of lots held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

| Mobile Home Parks – Rental Lot | July 2018- June 2019 | Effective July 1, 2019 [2] |
|---|---|---|
| Base Tax: 1-2 lots | $197.90 | $200.85 |
| Incremental Tax: 3+ lots [1] | $10.30 | $10.60 |
| Cap | $154,500 | $159,135 |

[1] Incremental tax rates are applicable per unit.

[2] As prescribed in San José Municipal Code Section 4.76.450, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap.

# BUSINESS TAXES

*Water Meter Connections*

Every person engaged in the business of a public water utility in the City shall pay a business tax based upon the number of active metered connections within the city, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

| Water Companies | July 2018- June 2019 | Effective July 1, 2019 [2] |
|---|---|---|
| Base Tax | $197.90 | $200.85 |
| Flat Incremental Tax: per connection [1] | $1.03 | $1.06 |
| Cap | $154,500 | $159,135 |

[1] Incremental tax rates are applicable per connection.

[2] As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap.

**Exclusions and Exemptions**

There are several exclusions (by Federal or State regulations) or exemptions (by the City Council) from the General Business Tax. The major types of exempt organizations include banks and insurance companies, charitable and non-profit organizations, interstate commerce, and low revenue generation businesses.

**Specialty Business Taxes**

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

During 1991-1992, the City Council approved 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 amended the cardroom ordinance, 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, the City Council approved a revision to the cardroom ordinance, instituting a flat 13% gross receipts tax for all cardrooms located in the City with annual gross revenues in excess of $10,000. In June 2010, voters approved a ballot measure that increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98.

## BUSINESS TAXES

On November 2, 2010, San José voters approved Ballot Measure U, which allowed 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 an ordinance that set the **Cannabis Business Tax** (formerly Marijuana Business Tax**)** at 7%, and on June 4, 2013, the City Council increased the rate to 10% effective on July 1, 2013. On May 21, 2019, the City Council approved an ordinance that amended Chapter 4.66 to rename the Marijuana Business Tax to the Cannabis Business Tax (CBT) and to establish a tiered CBT rate structure for various categories of cannabis business activities. Effective July 1, 2019, the following CBT rates are applicable on the gross receipts:

| Business Activity | July 2013 - June 2019 | Effective July 1, 2019 |
|---|---|---|
| Cultivation | 10% | 4% |
| Manufacturing | 10% | 3% |
| Distribution | 10% | 2% |
| Laboratory Testing | 10% | 0% |
| Retail / Delivery Sales | 10% | 10% |

## LICENSES AND PERMITS

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

## FINES, FORFEITURES, AND PENALTIES

The City receives a portion of the fines collected in connection with violations of the State Vehicle Code on city streets. Various fines may be assessed in addition to those imposed by the Santa Clara County bail schedule and judges' sentences. The County court system collects the fines as authorized by the State Vehicle Code and makes monthly remittances to the City. Only "on call" emergency vehicles are exempt from Vehicle Code street laws. State legislative action in 1991-1992 reduced the amount (by approximately 50%) of Vehicle Code fine and forfeiture revenue forwarded to the City. On October 10, 1997, however, the Governor signed Assembly Bill 233 (AB 233),

## FINES, FORFEITURES, AND PENALTIES

which became effective on July 1, 1998. AB 233 changed how the State and its counties and cities share in traffic citation fine revenues. This legislation essentially resulted in the doubling of the City's revenue collections in this area, reversing the impact of the 1991-1992 State legislative action.

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 for 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 the type, size, maturity, percentage of portfolio, and size of security issuer (among others) of each investment. In addition, the policy statement outlines several responsibilities of the City Council, City Manager, City Auditor, and Finance Director. These policy and monitoring units interact and produce investment performance reports and an annually updated investment policy. All reports and policies must be reviewed and approved by both the City Manager and City Council. Investment of funds is authorized by the City Charter, Section 8066. Revenue is also received from the rental of City-owned property.

## REVENUE FROM LOCAL AGENCIES

This revenue category includes revenue received from a variety of other local government agencies. For example, the City receives payments from the Central Fire District for fire services provided to District residents by the San José Fire Department and Santa Clara County for the first responder of advanced life support (Paramedics 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.

## REVENUE FROM THE STATE OF CALIFORNIA

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 2% of the market value of the vehicle as determined by the DMV.

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

## REVENUE FROM THE FEDERAL GOVERNMENT

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

## FEES, RATES, AND CHARGES

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

## OTHER REVENUE

This revenue category contains revenue received from a variety of miscellaneous sources. Significant sources of revenue include reimbursement related to Finance Department staff in the Investment Program, sale of surplus property receipts, one-time and/or varied levels of reimbursements, and miscellaneous revenues associated with the Office of the City Attorney.

## TRANSFERS AND REIMBURSEMENTS

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

Overhead charges are assessed to recover the estimated fair share of indirect General Fund support services costs (staff and materials) that benefit other City program and fund activities. Examples of support activities included in the charges are services provided by the following departments: Finance, Human Resources, Information Technology, Mayor and City Council, the Office of the City Attorney, and the Office of the City Manager. 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 |

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

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

# *Five-Year Economic Forecast and Revenue Projections*

# *2021-2025*

## Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

# Development Activity Highlights and Five-Year Forecast (2021-2025)

**Prepared by:**

**City of San Jose**
**Department of Planning, Building and Code Enforcement**
**February 2020**

# Development Activity Highlights and Five-Year Forecast (2021-2025)

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

# Development Activity Highlights and Five-Year Forecast (2021-2025)

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# Development Activity Highlights
# and Five-Year Forecast (2021-2025)

## I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2021-2025)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves three important functions, as follows:

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

## II. SUMMARY

New industrial development decreased in fiscal year 2018/2019, but is projected to significantly increase in fiscal year 2019/2020. New residential and commercial development remained strong and current trends suggest levels will remain strong through the next fiscal year. The rate of new development may begin to slowly decline to historical averages.

### Residential Development

After two historic years of residential development in fiscal years 2013/2014 and 2014/2015, construction of new units in fiscal year 2015/2016 declined but rebounded in fiscal year 2016/2017 and fiscal year 2017/2018. Residential development in fiscal year 2018/2019 returned to the historical average of around 3,000 units, but exceeded the previous 5-year average of approximately 2,775 units.

During the first six months of fiscal year 2019/2020, building permits were issued for approximately 1,300 new residential units. Additionally, as of February 2020, there were approximately 7,400 new residential units that have received entitlements, but have not yet started construction. Overall, new residential units are forecasted to remain at or slightly below the five-year average, at 2,400 units during the forecast period based on the current housing trends, which have slowed due to increases in the costs associated with new construction, and the flattening of rents relative to these increased costs.

In 2016 the City Council approved an accessory dwelling unit (ADU) ordinance that loosened existing zoning code regulations to comply with state law. The City Council approved additional updates to the Zoning Code in 2018 and 2019 to further ease requirements for ADUs. As a result, more property owners are able to build secondary units which are classified as single-family units in Table 2 of the Five-Year Forecast. New construction of single-family units reached 250 units in 2017/2018, of which 153 were ADUs, noting the first time new construction of ADU's surpassed single-family homes. In 2018/2019 the trend continued as the number of new ADU unit climbed to 296 new units. This represented an approximately 90% increase in building permit issuance for ADUs from the previous fiscal year. ADUs are forecasted to continue their trend upward with 275 new units approved within the first 7 months of fiscal year 2019/2020.

High rents have spurred calls for action for many Bay Area communities, inciting a continued discussion of displacement, gentrification, and affordability. Since 2010, rents rose by 55%, averaging $2,876 per unit per month. Following multiple years of steep increases, rents in Silicon Valley have leveled off. In San José rent growth has plateaued advancing 0.1% year-over-year through November 2019 to $2,876. For the first time since 2011, the median single-family home price decreased approximately 2.9 percent. From $1.055 million at the end of 2018 to $1.022 million by the end of 2019, however the amount is still four times the U.S. Figure and up 57% since 2011.

**Commercial Development**

Similar to the last two fiscal years, large hotel and retail projects contributed to another strong year of commercial growth with valuation of new commercial construction in fiscal year 2018/2019 at $362 million, slightly lower than $411 million in the previous fiscal year 2017/2018, but slightly above the historical 5-year average. Commercial alterations remained strong in fiscal year 2018/2019 approximately 20 million above the 5-year historic average at $285 million indicative of low retail vacancy rates in the south bay, and a strong economy overall.

As of the fourth quarter of 2019, the overall retail vacancy rate in San José rose to approximately 4.4%, slightly higher than the previous year (approximately 3.9%). This is mostly due to new construction coming online rather than new vacant properties. During the first six months of the current fiscal year (2019/2020) valuation of new commercial construction has reached over $300 million, and is forecasted to reach $340 million, slightly below previous fiscal year of $362 million. Over 1.6 million square feet of commercial projects have been entitled but have not yet started construction.

Commercial activity for 2018/2019 is slightly lower than the two previous fiscal years, 2016/2017 and 2017/2018, which were buoyed by issuance of building permits for the Valley Fair Shopping Mall expansion. Construction activity for the Valley Fair Shopping Mall has begun to slow down, but new commercial construction for Hampton Inn and an expansion of Capitol Toyota has replaced a portion of commercial activity.

Fiscal year 2019/2020 and fiscal year 2020/2021 are projected to remain consistent and return to the 5-year average levels of previous years. Lack of available land for large retail centers and national retail trends, may result in decline in new commercial construction in the future. On the national level, demand for retail space is shifting due to competition from online sales, and investors are more focused on smaller retail centers, including lifestyle/entertainment, food/beverage or grocery-anchored, and niche power centers. In the past year, large retailers like Orchard Supply, Toys-R-Us, Lowe's, and Sears have gone out of business or closed locations as the retail market evolves.

Due to these factors commercial construction activity is forecasted to slightly decline over the next couple fiscal years. However, hotel development has shown an increase with 1,373 hotel rooms pending entitlements and over 1,600 rooms entitled but not constructed.

**Industrial/Office Development**

New industrial construction incorporates construction for office buildings and industrial manufacturing and warehouse space. Valuation of new industrial construction activity decreased in fiscal year 2018/2019 at $152 million, compared to the previous fiscal year of $244 million. Industrial/Office development can vary largely depending on timeline of large pipeline projects. The demand for office is reflected in the overall office vacancy rates in Silicon Valley, as they continued to decline during the fourth quarter of 2019 to 7.5%, a decrease from the vacancy rate in 2018 of 9.8%. Overall industrial warehouse vacancy rates remain low at 3.0% slightly up from 2.6% in the fourth quarter of 2018. However, through the first six months of the current fiscal year (2019/2020) valuation of new industrial construction surpassed $300 million, with a forecasted valuation of $400 million for the year. Similar to the residential market, high cost of construction and limited availability of workers is a limiting factor for new industrial construction, with over 8 million square feet of industrial development entitled and yet to start construction.

The office availability rate in downtown San José in the fourth quarter of 2019 has remained consistent with a small increase from 12.7% at the beginning of 2019 to 12.9%. Downtown San José's most significant milestone this year is the ground breaking of two high-rise commercial projects, Adobe North Tower and 200 Park Tower. The last office high rise in Downtown San José was the River Park Tower 2, which rose on West San Carlos in 2010. 200 Park Tower a 19-story, 857,000 square-foot office tower and Adobe North Tower a 18-story, 700,00 square-foot office tower in Downtown San José signifying the strength in the economy and competitiveness of Downtown San José.

The availability and vacancy rate for Research & Development (R&D) in the North San José market decreased for fiscal year 2018/2019 to 15.2% from 20.2%. Higher asking rates and BART's (Bay Area Rapid Transit) upcoming extension into Milpitas and North San José continues to accelerate demand in the North San José area.

The strong demand for office and R&D in Silicon Valley, driven by growth in tech employment, has led to historically low vacancy rates and high rents in neighboring cities. As technology and related sector companies continue to expand, San José can offer several advantages for firms looking for office space including campus settings, flexible office spaces, and significant housing, retail, transit, and other amenities. This has led to increasing interest in industrial space in San Jose and resulted in large real estate transactions in San José Airport, North San José, and Downtown San José submarkets. The most notable being Google's investment and interest to create an 8 million square foot campus Downtown.

On October 11, 2019 Google submitted their entitlement application and is proposing to construct approximately 6,500,000 square feet of office (with a maximum of 7,300,000 square feet); approximately 3,000 to 5,000 units of housing (with a maximum of 5,900 units); approximately 300,000 to 500,000 square feet of active uses, which may include retail, cultural, arts, etc.; approximately 100,000 square feet of event space; up to 300 hotel rooms and up to 800 rooms of limited-term corporate accommodations. The proposed project represents approximately 27% of all industrial square footage in the pipeline and 17% of all residential units in the development process.

## III. FIVE-YEAR FORECAST (2021-2025)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction valuation in fiscal year 2019/2020 is expected to continue at or slightly below the previous five-year average, fueled by a strong commercial and industrial construction, and a slight slowdown of new residential construction. Although valuations of new residential construction have declined, the number of units remain strong since a high number of ADU's are projected. Future development is predicted to be driven by mixed-use residential projects, and certain commercial and industrial sectors as described above. San José is poised to capitalize on on-going and growing demand for office and warehouse space for expanding companies that has led to low vacancy rates and high rents in neighboring cities. Additional connectivity with the expansion of the BART into the Berryessa area and with plans for future expansion to Downtown is another positive indication for future development in San José.

## Table 1
## Construction Valuation: FY 14/15 to FY 24/25

| Fiscal Year | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual Valuation[1] (in millions) | | | | | Projected Valuation (in millions) | | | | | |
| ***New Construction*** | | | | | | | | | | | |
| Residential | $527 | $374 | $544 | $558 | $447 | $420 | $400 | $400 | $400 | $400 | $400 |
| Commercial | 272 | 273 | 428 | 411 | 362 | 340 | 175 | 175 | 175 | 175 | 175 |
| Industrial | 215 | 342 | 114 | 244 | 152 | 400 | 120 | 120 | 120 | 120 | 120 |
| Subtotal | $1014 | $989 | $1086 | $1213 | $962 | $1160 | $695 | $695 | $695 | $695 | $695 |
| ***Alterations*** | | | | | | | | | | | |
| Residential | $136 | $129 | $116 | $118 | $134 | $110 | $100 | $100 | $100 | $100 | $100 |
| Commercial | 162 | 268 | 346 | 251 | 285 | 210 | 180 | 175 | 175 | 175 | 175 |
| Industrial | 195 | 336 | 520 | 209 | 406 | 250 | 150 | 150 | 150 | 150 | 150 |
| Subtotal | $493 | $733 | $982 | $578 | $825 | $570 | $430 | $425 | $425 | $425 | $425 |
| **Grand Total (Taxable)** | **$1507** | **$1722** | **$2068** | **$1791** | **$1787** | **$1730** | **$1125** | **$1120** | **$1120** | **$1120** | **$1120** |

[1]Valuation figures adjusted to 2019 dollars, per U.S. Bureau of Labor Statistics Consumer Price Index (CPI), San Francisco-Oakland-Hayward, all items index.

## Table 2
## Residential Units and Non-Residential Square Footage: FY 14/15 to FY 24/25

| Fiscal Year | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual[1] | | | | | Projected | | | | | |
| ***Residential (Units)*** | | | | | | | | | | | |
| Single-Family | 254 | 152 | 201 | 250 | 495 | 580 | 450 | 375 | 375 | 375 | 375 |
| Multi-Family | 2,987 | 1,540 | 2,511 | 2,991 | 2,490 | 2,400 | 2,375 | 2,375 | 2,375 | 2,375 | 2,375 |
| TOTAL | 3,241 | 1,692 | 2,712 | 3,241 | 2,985 | 2,980 | 2,825 | 2,750 | 2,750 | 2,750 | 2,750 |
| ***Non-Residential (sq.ft., in thousands)*** | | | | | | | | | | | |
| Commercial | 2,000 | 1,854 | 1,911 | 3,235 | 2,397 | 2,600 | 1,500 | 1,400 | 1,400 | 1,400 | 1,400 |
| Industrial | 1,000 | 2,068 | 1,452 | 1,584 | 1,055 | 1,200 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| TOTAL | 3,000 | 3,922 | 3,363 | 4,819 | 3,452 | 3,800 | 2,500 | 2,400 | 2,400 | 2,400 | 2,400 |

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

## IV. CONSTRUCTION TAXES

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

### Building and Structure Construction Tax

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

### Construction Excise Tax

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

### Residential Construction Tax

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

## V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. This data focuses on recent “major” projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet.

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

| File Number | Filing Date | Project Name | Tracking APN | Address | Planning Area | Housing Type | No. of Units | Approval Date |
|---|---|---|---|---|---|---|---|---|
| **Projects Completed 2019 to 2020** | | | | | | | | |
| H14-010 | 2/28/14 | The James | 467-21-018 | 66 N. 1st Street | Central | MF | 190 | 2/25/15 |
| PD14-012 | 2/28/14 | 808 West Apartments | 264-15-062 | 800 W. San Carlos Street | Central | MF | 315 | 10/28/14 |
| PD15-024 | 5/27/15 | King & Dobbin Transit Vilage Lot G | 254-55-006 | 1875 Dobbin Drive | Alum Rock | MF | 101 | 11/4/15 |
| PD14-031 | 6/27/14 | Aura | 264-30-067 | 180 Balbach Street | Central | MF | 101 | 12/27/14 |
| PDA07-094-01 | 1/13/15 | 2nd Street Studios | 477-01-082 | 1140 S. 2nd Street | Central | MF | 135 | 3/4/15 |
| PD14-044 | 9/3/14 | King & Dobbin Transit Vilage Lot E | 254-04-079 | 1745 Dobbin Drive | Alum Rock | MF | 67 | 7/29/15 |
| H14-034 | 10/2/14 | Sparq | 472-26-030 | 598 S. 1st Street | Central | MF | 105 | 10/7/15 |
| CP15-078 | 11/16/15 | Renascent Place | 497-41-098 | 2500 Senter Road | South | MF | 162 | 4/27/2016 |
| PD16-001 | 1/15/16 | Scotia Apartments | 455-21-043 | 1777 Almaden Road | South | MF | 55 | 5/17/16 |
| PD16-006 | 2/5/16 | Vespaio @ Diridon (Residential) | 259-28-004 | 138 Stockton Avenue | Central | MF | 164 | 5/25/2016 |
| CP16-014 | 4/11/16 | Villas on the Park | 467-01-121 | 278 N. 2nd Street | Central | MF | 84 | 2/24/2017 |
| H16-036 | 10/4/16 | The Graduate | 467-46-005 | 80 E. San Carlos Street | Central | MF | 260 | 3/22/17 |
| **Total** | | | | | | | **1,739** | |
| **Projects Under Construction** | | | | | | | | |
| PD12-008 | 3/1/12 | Murano at Montecito Vista | 455-09-060 | Southwest side of Montecito Vista Way at the western terminus of Esfahan Drive and Montecito Vista Drive | South | SF | 100 | 6/7/13 |
| PD12-039 | 10/11/12 | South Village (Hitachi Condo's) | 706-65-020 | 0 Raleigh Road | Edenvale | MF | 83 | 12/20/12 |
| H12-020 | 1/16/13 | San Pedro Square | 259-32-044 | 195 W. Julian Street | Central | MF | 406 | 2/24/14 |
| PD13-027 | 7/1/13 | Vicenza at Montecito Vista | 455-09-062 | East side of Montecito Vista Way, between Esfahan Drive and Montecito Vista Drive | South | MF | 162 | 11/22/13 |
| H13-041 | 10/31/13 | Silvery Towers Apts | 259-32-004 | 180 W. St. James Street | Central | MF | 643 | 2/26/14 |
| PDA14-035-01 | 8/21/14 | Communication Hill (Phase 1) | 455-28-017 | Junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive. | South | SF | 314 | 3/18/15 |
| PD14-051 | 10/30/14 | 777 Park Ave | 261-36-062 | 777 Park Avenue | Central | MF | 182 | 3/18/15 |
| H15-007 | 1/23/15 | Modera San Pedro Square | 259-35-042 | 45 N. San Pedro Street | Central | MF | 201 | 5/20/15 |
| PD15-013 | 4/3/15 | Arcadia/Evergreen Part 1 | 670-29-002 | 2140 Quimby Road | Evergreen | SF | 250 | 11/30/15 |
| PD15-014 | 4/16/15 | 1807 Almaden Rd | 455-21-050 | 1807 Almaden Road | South | MF | 96 | 10/7/15 |
| PD15-035 | 7/9/15 | Ohlone Block C | 264-14-024 | 345 Sunol Street | Central | MF | 268 | 12/16/15 |
| PDA15-036-01 | 7/9/15 | Ohlone Block B | 264-14-024 | 345 Sunol Street | Central | MF | 269 | 12/16/15 |
| PD15-055 | 11/4/15 | Shea Homes/ Japantown Corp. Yard | 249-39-039 | Bounded by N. Sixth Street, E. Taylor Street, N. Seventh Street, and Jackson Street | Central | MF | 520 | 5/25/16 |
| PDA12-031-01 | 11/13/15 | Platform | 241-04-011 | 1501 Berryessa Road | Berryessa | MF | 551 | 4/13/16 |
| PD15-067 | 12/22/15 | The Reserve | 299-26-059 | 881 S. Winchester Boulevard | West Valley | MF | 640 | 4/27/2016 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| PD16-002 | 1/21/16 | Berryessa Flea Market (KB) | 241-04-011 | North side of Berryessa Road on the northern portion of the parcel just west of Union Pacific Railroad tracks (Flea Market) | Berryessa | SF | 162 | 5/18/16 |
| PD16-005 | 2/4/16 | Istar/Great Oaks | 706-08-008 | West side of Great Oaks Blvd approx 1,000 feet northwesterly of Highway 85 | Edenvale | MF | 301 | 5/18/2016 |
| PD16-025 | 8/16/16 | The Orchard (Residential) | 254-06-042 | 641 N. Capitol Avenue | Alum Rock | MF | 188 | 1/24/17 |
| SPA17-009-01 | 9/7/17 | Miro (formerly SJSC Towers) | 467-20-086 | 33 N. 5th Street | Central | MF | 630 | 12/13/17 |
| PD14-055 | 1/13/15 | Leigh Ave Apartments | 284-32-014 | 1030 Leigh Avenue | Willow Glen | MF | 64 | 3/18/15 |
| PD15-044 | 9/11/15 | Sparta | 467-16-076 | 525 E. Santa Clara Street | Central | MF | 85 | 9/20/16 |
| H15-046 | 9/25/15 | 363 Delmas Avenue | 264-26-006 | 341 Delmas Avenue | Central | MF | 120 | 6/21/16 |
| PDA14-035-04 | 4/9/17 | Communication Hill Phase II | 455-28-016 | junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive. | South | MF | 486 | 7/26/17 |
| PD17-029 | 12/15/17 | Julian/Stockton Mixed Use | 261-01-030 | 715 W. Julian Street | Central | MF | 228 | 10/23/18 |
| **Total** | | | | | | | **6,949** | |

**Approved Projects (Construction Not Yet Commenced)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| CPA11-034-01 | 5/10/11 | North San Pedro Apts | 259-23-016 | 201 Bassett Street | Central | MF | 135 | 7/23/14 |
| HA14-009-02 | 6/5/18 | Parkview Towers | 467-01-008 | northeast corner of the intersection of 1st Street and St. James Street | Central | MF | 220 | 5/13/15 |
| H14-037 | 11/5/14 | NSP3 Tower | 259-24-008 | 201 W. Julian Street | Central | MF | 313 | 8/5/15 |
| PD15-042 | 9/11/15 | Montgomery 7 | 259-47-068 | 565 Lorraine Avenue | Central | MF | 54 | 6/21/16 |
| H15-047 | 9/28/15 | Gateway Tower | 264-30-089 | 455 S. 1st Street | Central | MF | 300 | 12/616 |
| PD12-013 | 3/29/12 | Ohlone Mixed Use (Block A) | 264-14-131 | southwest corner of West San Carlos Street and Sunol Street | Central | MF | 263 | 12/16/15 |
| H15-055 | 11/17/15 | 6th Street Project | 467-19-059 | 73 N. 6th Street | Central | MF | 126 | 6/29/16 |
| PD15-061 | 12/4/15 | Diridon TOD | 259-38-036 | 402 West Santa Clara | Central | MF | 325 | 5/24/16 |
| PD15-066 | 12/21/15 | Santana Row Lot 12 | 277-40-017 | 358 Hatton Street | West Valley | MF | 258 | 8/16/16 |
| PD15-068 | 12/22/15 | Santana Row Lot 17 | 277-38-003 | 544 Dudley Avenue | West Valley | MF | 110 | 5/25/16 |
| SP16-016 | 3/8/16 | Park Delmas | 259-46-040 | 201 Delmas Avenue | Central | MF | 123 | 6/29/16 |
| PD16-013 | 4/7/16 | 777 West San Carlos St | 261-39-045 | 270 Sunol Street | Central | MF | 149 | 6/21/16 |
| SP16-021 | 4/11/16 | Greyhound Residential | 259-40-012 | 70 South Almaden Avenue | Central | MF | 781 | 5/23/17 |
| PD15-059 | 6/23/16 | Volar (Residential) | 277-33-003 | 350 S. Winchester Boulevard | West Valley | MF | 330 | 6/13/17 |
| PD16-026 | 8/11/16 | 7th & Empire | 249-38-042 | 535 N. 7th Street | Central | MF | 92 | 4/11/17 |
| PD16-031 | 9/27/16 | 750 West San Carlos | 264-15-003 | 750 W. San Carlos Street | Central | MF | 56 | 12/12/17 |
| SP17-016 | 4/24/17 | 425 Auzerais Avenue | 264-26-017 | 425 Auzerais Avenue | Central | MF | 130 | 6/19/17 |
| PD17-014 | 4/25/17 | Stevens Creek Promenade | 296-38-013 | 4360 Stevens Creek Boulevard | West Valley | MF | 499 | 2/26/19 |
| SP17-037 | 9/1/17 | Page Street Housing | 277-20-044 | 329 Page Street | Central | MF | 82 | 12/5/18 |
| HA14-023-02 | 12/6/17 | Post & San Pedro Tower | 259-40-088 | 171 Post Street | Central | MF | 228 | 6/9/18 |
| SP18-016 | 3/29/18 | 27 West | 259-40-043 | 27 S. 1st Street | Central | MF | 374 | 2/27/19 |
| H18-057 | 5/3/18 | Balbach Affordable Housing | 264-31-109 | South East corner of Balbach and South Almaden Blvd | Central | MF | 87 | 1/30/19 |
| H17-019 | 4/25/17 | Spartan Keyes Senior Housing | 472-25-092 | 295 E. Virginia Street | Central | MF | 301 | 1/9/19 |
| CP17-052 | 11/17/17 | Alum Rock Mixed Use | 481-19-003 | 1936 Alum Rock Avenue | Alum Rock | MF | 94 | 3/27/19 |
| SP17-027 | 6/26/17 | Roosevelt Park Apartments | 467-12-001 | 21 N. 21st Street | Central | MF | 80 | 2/6/19 |
| PD17-027 | 12/14/17 | Saratoga Ave Mixed Use | 299-37-024 | 700 Saratoga Avenue | West Valley | MF | 300 | 6/11/19 |
| SP18-001 | 1/9/18 | Garden Gate Tower | 472-26-090 | 600 S. 1st Street | Central | MF | 285 | 11/19/19 |
| H18-026 | 6/7/18 | S. Market Mixed Use | 264-30-034 | 477 S. Market Street | Central | MF | 130 | 5/1/19 |
| PD18-015 | 6/19/18 | Bascom Gateway Station | 282-26-007 | 1330 S. Bascom Avenue | Willow Glen | MF | 590 | 9/10/19 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| SP18-059 | 5/10/18 | McEvoy Affordable Housing | 261-38-004 | 699 W. San Carlos | Central | MF | 365 | 2/11/20 |
| SPA17-023-01 | 12/11/18 | StarCity (Co-Living) | 259-23-006 | 199 Bassett Street | Central | MF | 800 | 5/29/19 |
| CP18-022 | 6/26/18 | Blossom Hill Affordable Apartments | 690-25-021 | 397 Blossom Hill Road | Edenvale | MF | 147 | 12/11/19 |
| PD19-019 | 6/4/19 | Winchester Ranch | 303-38-001 | 555 S. Winchester Boulevard | West Valley | MF | 688 | 1/14/20 |
| **Total** | | | | | | | **8,127** | |

**Projects Pending City Approval**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| PDA14-035-05 | 4/10/17 | Communication Hill Village Center | 455-28-017 | junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive. | South | MF | 490 | |
| SP18-057 | 12/14/17 | 543 Lorraine Ave Mixed Use | 259-47-069 | 543 Lorraine Avenue | Central | MF | 70 | --- |
| H18-025 | 6/5/18 | Carlysle | 259-35-033 | 51 Notre Dame Avenue | Central | MF | 220 | --- |
| SP18-033 | 6/28/18 | Mitzi Place | 299-16-001 | 4146 Mitzi Drive | West Valley | MF | 50 | --- |
| CP20-001 | 6/29/18 | Silicon Sage | 481-07-016 | north side of Alum Rock Ave 220 feet westerly of Jose Figueres Avenue | Alum Rock | MF | 792 | --- |
| PD18-016 | 6/29/18 | Little Portugal Gateway | 481-12-069 | 1663 Alum Rock Avenue | East San José | MF | 121 | --- |
| H19-021 | 1/30/19 | 4th Street Housing | 467-20-019 | 100 N. 4th Street | Central | MF | 298 | --- |
| PDA15-066-01 | 6/5/18 | Santana Row Lot 12 | 277-40-017 | 385 Hatton Street | West Valley | MF | 300 | --- |
| H18-025 | 6/5/18 | Carlysle | 259-35-033 | 51 Notre Dame Avenue | Central | MF | 290 | --- |
| PD18-043 | 10/17/18 | Race Street Housing | 261-42-058 | 253 Race Street | Central | MF | 206 | --- |
| CP18-044 | 12/19/18 | Affirmed housing | 484-41-165 | 2348 Alum Rock Avenue | Alum Rock | MF | 87 | --- |
| SP19-064 | 2/19/19 | Roem Affordable Housing | 284-03-015 | 961 Meridian Avenue | Willow Glen | MF | 230 | --- |
| PDA14-035-06 | 4/2/19 | Comm Hill Phase 3 | 455-28-017 | 0 Curtner Avenue | South | MF | 798 | --- |
| PD19-011 | 4/10/19 | Meridian Mixed Use | 274-14-152 | 259 Meridian Avenue | Central | MF | 241 | --- |
| SP20-004 | 4/29/19 | W. San Carlos Mixed Use | 277-18-019 | 1530 West San Carlos | Central | MF | 173 | --- |
| H19-019 | 5/6/19 | Kelsey Ayer | 259-20-015 | 447 North 1st Street | Central | MF | 115 | --- |
| PD19-020 | 6/13/19 | ınta Clara University Mixed Use Housi | 230-14-004 | 1202 Campbell Avenue | West Valley | MF | 290 | --- |
| CP19-021 | 6/18/19 | Bascom Residential Care | 412-25-009 | 2375 South Bascom Avenue | Willow Glen | MF | 138 | --- |
| H19-028 | 6/20/19 | 750 W San Carlos | 264-15-003 | 750 W. San Carlos | Central | MF | 80 | --- |
| SP19-067 | 8/30/19 | 1301 West San Carlos | 261-42-059 | 1301 W. San Carlos Street | Central | MF | 230 | --- |
| H19-048 | 10/10/19 | Virginia Studios | 472-25-092 | 295 E. Virginia Street | Central | MF | 347 | --- |
| PD19-029 | 10/10/19 | Google/ Downtown West | 259-38-132 | 450 W. San Carlos | Central | MF | 5,000 | --- |
| H19-051 | 11/18/19 | Eden Housing | 264-26-088 | 425 Auzerais Avenue | Central | MF | 130 | --- |
| CP18-025 | 6/28/19 | Union Assisted Living | 421-20-010 | 0 Union Avenue | Cambrian/Pioneer | MF | 152 | --- |
| SP19-068 | 12/3/19 | Hemlock Mixed Use Project | 277-34-051 | 2881 Hemlock Avenue | West Valley | MF | 51 | --- |
| H19-054 | 12/18/19 | Moorpark Supportive Housing | 282-44-027 | 1710 Moorpark Avenue | Willow Glen | MF | 108 | --- |
| H20-001 | 1/3/20 | Dahlia Apartments | 467-11-021 | 1135 E. Santa Clara Street | Central | MF | 91 | --- |
| SP20-002 | 1/8/20 | S. Winchester Mixed Use | 299-25-038 | 1073 S. Winchester Boulevard | West Valley | MF | 61 | --- |
| H20-002 | 1/15/20 | 4th and Younger Apartments | 235-09-020 | 1020 N. 4th Street | Central | MF | 96 | --- |
| **Total** | | | | | | | **11,255** | |
| **GRAND TOTAL** | | | | | | | **28,070** | |

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

## Major Commercial Development Activity
## Projects of 25,000+ Square Feet

| File Number | Filing Date | Project Name | Tracking APN | Address | Planning Area | Square Footage (approx.) | Hotel Guest Rooms | Approval Date |
|---|---|---|---|---|---|---|---|---|
| **Projects Completed 2019-2020** | | | | | | | | |
| H13-048 | 12/16/2013 | Hampton Inn/Holiday Inn | 237-17-067 | 2088 N. 1st Street | North | 173,000 | 284 | 9/3/16 |
| HA14-006-01 | 1/22/2014 | Hyatt Place/Hyatt House | 101-05-002 | 82 Karina Court and 2105 N. 1st St. | North | 206,000 | 355 | 5/7/14 |
| PD16-006 | 2/5/2016 | Vespaio @ Diridon (Commercial) | 259-28-004 | 130 Stockton Avenue | Central | 37,500 | | 5/25/16 |
| PD16-015 | 4/7/2016 | Fairfield Inn & Suites | 015-45-013 | 656 America Center Court | Alviso | 161,112 | 261 | 6/21/16 |
| PD16-017 | 5/23/2016 | Santana Row Commercial (Lot 9) | 277-40-030 | 3060 Olsen Drive | West Valley | 30,000 | | 11/9/16 |
| PDA14-037-02 | 8/22/16 | Wingate by Windham | 458-17-032 | 5160 Cherry Avenue | Cambrian/Pioneer | 56,032 | 115 | 2/8/17 |
| SP14-032 | 7/24/2014 | Capitol Toyota | 459-05-019 | 775 Capitol Ex Auto Mall | South | 261,286 | | 1/28/15 |
| **Total** | | | | | | **1,371,202** | **1,015** | |
| **Projects Under Construction** | | | | | | | | |
| HA06-027-02 | 6/10/2013 | Valley Fair Expansion | 274-43-035 | 2855 Stevens Creek Boulevard | West Valley | 525,000 | | 10/30/13 |
| PDA12-031-01 | 11/13/2015 | The Platform Retail | 241-04-011 | north side of Berryessa Road on the southern | Berryessa | 37,000 | | 4/13/16 |
| SP17-009 | 2/22/17 | Miro Retail/Office | 467-20-086 | 39 N. 5th Street | Central | 39,074 | | 3/15/17 |
| H15-023 | 5/4/2015 | Holiday Inn Expansion | 497-38-013 | 2660 Monterey Road | South | 48,100 | 81 | 7/13/16 |
| CP16-029 | 6/16/16 | Oakmont Residential Care | 659-04-015 | easterly side of San Felipe Road approximately | Evergreen | 91,714 | | 4/26/17 |
| PD16-025 | 8/16/16 | The Capitol (Formerly Orchard) | 254-06-042 | 641 N. Capitol Avenue | Alum Rock | 38,000 | | 1/24/17 |
| PD16-034 | 4/14/17 | Topgolf | 015-39-026 | 4701 N. 1st Street | Alviso | 182,000 | 200 | 12/13/17 |
| CP17-046 | 10/26/17 | Holden Assisted Living | 282-11-014 | 1015 S. Bascom Avenue | Willow Glen | 156,022 | | 9/12/18 |
| H16-032 | 9/7/16 | Hampton Inn | 372-25-015 | 1090 S. De Anza Boulevard | West Valley | 51,279 | 90 | 8/14/18 |
| H17-044 | 9/2/17 | Hilton Garden Inn | 235-03-002 | 111 E. Gish Road | North | 91,460 | 150 | 5/7/18 |
| PD17-029 | 12/15/17 | Julian/Stockton Mixed Use | 261-01-030 | 715 W. Julian Street | Central | 26,571 | | 10/23/18 |
| PDA08-069-01 | 9/17/18 | Market Park Shopping Center | 254-17-084 | 1590 Berryessa Road | Alum Rock | 101,000 | | 5/8/19 |
| **Total** | | | | | | **1,570,098** | **755** | |
| **Approved Projects (Construction Not Yet Commenced)** | | | | | | | | |
| H16-010 | 2/29/2016 | Cambria Hotel | 277-34-014 | 2850 Stevens Creek Boulevard | West Valley | 173,043 | 175 | 12/7/16 |
| PD08-001 | 1/7/2008 | Pepper Lane Mixed Use | 254-15-072 | southeast corner of Berryessa and Jackson | Alum Rock | 30,000 | | 10/10/08 |
| PD14-035 | 3/15/2013 | Communications Hill | 455-09-040 | On the hills from the junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive. | South | 68,000 | | 11/21/14 |
| PD16-039 | 1/5/17 | Creative Center for the Arts | 249-39-044 | bounded by N. Sixth Street, E. Taylor Street, N. | Central | 60,000 | | 10/11/17 |
| CP17-047 | 10/20/17 | Williams Rd Residential Care Facility | 299-18-147 | 3924 Williams Road | West Valley | 31,801 | | 11/14/18 |
| H17-023 | 5/18/17 | AC Hotel Stevens Creek Blvd | 375-12-017 | 5696 Stevens Creek Boulevard | West Valley | 62,868 | 168 | 1/16/19 |
| PDA15-013-02 | 8/9/18 | Evergreen Circle Costco | 670-29-024 | 2140 Quimby Road | Evergreen | 209,780 | | 2/22/19 |
| SP18-016 | 3/29/18 | 27 West (Retail Component) | 259-40-043 | 27 South 1st Street | Central | 35,712 | | 2/27/18 |
| SP18-048 | 3/27/18 | Hotel Baywood | 277-34-038 | 375 South Baywood Avenue | West Valley | 123,120 | 105 | 2/27/18 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| CP17-052 | 11/17/17 | Alum Rock Mixed Use (Retail Component) | 481-19-003 | 1936 Alum Rock Avenue | Alum Rock | 39,000 | | 3/27/19 |
| H18-002 | 1/9/18 | Silver Creek Valley Rd Hotel | 678-93-015 | 5952 Silver Creek Valley Road | Edenvale | 73,862 | 127 | 5/1/19 |
| SP18-005 | 2/1/18 | Bark Lane Hotel | 372-24-033 | 7285 Bark Lane | West Valley | 45,306 | 126 | 6/4/19 |
| H18-016 | 4/11/18 | Piercy Hotel | 678-93-040 | 469 Piercy Road | Edenvale | 119,333 | 175 | 5/29/19 |
| H18-033 | 7/24/18 | 2nd Street Hotel | 472-26-070 | 605 S. 2nd Street | Central | 90,263 | 106 | 10/2/19 |
| PDA16-034-02 | 11/5/18 | Shilla Stay Hotel | 015-39-026 | 4701 N. 1st Street | Alviso | 109,991 | 200 | 6/19/19 |
| PDA12-019-04 | 12/10/18 | Coleman Hotel | | 1125 Coleman Avenue | North | 115,392 | 175 | 6/26/19 |
| H18-038 | 8/28/18 | Almaden Corner Hotel | 259-35-055 | 8 N. Almaden Boulevard | Central | 153,275 | 272 | 1/14/20 |
| **Total** | | | | | | **1,540,746** | **1,629** | |

**Projects Pending City Approval**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| H15-014 | 3/30/15 | Tropicana Shopping Center Expansion | 486-10-091 | 1664 Story Road | Alum Rock | 31,744 | | --- |
| H16-042 | 10/18/16 | Tribute Hotel | 259-42-079 | 211 S. 1st Street | Central | 186,426 | 279 | --- |
| SP18-060 | 8/18/17 | Stockton Ave Hotel | 261-07-001 | 615 Stockton Avenue | Central | 34,698 | 54 | --- |
| H17-059 | 10/28/17 | Hotel Clariana Addition | 467-23-088 | 10 S. 3rd Street | Central | 51,573 | 63 | --- |
| SP18-008 | 1/30/18 | Presentation High School Master Plan | 446-38-035 | 2281 Plummer Avenue | Willow Glen | 106,248 | | --- |
| CP18-026 | 6/29/18 | Sunset at Alum Rock | 481-07-016 | north side of Alum Rock Ave 220 feet westerly of | Alum Rock | 26,500 | | --- |
| CP18-034 | 9/4/18 | 995 Oakland Road Hotel | 235-16-011 | 955 Oakland Road | Central | 67,766 | 116 | --- |
| SP18-012 | 2/27/18 | West San Carlos Hotel | 277-20-035 | 1470 W. San Carlos Street | Central | 64,262 | | --- |
| PD18-010 | 3/14/18 | Mercedes Dealership Expansion | 296-38-012 | 4500 Stevens Creek Boulevard | West Valley | 171,351 | | --- |
| PD18-035 | 8/7/18 | Stockton Ave Hotel | 259-28-028 | 292 Stockton Avenue | Central | 356,470 | | --- |
| PD18-042 | 10/9/18 | Oakland Road Comfort Suites | 241-13-019 | northeast corner of Oakland Road and Faulstich | Berryessa | 38,400 | 61 | --- |
| H19-004 | 1/31/19 | South Almaden Office (Retail) | 264-28-023 | northwest corner of Almaden Boulevard and Woz Way | Central | 65,000 | | --- |
| H19-047 | 10/8/19 | Davidson Towers | 259-31-071 | 255 W. Julian Street | Central | 23,402 | | |
| CP19-031 | 10/10/19 | Stevens Creek Fitness | 303-25-016 | 3806 Stevens Creek boulevard | Central | 150,000 | | |
| PD19-029 | 10/10/19 | Google - Downtown West Mixed Use | | West of Downtown | Central | 500,000 | 800 | |
| **Total** | | | | | | **1,873,840** | **1,373** | |
| **GRAND TOTAL** | | | | | | **6,355,886** | **4,772** | |

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

## Major Industrial/ Office Development Activity
## Projects of 75,000+ Square Feet

| File Number | Filing Date | Project Name | Tracking APN | Address | Planning Area | Square Footage (approx.) | Approval Date |
|---|---|---|---|---|---|---|---|
| **Projects Completed 2019-2020** | | | | | | | |
| H15-010 | 2/12/2015 | SAF Keep Storage | 237-08-084 | 1750 Junction Court | North | 120,432 | 12/9/2015 |
| H15-012 | 2/17/2015 | SuperMicro (Phase 2) | 237-05-036 | 750 Ridder Park Drive | Berryessa | 162,500 | 12/16/2015 |
| H16-031 | 9/10/2016 | SuperMicro (Phase 3) | 237-05-063 | 750 Ridder Park Drive | Berryessa | 209,320 | 10/26/2016 |
| H17-005 | 1/18/2017 | Piercy Warehouse | 678-08-057 | 448 Piercy Road | Edenvale | 166,740 | 9/13/2017 |
| HA13-040-01 | 4/23/2015 | Peery Arrillaga Brokaw/1st Campus | 237-16-071 | 60 E. Brokaw Road | North | 117,440 | 12/16/2015 |
| PD12-019 | 7/19/2012 | Coleman Highline Office | 230-46-062 | 1123 Coleman Avenue | North | 683,000 | 6/10/2013 |
| PD15-031 | 7/1/2015 | Equinix (iStar) | 706-09-117 | 7 Great Oaks Boulevard | Edenvale | 386,000 | 3/9/2016 |
| PD16-017 | 4/23/2016 | Santana Row (Lot 9) | 277-40-030 | 3060 Olsen Drive | West Valley | 290,000 | 11/9/2016 |
| H16-013 | 3/16/2016 | River Corp Center III | 259-24-036 | 353 W. Julian Street | Central | 191,397 | 12/7/2016 |
| **Total** | | | | | | **3,178,592** | |
| **Projects Under Construction** | | | | | | | |
| H15-058 | 11/23/2015 | Senter/Alma Ministorage | 477-38-014 | Senter Road between E. Alma Avenue and Phelan Avenue | Central/South | 91,885 | 3/15/2017 |
| H16-035 | 9/27/16 | Edenvale Self Storage Facility | 678-93-005 | 5880 Hellyer Avenue | Edenvale | 155,550 | 5/3/2017 |
| PD13-012 | 3/20/13 | 237 @ First Street (balance) | 015-39-006 | 4353 N. 1st Street | Alviso | 430,458 | 12/4/2013 |
| PD16-016 | 4/28/2016 | Winchester Ministorage | 279-01-017 | 780 S. Winchester Boulevard | West Valley | 84,000 | 11/9/2016 |
| SP15-031 | 7/1/2015 | Equinix Data Center | 706-02-053 | west side of Via Del Oro between San Ignacio Avenue and Great Oaks Boulevard | Edenvale | 579,000 | 1/25/2017 |
| H17-034 | 6/29/17 | Panattoni Distribution Center | 244-23-069 | southwest corner of Oakland Road and Calle Artis | Berryessa | 83,117 | 8/8/2018 |
| H18-037 | 8/16/18 | Adobe North Tower | 259-39-116 | 333 W. San Fernando Street | Central | 1,015,200 | 5/29/2019 |
| H17-040 | 7/20/17 | Monterey Rd Self Storage | 456-40-004 | 2829 Monterey Road | South | 142,766 | 3/21/2018 |

## Major Industrial/ Office Development Activity
## Projects of 75,000+ Square Feet

| File Number | Filing Date | Project Name | Tracking APN | Address | Planning Area | Square Footage (approx.) | Approval Date |
|---|---|---|---|---|---|---|---|
| H18-045 | 9/27/18 | DiNapolo Office | 259-43-076 | 200 Park Avenue | Central | 717,246 | 10/9/2019 |
| **Total** | | | | | | **3,299,222** | |
| **Approved Projects (Construction Not Yet Commenced)** | | | | | | | |
| H14-029 | 8/14/2014 | The Station on North First | 101-30-006 | 2890 N. 1st Street | North | 1,653,731 | 12/10/2014 |
| H15-037 | 8/25/2015 | Broadcom expansion/Innovation Place | 097-33-116 | 3130 Zanker Road | North | 536,949 | 12/2/2015 |
| H16-018 | 4/27/2016 | 335 West San Fernando St | 259-39-116 | 333 W. San Fernando Street | Central | 700,000 | 11/9/2016 |
| PD15-053 | 10/29/2015 | America Center (balance) | 015-45-047 | northwest corner of State Highway 237 and Gold Street | Alviso | 192,350 | 1/23/2018 |
| PD15-061 | 12/4/2015 | Diridon TOD (Office) | 259-38-036 | 402 W. Santa Clara Street | Central | 1,040,000 | 5/24/2016 |
| PD15-062 | 12/9/2015 | Bay 101 Technology Place office (Phase II) | 235-01-020 | 1740 N. 1st Street | North | 234,192 | 12/7/2016 |
| PD16-023 | 7/22/16 | Samaritian Medical Phase 1 | 421-37-001 | north of Samaritan Drive, approximately 700 feet east of S. Bascom Drive | Cambrian/Pioneer | 350,000 | 8/2/2017 |
| PD16-037 | 11/29/16 | Self-storage (King Rd) | 670-12-006 | 2905 South King Road | Evergreen | 198,000 | 4/12/2017 |
| SP16-053 | 11/4/16 | Microsoft data center/industrial | 015-31-054 | 1657 Alviso-Milpitas Road | Alviso | 426,093 | 10/24/2017 |
| SP18-020 | 12/15/17 | Akatiff/Platform 16 | 259-29-104 | 440 W. Julian Street | Central | 982,128 | 5/30/2018 |
| H17-041 | 7/21/17 | Knox Trojan Storage | 481-39-003 | 1025 Knox Avenue | Alum Rock | 139,615 | 2/28/2018 |
| PD16-027 | 8/29/16 | Oakland Rd Self Storage | 235-18-001 | 645 Horning Street | Central | 91,875 | 5/8/2018 |

## Major Industrial/ Office Development Activity
## Projects of 75,000+ Square Feet

| File Number | Filing Date | Project Name | Tracking APN | Address | Planning Area | Square Footage (approx.) | Approval Date |
|---|---|---|---|---|---|---|---|
| PDA14-005-10 | 5/3/18 | Western Digital Great Oaks Campus | 706-07-020 | 5601 Great Oaks Parkway | Edenvale | 73,400 | 11/14/2018 |
| PD17-014 | 4/25/17 | Stevens Creek Promenade (Office) | 296-38-013 | 4360 Stevens Creek Boulevard | West Valley | 233,000 | 2/26/2019 |
| H18-024 | 5/31/18 | Winfield Self Storage | 694-06-009 | 5775 Winfield Boulevard | Edenvale | 109,527 | 9/4/2019 |
| H18-027 | 6/12/18 | 2829 Monterey Distribution | 456-40-004 | 2829 Monterey Road | South | 81,100 | 6/12/2019 |
| PD18-015 | 6/19/18 | South Bascom Gateway Station | 282-26-007 | 1330 S. Bascom Avenue | Willow Glen | 213,500 | 9/10/2019 |
| H17-058 | 11/2/17 | 970 McLaughlin Industrial | 472-10-109 | 970 Mclaughlin Avenue | Central | 223,717 | 3/13/2019 |
| SP18-054 | 10/3/18 | San Ignacio Data and Office | 706-09-023 | 6320 San Ignacio Avenue | Edenvale | 282,000 | 3/27/2019 |
| PD18-045 | 10/26/18 | Santana West Phase 1 | 303-40-010 | 3161 Olsen Drive | West Valley | 850,000 | 5/29/2019 |
| PD18-039 | 9/12/18 | Cloud 10 Skyport Plaza | 230-29-117 | 1601 Technology Drive | North | 350,000 | 12/23/2019 |
| **Total** | | | | | | **8,961,177** | |
| **Projects Pending City Approval** | | | | | | | |
| H18-018 | 4/30/18 | 475 Tully Road Mini Storage | 477-51-004 | 475 Tully Road | South | 219,282 | --- |
| SP18-049 | 9/5/18 | 335 Winchester Office | 303-39-047 | 335 S. Winchester Boulevard | West Valley | 94,996 | --- |
| PD19-029 | 10/10/19 | Google - Downtown West Mixed-Use Plan (Office) | | | Central | 7,300,000 | |
| H18-048 | 10/11/18 | 231 Captiol Public Storage | 462-19-013 | 231 W. Capitol Expressway | South | 359,232 | --- |
| PD18-044 | 10/30/18 | 1605 Industrial Avenue Warehouse | 237-30-015 | 1605 Industrial Avenue | Berryessa | 180,500 | --- |
| SPA17-031-01 | 10/31/18 | Museum Place (amendment) | 259-42-023 | 180 Park Avenue | Central | 774,000 | --- |
| H19-041 | 9/19/19 | Fountain Alley Office | 467-22-002 | 26 S. 1st Street | Central | 90,829 | --- |
| H19-004 | 1/31/19 | South Almaden Office | 264-28-023 | northwest corner of Almaden Boulevard and Woz Way | Central | 1,952,045 | --- |
| H19-047 | 10/8/19 | Davidson Towers | 259-31-071 | 255 W. Julian Street | Central | 666,552 | |
| CP19-031 | 10/10/19 | Stevens Creek Fitness | 303-25-016 | 3806 Stevens Creek Boulevard | West Valley | 260,000 | |
| H19-016 | 4/19/19 | City View Plaza | 259-41-068 | 150 Almaden Boulevard | Central | 960,567 | |
| **Total** | | | | | | **11,897,436** | |
| **GRAND TOTAL** | | | | | | **27,336,427** | |

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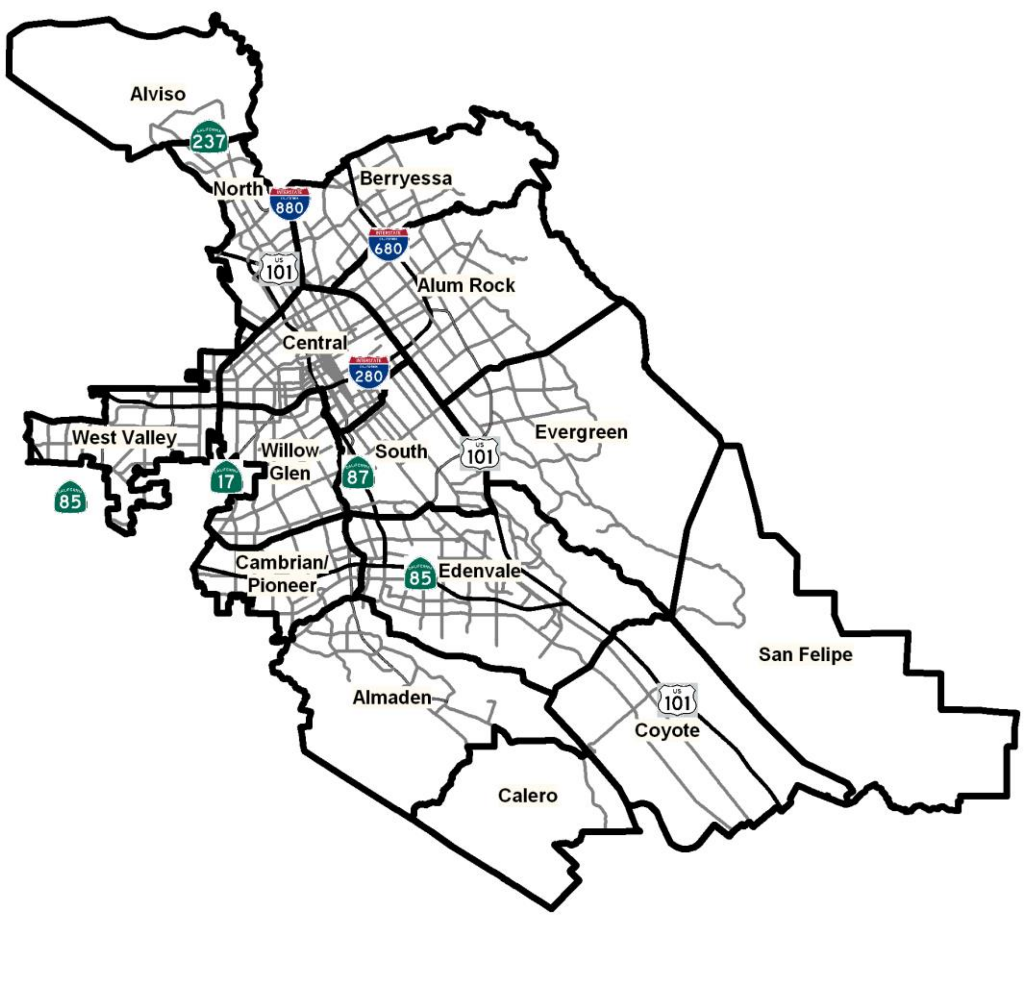
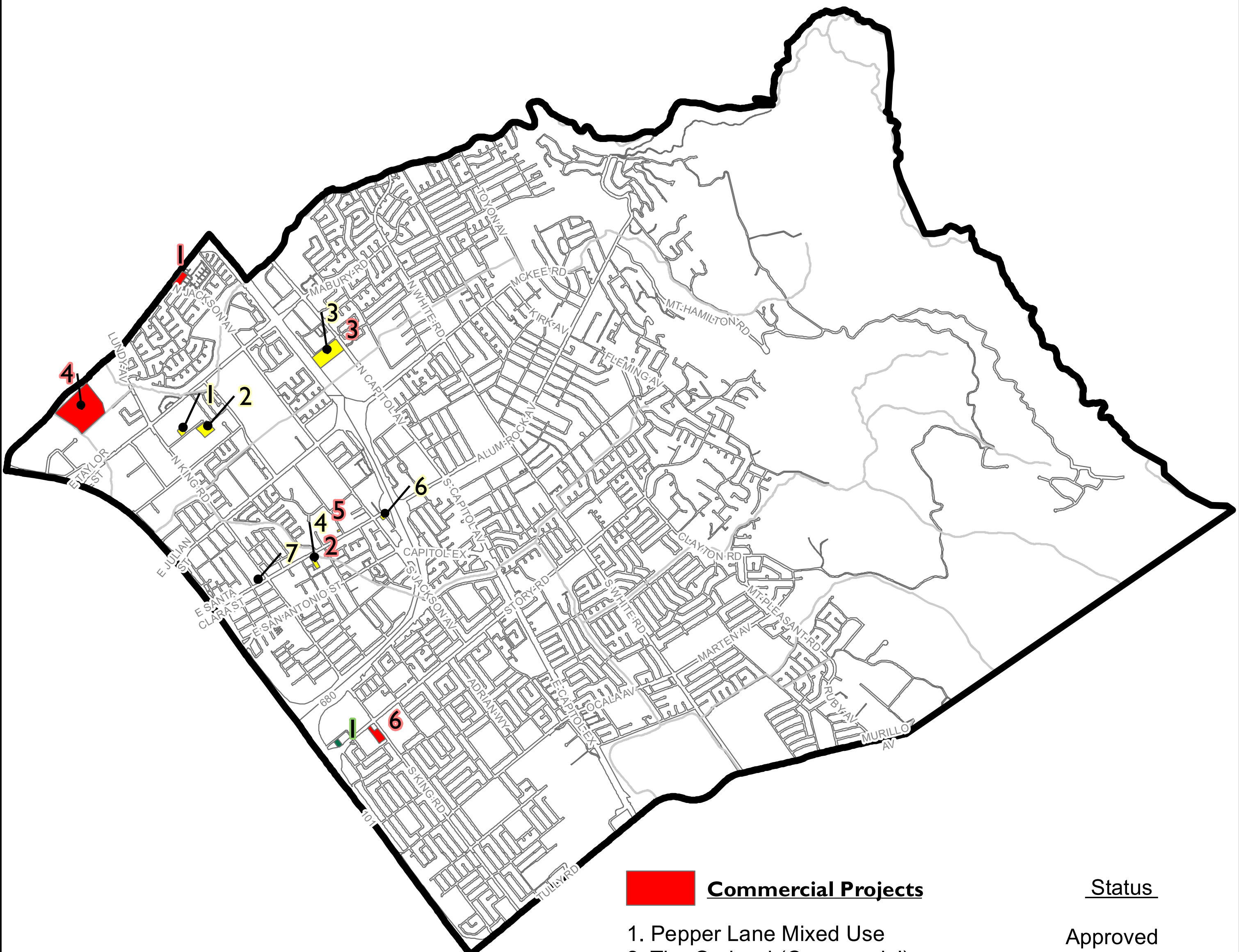
## VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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

Figure 1: San Jose Planning Areas



# Alum Rock Planning Area
# Major Development Activity




**Commercial Projects**

| | Status |
|---|---|
| 1. Pepper Lane Mixed Use | Approved |
| 2, The Orchard (Commercial) | Under Construction |
| 3. Alum Rock Mixed Use (Retail) | Approved |
| 4. Tropicana Shopping Center Expansion | Pending |
| 5. Sunset at Alum Rock | Pending |
| 6. Market Park Shopping Center | Under Construction |

Total Commercial Square Feet = 266,224

**Industrial Projects**

| | Status |
|---|---|
| 1. Knox Trojan Storage | Approved |

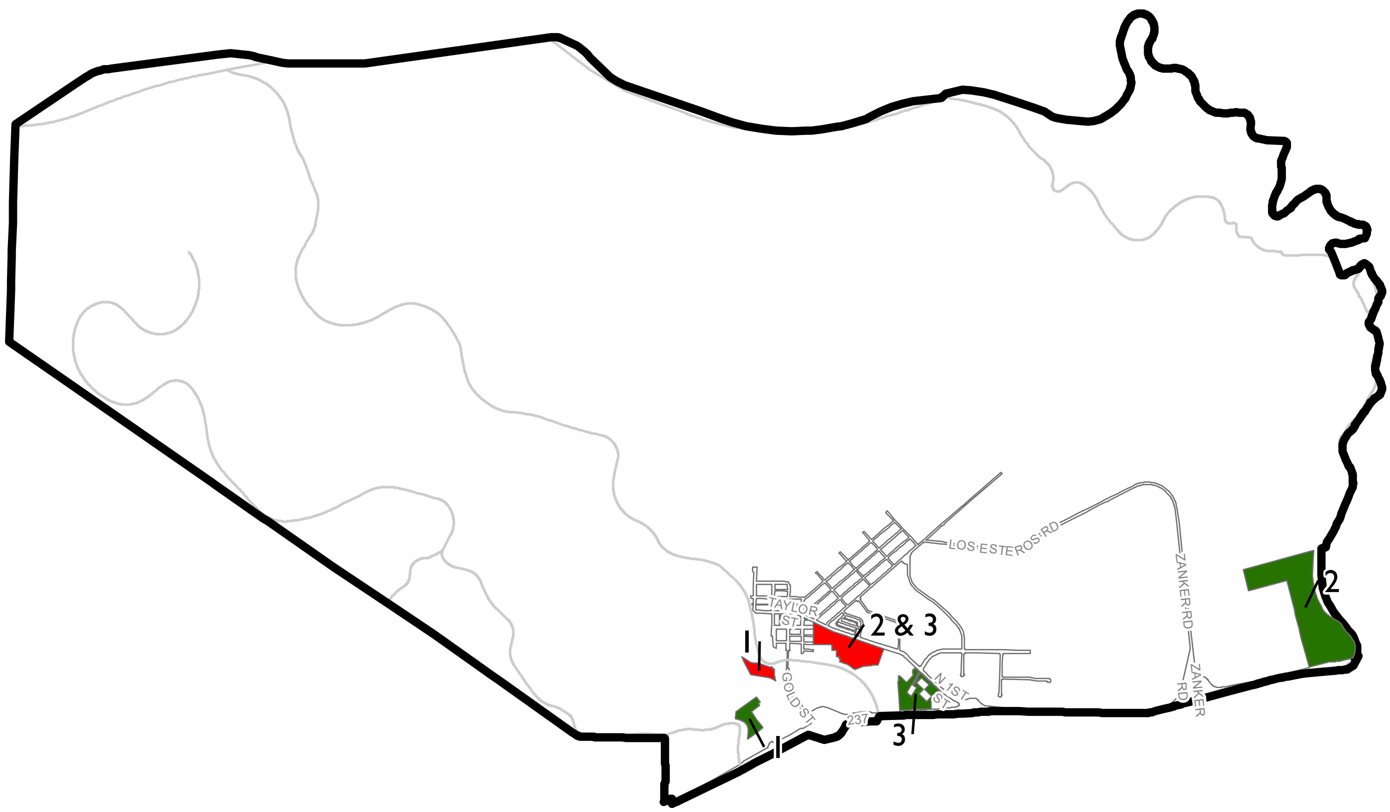
Total Industrial Square Feet = 139,615

**Residential Projects**

| | Status |
|---|---|
| 1. King & Dobbin Transit Vilage Lot E | Completed |
| 2. King & Dobbin Transit Village Lot G | Completed |
| 3. The Orchard (Residential) | Under Construction |
| 4. Alum Rock Mixed Use | Approved |
| 5. Silicon Sage | Pending |
| 6. Affirmed Housing | Pending |
| 7. Little Portugal Gateway | Pending |

Total Dwelling Units = 1,450

# Alviso Planning Area
# Major Development Activity



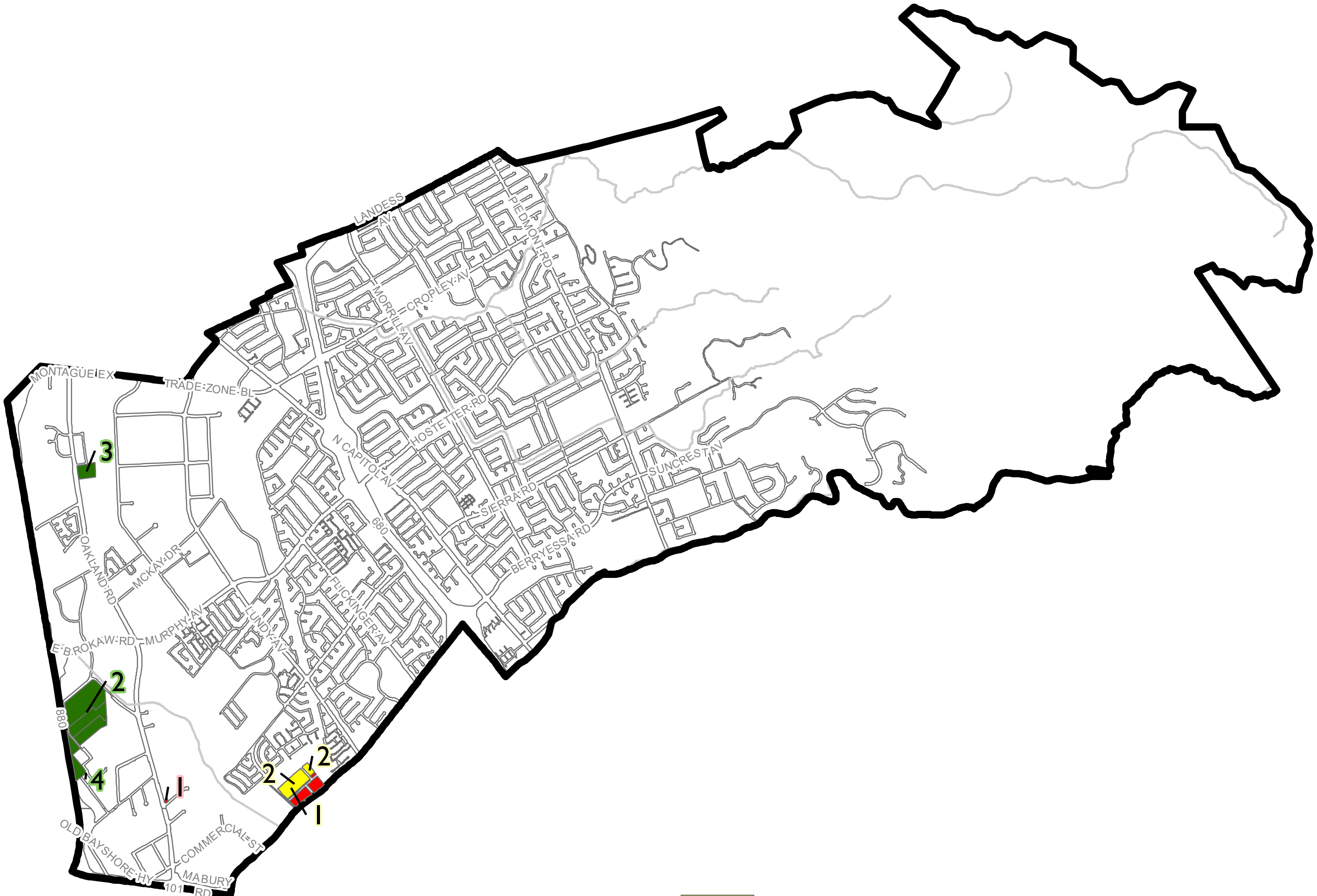

| Commercial Projects | Status |
|---|---|
| 1. Fairfield Inn & Suites | Completed |
| 2. Top Golf | Under Construction |
| 3. Shilla Stay Hotel | Approved |

Total Commercial Square Feet = 453,103

| Industrial Projects | Status |
|---|---|
| 1. America Center | Approved |
| 2. Microsoft Data Center | Approved |
| 3. 237 @ First Street | Under Construction |

Total Industrial Square Feet = 1,048,901

# Berryessa Planning Area
# Major Development Activity




**Residential Projects** — Status

| | |
|---|---|
| 1. Berryessa Flea Market (KB) | Under Construction |
| 2. Platform | Under Construction |

Total Dwelling Units = 713

**Commercial Projects** — Status

| | |
|---|---|
| 1. Oakland Road Comfort Suites | Pending |
| 2. Platform - Retail | Under Construction |

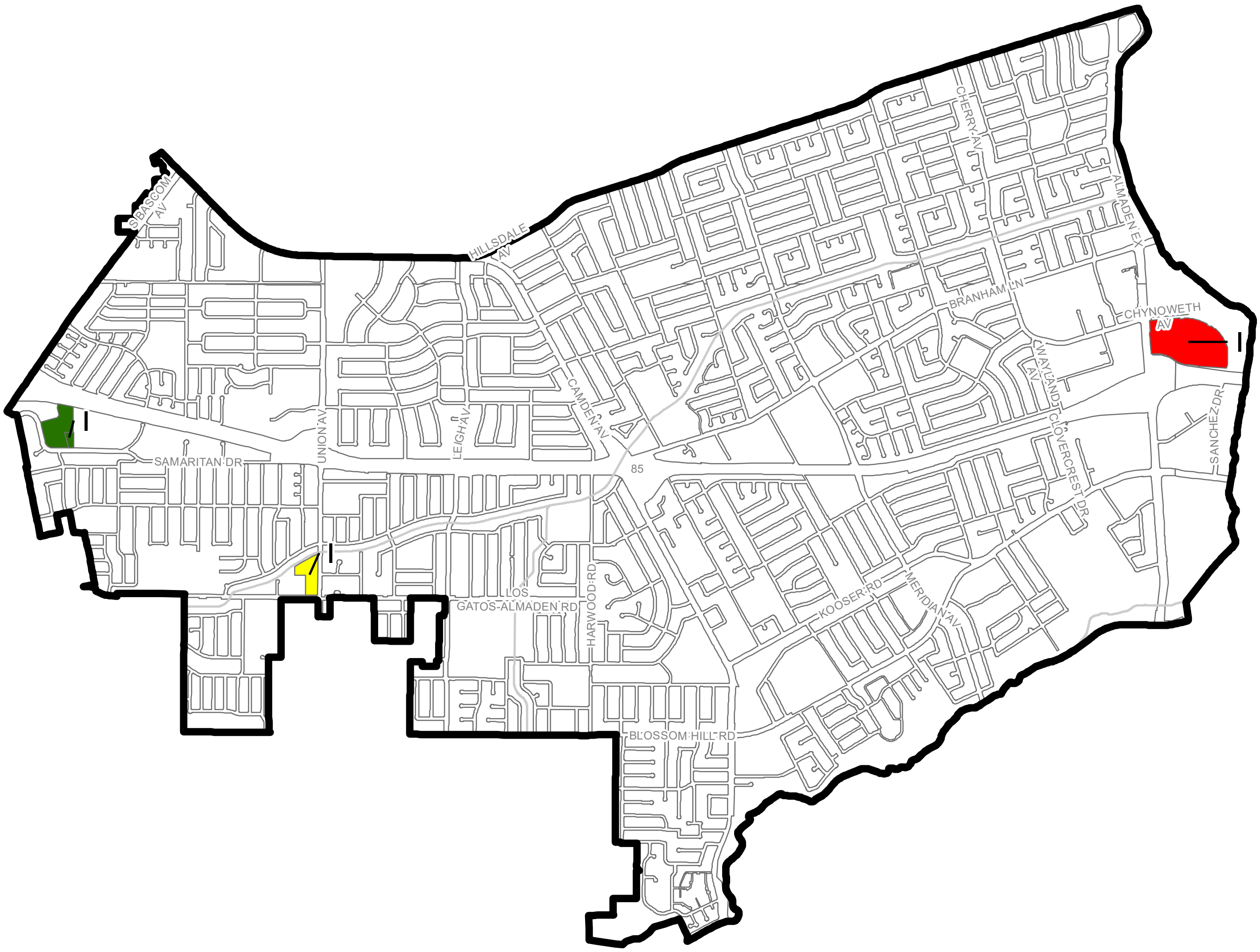
Total Commercial Square Feet = 75,400

**Industrial Projects** — Status

| | |
|---|---|
| 1. SuperMicro (Phase 2) | Completed |
| 2. SuperMicro (Phase 3) | Completed |
| 3. Panattoni Distribution Center | Under Construction |
| 4. 1605 Industrial Avenue Warehouse | Pending |

Total Industrial Square Feet = 635,437

# Cambrian/Pioneer Planning Area
# Major Development Activity




| **Commercial Projects** | Status |
|---|---|
| 1. Amaden Ranch Hotel | Completed |

Total Commercial Square Feet = 56,032

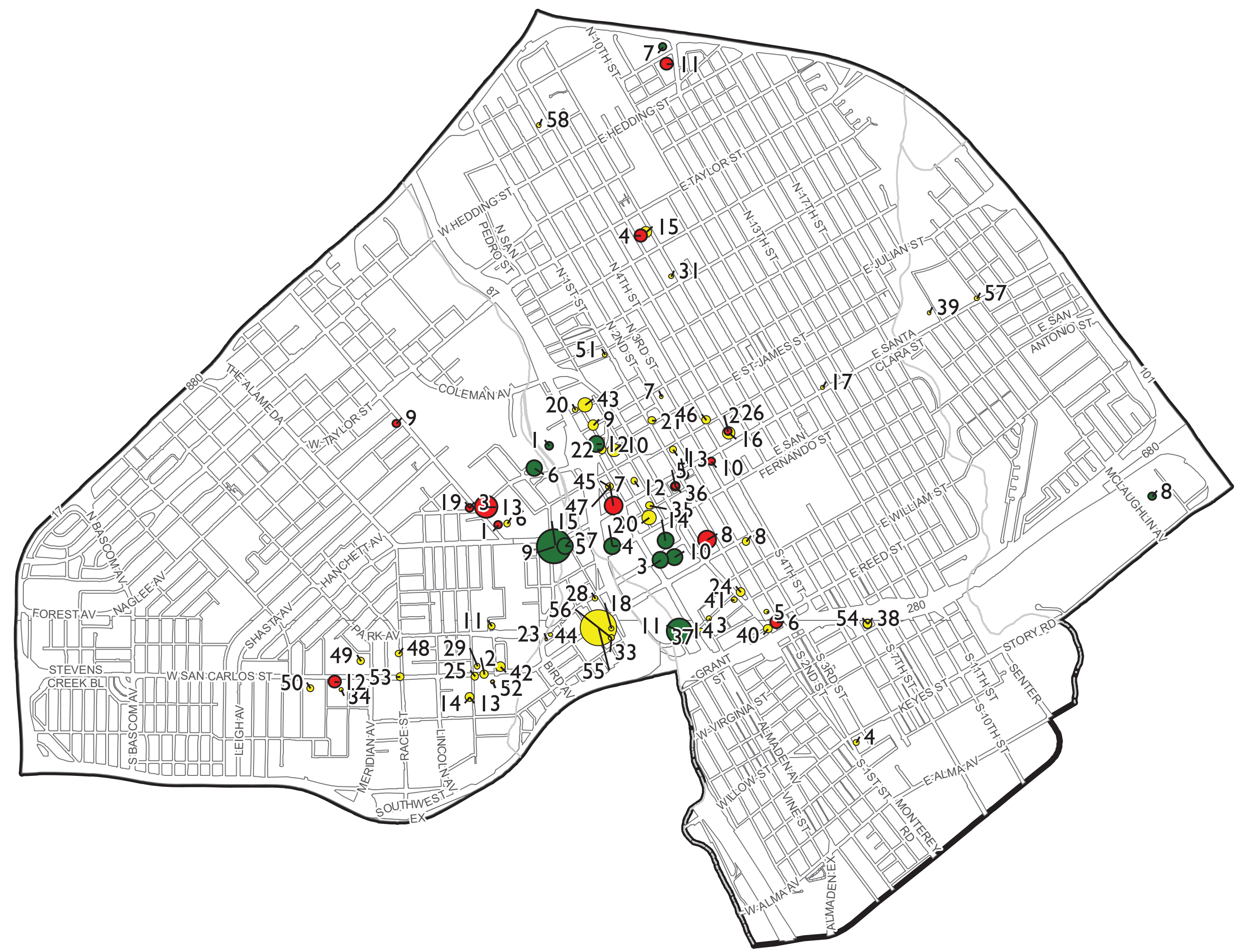
| **Industrial Projects** | Status |
|---|---|
| 1. Samaritian Medical Phase 1 | Approved |

Total Industrial Square Feet = 350,000

| **Residential Projects** | Status |
|---|---|
| 1. Union Assisted Living | Pending |

Total Residential Units = 152

# Central Planning Area Major Development Activity




*Symbol size is related to percentage of total square footage for Industrial and Commercial and total units for Residential.

## Residential Projects

| | |
|---|---|
| 1. The James | C |
| 2. 808 West Apartments. | C |
| 3. Aura | C |
| 4. 2nd Street Studios | C |
| 5. Sparq | C |
| 6. Vespaio @ Diridon (Residential) | C |
| 7. Villas on the Park | C |
| 8. The Graduate | C |
| 9. San Pedro Square | UC |
| 10. Silvery Towers Apts | UC |
| 11. 777 Park Ave | UC |
| 12. Modera | UC |
| 13. Ohlone Block C | UC |
| 14. Ohlone Block B. | UC |
| 15. Shea Homes/Japantown Corp Yard | UC |
| 16. Miro | UC |
| 17. Sparta | UC |
| 18. 363 Delmas Avenue | UC |
| 19. Julian/Stockton Mixed Use | UC |
| 20. North San Pedro Apt. | A |
| 21. Parkview Towers | A |
| 22. NSP3 Tower | A |
| 23. Montgomery 7 | A |
| 24. Gateway tower | A |
| 25. Ohlone Mixed Use (Block A) | A |
| 26. 6th Street Project | A |
| 27. Diridon TOD | A |
| 28. Park Delmas | A |
| 29. 777 West San Carlost St. | A |
| 30. Grehound Residential | A |
| 31. 7th & Empire | A |
| 32. 750 W. San Carlos St. | A |
| 33. 425 Auzerais Avenue | A |
| 34. Page Street Housing | A |
| 35. Post & San Pedro Tower | A |
| 36. 27 West | A |
| 37. Balbach Affordable Housing | A |
| 38. Spartan Keyes Senior Housing | A |
| 39. Roosevelt Park Apartments | A |
| 40. Garden Gate Tower | A |
| 41. S. Market Mixed Use | A |
| 42. McEvoy Affordable Housing | A |
| 43. StarCity (Co-Living) | A |
| 44. 543 Lorraine Ave Mixed Use | P |
| 45. Carlyse | P |
| 46. 4th Street Housing | P |
| 47. Race Street housing | P |
| 48. Meridian mixed Use | P |
| 49. W. San Carlos Mixed use | P |
| 50. Kelsey Ayer | P |
| 51. 750 W. San Carlos | P |
| 52. 1301 West San Carlos. | P |
| 53. Virginia Studios | P |
| 54. Google/Downtown West | P |
| 55. Eden Housing | P |
| 56. Dahlia apartments | P |
| 57. 4th an Younger Apartments | P |

Total Dwelling Units = 18,002

## Industrial Projects

| | |
|---|---|
| 1. River Corp Center III | C |
| 2. Adobe North Tower | UC |
| 3. DiNapolo Office | UC |
| 4. 335 West San Fernando St | A |
| 5. Diridon TOD (Office) | A |
| 6. Akatiff | A |
| 7. Oakland Rd Self Storage | A |
| 8. 970 McLaughlin Industrial | A |
| 9. Google Downtown West Mixed Use Plan (Office) | P |
| 10. Museum Place (amendment) | P |
| 11. South Almaden Office | P |
| 12. Davidson Towers | P |
| 13. Fountain Alley Office | P |
| 14. City View Plaza | P |

Total Industrial Square Feet = 15,744,989

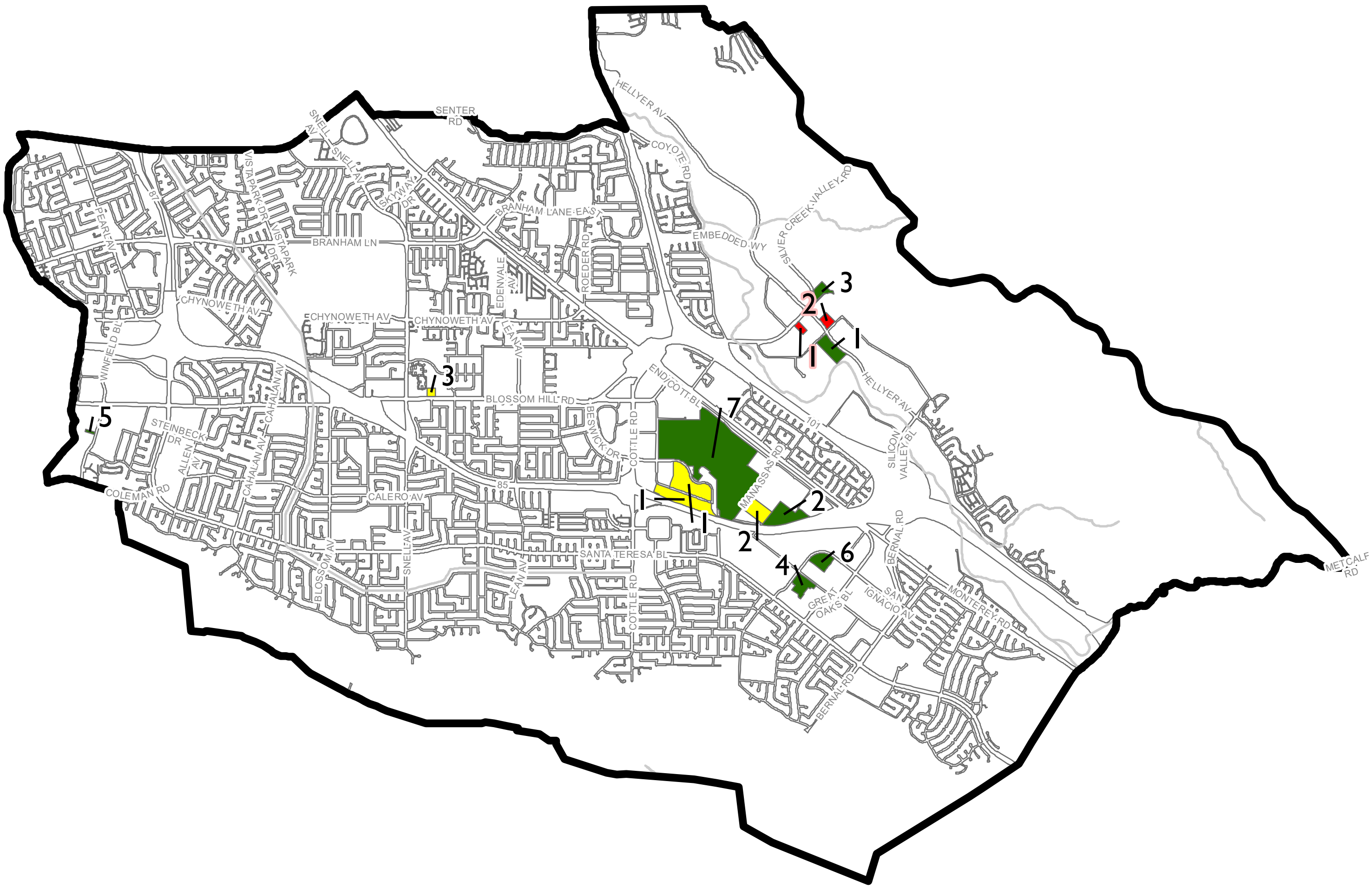
## Commercial Projects

| | |
|---|---|
| 1. Vespaio @ Diridon (Commercial) | C |
| 2. Miro | UC |
| 3. Julian/Stockton Mixed Use | UC |
| 4. Creative Center for the Arts | A |
| 5. 27 West (Retail) | A |
| 6. Almaden Corner Hotel | A |
| 7. Tribute Hotel | A |
| 8. Stockton Ave Hotel | P |
| 9. Hotel Clariana Addition | P |
| 10. 995 Oakland Road Hotel | P |
| 11. West San Carlos Hotel | P |
| 12. Stockton Ave Hotel (2) | P |
| 13. South Almaden Office (retail) | P |
| 14. Google - Downtown West Mixed Use | P |

Total Commercial Square Feet = 1,768,590

**** C (constructed).**
**UC (under construction),**
**A (approved planning permits,**
**P (pending planning permit)**

# Edenvale Planning Area
# Major Development Activity




**Residential Projects** — Status

| | |
|---|---|
| 1. South Village (Hitachi) | Under Construction |
| 2. Istar/Great Oaks | Under Construction |
| 3. Blossom Hill Affordable Apartments | Approved |

Total Dwelling Units = 531

**Industrial Projects** — Status

| | |
|---|---|
| 1. Piercy Warehouse | Completed |
| 2. Equinix( iStar) | Completed |
| 3. Edenvale Self Storage Facility | Under Construction |
| 4. Equinix Data Center | Under Construction |
| 5. Winfield Self Storage | Approved |
| 6. San Ignacio Data and Office | Approved |
| 7. Western Digital Great Oaks Campus | Approved |

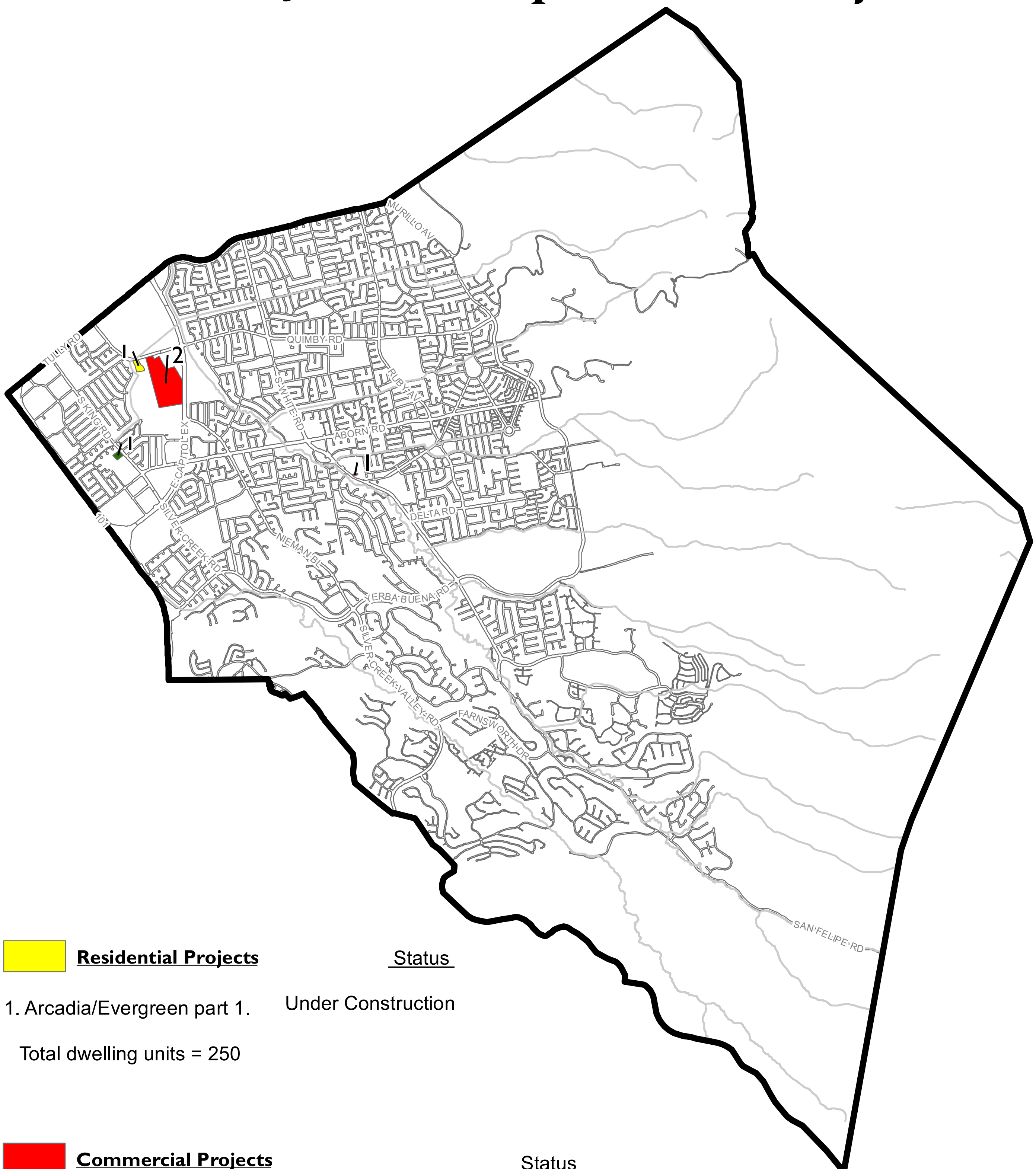
Total Industrial Square Feet = 1,752,217

**Commercial Projects** — Status

| | |
|---|---|
| 1. Silver Creek Valley Road Hotel | Approved |
| 2. Piercy Hotel | Approved |

Total Commercial Square Feet = 193,195

# Evergreen Planning Area
# Major Development Activity




**Residential Projects** | **Status**

1. Arcadia/Evergreen part 1. — Under Construction

Total dwelling units = 250

**Commercial Projects** | **Status**

1. Oakmond Residential Care — Under Construction
2. Evergreen Circle Costco — Approved

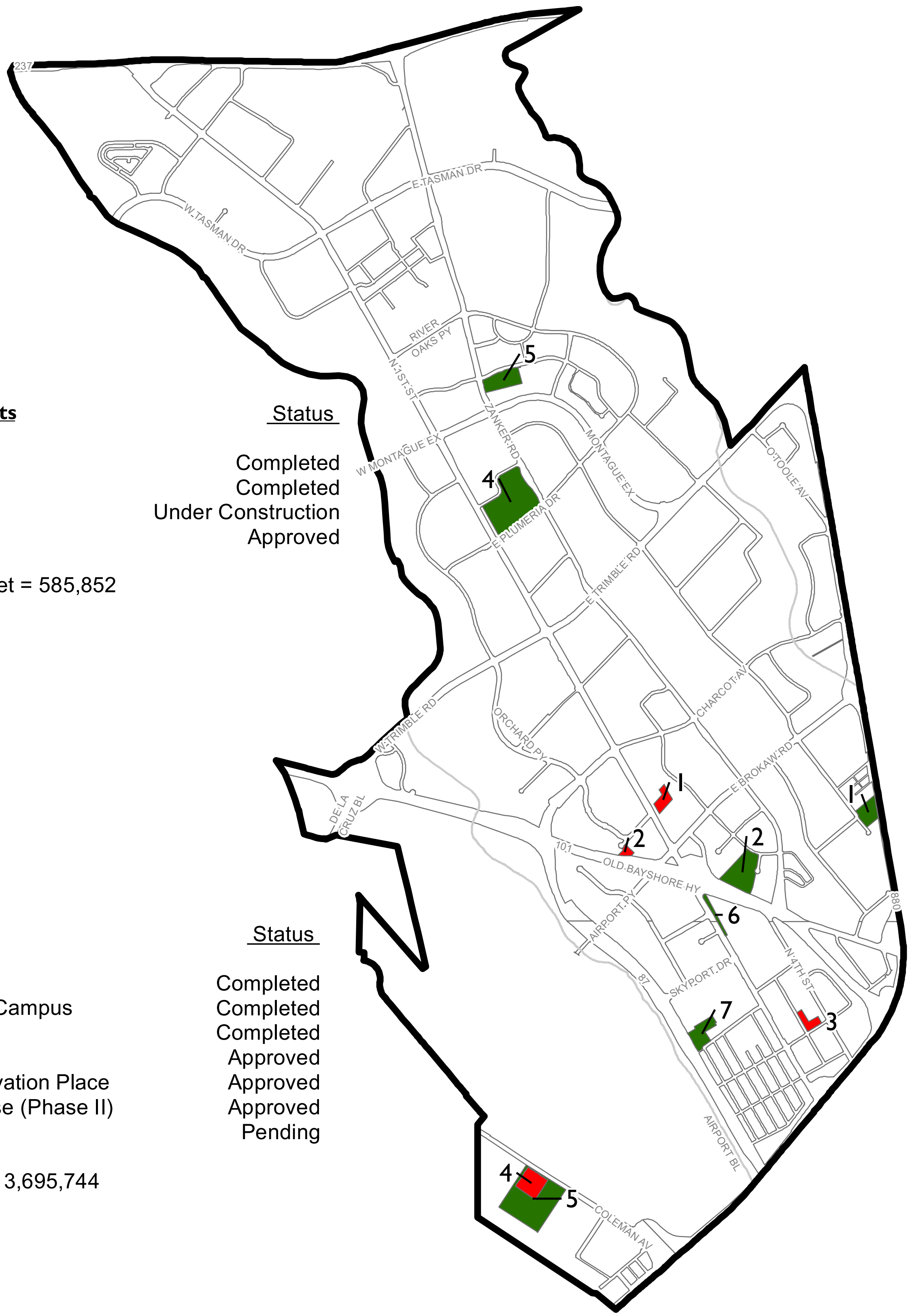
Total Commercial Square Feet = 301,494

**Industrial Projects** | **Status**

1. Self-storage (King Rd) — Approved

Total Industrial Square Feet = 198,000

# North Planning Area
# Major Development Activity




**Commercial Projects** — Status

1. Hampton Inn/Holiday Inn — Completed
2. Hyatt Place — Completed
3. Hilton Garden Inn — Under Construction
4. Coleman Hotel — Approved

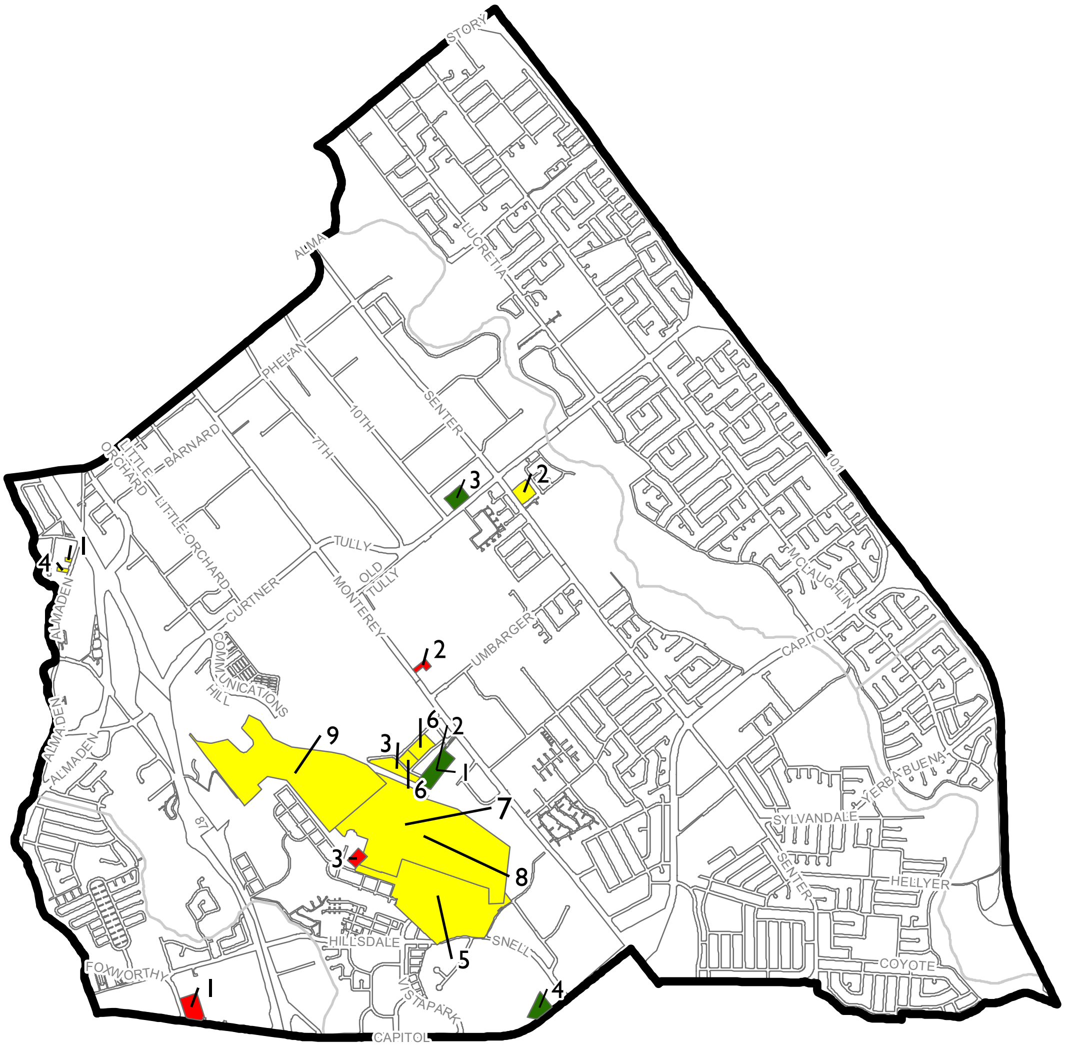
Total Commercial Square Feet = 585,852

**Industrial Projects** — Status

1. SAF Keep Storage — Completed
2. Peery Arrillaga Brokaw/1st Campus — Completed
3. Coleman Highline Office — Completed
4. The Station on N. 1st — Approved
5. Broadcom Expansion/ Innovation Place — Approved
6. Bay 101 Casino & Mixed Use (Phase II) — Approved
7. Cloud 10 Skyport Plaza — Pending

Total Industrial Square Feet = 3,695,744

# South Planning Area
# Major Development Activity




| **Residential Projects** | Status |
|---|---|
| 1. Scotia Apartments | Constructed |
| 2. Renascent Place | Constructed |
| 3. Murano at Montecito Vista | Under Construction |
| 4. 1807 Almaden Rd | Under Construction |
| 5 Communication Hill (Phase 1) | Under Construction |
| 6. Vicenza at Montecito Vista | Under Construction |
| 7. Communication Hill (Phase 2) | Under Construction |
| 8. Comm Hill Village Center | Under Construction |
| 9. Communication Hill (Phase 3) | Pending |

Total Dwelling Units = 2,663

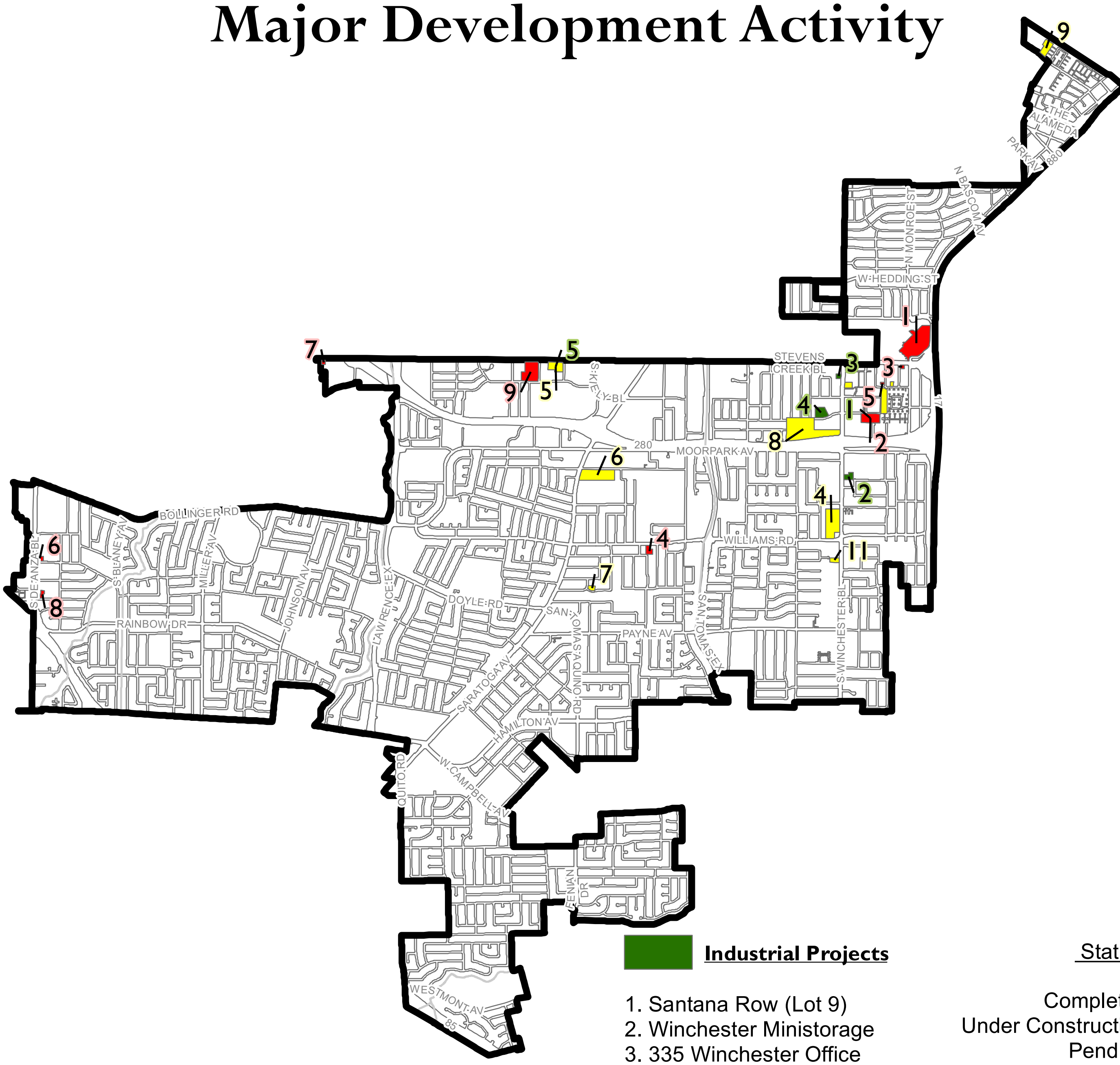
| **Commercial Projects** | Status |
|---|---|
| 1. Capitol Toyota | Constructed |
| 2. Holiday Inn | Under Construction |
| 3. Communication Hill | Approved |

Total Commercial Square Feet = 377,386

| **Industrial Projects** | Status |
|---|---|
| 1. Monterey Rd Self Storage | Under Construction |
| 2. 2829 Monterey Distribution | Approved |
| 3. 475 Tully Road Mini Storage | Pending |
| 4. 231 Capitol Public Storage | Pending |

Total Industrial Square Feet = 443,148

# West Valley Planning Area
# Major Development Activity




**Industrial Projects**

| | Status |
|---|---|
| 1. Santana Row (Lot 9) | Completed |
| 2. Winchester Ministorage | Under Construction |
| 3. 335 Winchester Office | Pending |
| 4. Santana West Phase 1 | Approved |
| 5. Stevens Creek Promenade | Approved |

Total Industrial Square Feet = 1,551,996

**Commercial Projects**

| | Status |
|---|---|
| 1. Valley Fair Expansion | Under Construction |
| 2. Santana Row Commercial (Lot 9) | Completed |
| 3. Boutique Hotel | Approved |
| 4. Williams Rd Residential Care Facility | Approved |
| 5. Hotel Baywood | Approved |
| 6. Hampton Inn (De Anza Blvd) | Under Construction |
| 7. AC Hotel Stevens Creek Blvd | Approved |
| 8. Holiday Inn Express & Suites (Bark Ln) | Approved |
| 9. Mercedes Dealership Expansion | Pending |

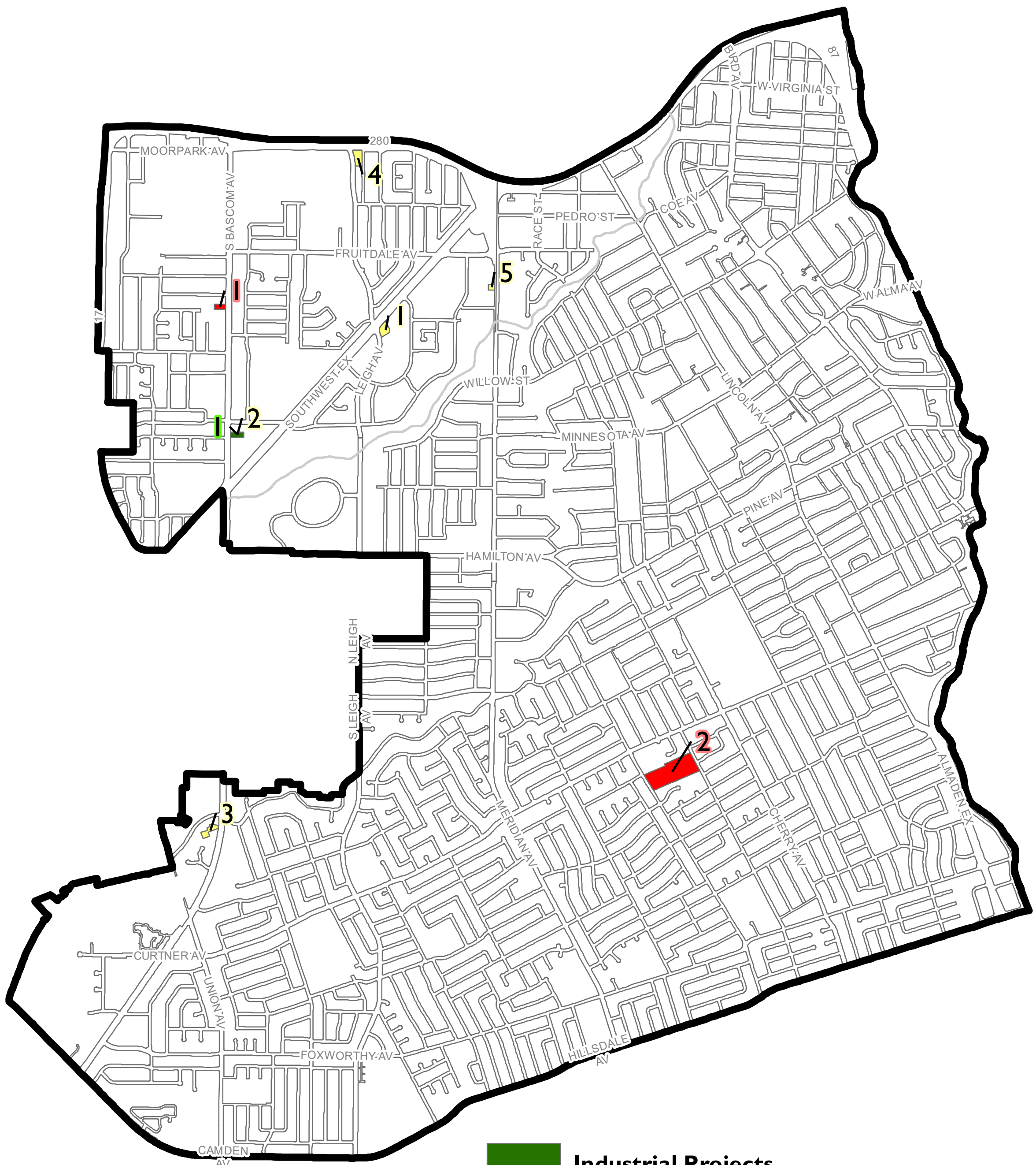
Total Commercial Square Feet = 1,253,178

**Residential Projects**

| | Status |
|---|---|
| 1. Volar (Residential) | Approved |
| 2. Santana Row Lot 17 | Approved |
| 3. Santana Row Lot 12 | Approved |
| 4. The Reserve | Under Construction |
| 5. Stevens Creek Lopina Signature Project | Approved |
| 6. Saratoga Ave Mixed Use | Approved |
| 7. Mitzi Place | Pending |
| 8. Winchester Ranch | Approved |
| 9. Santa Clara University Mixed Use Housing | Pending |
| 10. Hemlock Mixed Use | Pending |
| 11. S. Winchester Mixed Use | Pending |

Total Dwelling Units = 3,577

# Willow Glen Planning Area
# Major Development Activity




**Residential Projects** — Status

1. Leigh Ave Apartments — Under Construction
2. Bascom Gateway Station — Approved
3. Bascom Residential Care — Pending
4. Moorpark Supportive Housing — Pending
5. Roem Affordable Housing — Pending

Total Dwelling Units = 1,130

**Industrial Projects** — Status

1. South Bascom Gateway Station* — Approved

Total Industrial Square Feet = 213,500

**Commercial Projects** — Status

1. Holden Assisted Living on Bascom — Under Construction
2. Presentation High School Master Plan — Pending

Total Commercial Square Feet = 262,270

## 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.

### Review of Publications

Planning staff consulted several publications that made contributions to the preparation of this report, including: the Yardi Matrix *Multi-family San José Report* – Winter 2020, Colliers *Silicon Valley 2019* Q4, *2019 Market Forecast Reports*, and Cushman & Wakefield's *Marketbeat* reports.