



2015-2016
City Manager's Budget Request

&

2016-2020
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2015

**2015-2016
CITY MANAGER’S BUDGET REQUEST
&
2016-2020
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

	Page
TRANSMITTAL MEMORANDUM	I
I. Elements of the General Fund Forecast	I - 1
II. Base General Fund Forecast	II - 1
III. Committed Additions to the Base General Fund Forecast	III - 1
IV. Alternate Forecast Scenarios	IV - 1
V. Capital Revenue Forecast	V - 1
APPENDIX A: Service Restorations Previously Identified by City Council (January 1, 2011 Levels) Service Restoration Decision Making Framework Guiding Principles for Restoring City Service Levels City of San José Budget Principles	A - 1
APPENDIX B: General Fund Revenue Descriptions	B - 1
APPENDIX C: Development Activity Highlights	C - 1

Prepared by
Office of the City Manager
February 2015

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Norberto Dueñas

**SUBJECT: 2015-2016 CITY MANAGER'S
BUDGET REQUEST AND
2016-2020 FIVE-YEAR FORECAST**

DATE: February 27, 2015

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2015-2016 City Manager's Budget Request (2015-2016 Budget Balancing Strategy Guidelines) and the 2016-2020 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 relatively small General Fund surplus of \$8.6 million is projected for 2015-2016. This projection is derived by comparing the 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, a small General Fund shortfall and small surpluses are projected, ranging from -\$1.4 million to \$5.8 million annually. These margins are extremely narrow when put into context of the size of the projected General Fund budget, ranging from -0.1% to 0.5% of the projected annual budget (revenues and expenditures). Over the five-year period, a total surplus of \$18.5 million is anticipated, which equates to approximately \$3.7 million annually. This average surplus figure equates to only 0.2% of the projected General Fund annual budget.

**2016-2020 General Fund Forecast
Incremental General Fund Surplus/(Shortfall)**

2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
\$8.6 M	\$5.2 M	\$0.3 M	(\$1.4 M)	\$5.8 M

- This Forecast reflects the Administration's best estimates on the projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the Forecast period, including: 1) impacts associated with the implementation of the remaining elements of the Fiscal Reform Plan (e.g., cost savings and/or additional revenues); 2) costs associated with fully funding the annual required contributions for retiree healthcare; 3) costs associated with services that were funded on a one-time basis in 2014-2015; 4) costs associated with the restoration of key services (police, fire, libraries, community centers, and

street maintenance) to January 1, 2011 levels; 5) costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

- Consistent with the last three forecasts, the City's budget is expected to remain in a fairly stable position over the forecast period. Revenues and expenditures are in close alignment in each year, reflecting the difficult budget actions implemented in prior years to address the General Fund structural budget deficit. While the City's budget has stabilized, we continue to run a "service deficit" and there is little room to address the major gaps in services that impact our community, from public safety to parks, libraries, and community services. There are also significant unmet deferred infrastructure and maintenance needs that will have a long-term impact on the City.
- The chart on page 3 compares the 2015-2016 Forecast to the 2014-2015 Adopted Budget. The carry-over from the 2014-2015 Adopted Budget of \$1.8 million is the first element and represents the ongoing funding made available as part of the 2014-2015 Adopted Budget that was allocated to one-time needs, resulting in the carryover of ongoing resource capacity to the following year. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by \$37.5 million, driven primarily by increases in the Property Tax, Sales Tax, and Licenses and Permits (Medical Marijuana Regulatory Program) revenue estimates. When comparing expenditures (the third element), base costs are expected to increase by \$30.7 million from 2014-2015 ongoing budget levels, with the largest increase in employee compensation.

**2015-2016 General Fund Forecast
Reconciliation from 2014-2015 Adopted Budget**

2015-2016 General Fund Forecast Components (Ongoing)	\$ in Millions
Carry-Over from 2014-2015 Adopted Budget	\$ 1.80
Major Revenue Changes	
- Property Tax	19.24
- Sales Tax	9.17
- Licenses and Permits	2.65
- Transient Occupancy Tax	2.23
- 2015-2016 Beginning Fund Balance	1.87
- Reimbursement for Services (Gas Tax)	1.85
- Utility Taxes/Franchise Fees	1.09
- Overhead Reimbursements	(1.81)
- Other Revenue Net Changes	1.22
Total Revenue Changes (Increase)	\$ 37.51
Major Expenditure Changes	
- SJPOA Pay Increase/Employee Compensation Planning Reserve (includes associated retirement costs)	18.70
- Police Department Staffing Reserve (Tier 2 retirement savings)	3.53
- Non-Management Step/Management Pay-For-Performance (includes associated retirement costs)	2.91
- Transfers to Other Funds (Hayes Mansion, Muni Golf Course, City Hall Debt Service)	2.18
- Cultural Facilities Capital Maintenance Reserve (TOT Growth)	2.10
- Recycle Plus Environmental Services Late Fee Implementation Reserve	1.80
- Energy Services Company (ESCO) Debt Service Less Expenditure Savings	1.13
- Retirement Costs (Federated +\$3.6M, Police & Fire -\$3.0M)	0.88
- Committed Additions (e.g., Southeast Branch Library, Parks, Traffic Infrastructure)	0.53
- Healthcare/Dental Costs	(3.18)
- Other Expenditure Net Changes	0.13
Total Expenditure Changes (Increase)	\$ 30.71
2015-2016 Projected General Fund Surplus	\$ 8.60

- While retirement costs (pension and retiree healthcare) remain a major cost driver in this Forecast, growth of these costs have begun to level off. For 2015-2016, retirement costs are projected at \$243.9 million in the General Fund (\$318.8 million all funds), representing a total increase of \$9.3 million, or 4.0%, from the 2014-2015 Modified Budget level of \$234.6 million. This increase includes base budget net adjustments (\$0.9 million) and those increases associated with 1) a negotiated pay increase for employees represented by the San Jose Police Officers’ Association (SJPOA), 2) the establishment of an Employee Compensation Planning Reserve, 3) non-management step and management pay-for-performance increases, and 4) committed additions. During the forecast period, General Fund retirement contributions are projected to increase by approximately \$6 million, or 2.5%, from \$243.9 million in 2015-2016 (25.8% of the General Fund) to \$249.9 million in 2019-2020 (23.8% of the General Fund). During the same period, the City retirement contributions for all funds will increase by \$10 million, or 3.2%, from \$318.8 million in 2015-2016 to \$328.8 million in 2019-2020. The budgetary City retirement contribution rates to cover Tier 1 members in the Federated Retirement System and Police and Fire Department Retirement Plan are used to generate the majority of the required retirement payments. For Tier 1 members in the Federated

Retirement System, the budgetary City retirement contribution rate increases from 73.8% in 2015-2016 to 85.4% in 2019-2020; for Police Tier 1 members in the Police and Fire Department Retirement Plan, the budgetary City retirement contribution rate decreases from 81.2% in 2015-2016 to 80.2% in 2019-2020; and for Fire Tier 1 members in the Police and Fire Department Retirement Plan, the budgetary City retirement contribution rate decreases from 82.7% in 2015-2016 to 81.5% in 2019-2020.

- As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. Various cost elements can also vary from year to year. As seen in recent years, retirement costs have been fluctuating and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions as approved by the Federated and Police and Fire Department Retirement Boards. Consistent with past practice, as part of the preparation for the 2015-2016 Proposed and Adopted Budgets, the Administration will continue to update the City Council on both the revenue and expenditure estimates as new information becomes available.
- As is customary in the Forecast, two alternative forecasts have been developed to model the range of financial scenarios possible under varying economic conditions. "Optimistic" and "Pessimistic" Cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case". In 2015-2016, the Optimistic Case results in a projected surplus of \$15.8 million, while the Pessimistic Case results in a shortfall of \$608,000.
- In approaching the 2015-2016 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2015-2016 City Manager's Budget Request). The Service Restoration Decision Making Framework, the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City of San José Budget Principles combined with City Council priorities identified in prior policy sessions will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2015-2016 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval process.
- Looking forward, the Administration's goal is to build capacity to meet the City's basic service delivery needs, maintain competitiveness as an employer, and address the significant backlog of unmet/deferred infrastructure and maintenance needs.
- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total \$325.6 million over the five-year period and are down 8% from the \$354.2 million included in the 2015-2019 Adopted CIP. The projected collections for the Construction and Conveyance (C&C) Tax receipts over the five-year period are down 10% from the prior forecast as a result of the drop in the number of property transfers, reflecting the low level of inventory. Decreases to the Building and Structure Construction Tax (6% decrease) and the Construction Excise Tax (5% decrease) are included

in this Forecast to reflect the anticipated lower level of development activity as projects are completed over the next several years across residential, commercial and industrial sectors.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the recommended 2015-2016 City Manager's Budget Request and the 2016-2020 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 be used in developing the 2015-2016 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 2015-2016 is an integral part of the Administration's proposed approach to preparing the 2015-2016 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2015-2016, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2015-2016 City Manager's Budget Request; an overview of the 2016-2020 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; and a description of the next steps in the 2015-2016 budget process.

2015-2016 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 2015-2016 Proposed Budget. These proposed guidelines have been formulated in the context of projections for small General Fund surpluses and a deficit over the Forecast period. The over-arching goals of these guidelines are to continue operational and fiscal stability, to deliver services to our community in a cost-effective manner, and to provide for modest pay increases for our employees. This includes keeping General Fund revenues and expenditures in balance while maintaining, and in some limited cases, expanding service levels in high priority areas that have been impacted by the budget balancing actions required in recent years. These guidelines will be used with the Service Restoration Decision Making Framework, the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City Council-approved City of San José Budget Principles that have been previously presented to the City Council and are attached as an appendix 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 2015-2016, a General

Fund surplus of \$8.6 million is projected, representing only 0.5% of the General Fund annual budget (revenues and expenditures). In the out years of the Forecast, small General Fund surpluses and a shortfall range from -\$1.4 million to \$5.8 million annually. These surplus and shortfall amounts are very small when put into context of the size of the projected General Fund budget, ranging from -0.1% to 0.5% of the projected annual budget. With the small projected surplus, the Administration has the opportunity to bring forward a budget that makes some limited progress in addressing the significant service needs in our community. In order to create additional capacity to add resources in critical areas, the organization will continue to pursue additional revenues, more efficient and cost-effective ways to provide City services, potential restructuring opportunities, and reductions that do not impact direct service delivery.

Although overall service levels are clearly not at adequate levels for the San José community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support those additions, to the extent possible. Currently, there is a 2015-2016 Future Deficit Reserve that totals \$2.4 million. The Administration recommends that the one-time funding contained in the 2015-2016 Future Deficit Reserve, as well as any additional one-time funds that become available during the budget development process, be strategically invested to address one-time needs, such as addressing a portion of the City's unmet/deferred infrastructure and maintenance needs.

Because of the difficult decisions that have been made over the last few years and an improving economy, revenues and expenditures continue to be in close alignment in this Forecast, with annual variances of less than 0.5% of the budget (revenues and expenditures). Challenges remain, however, 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 include the following:

- Various cost reduction and revenue strategies identified in the City Council-approved Fiscal Reform Plan, which are not yet implemented. This Plan outlined cost reduction and revenue strategies to eliminate the General Fund structural deficit, restore selected services to January 1, 2011 levels, and open facilities that had been recently completed or were under construction.
- The costs associated with fully funding retiree healthcare. This Forecast reflects the limits included in negotiated Memoranda of Agreements (MOAs) with bargaining groups in the Police and Fire Department Retirement Plan. For Police and Fire members, the current percentage contribution limit of 11% is assumed in this forecast. For the Federated Retirement System, the extension of the phase-in to fully fund these costs is assumed. In 2009, the City and bargaining units contributing to the Federated Retirement System reached an agreement to begin a five-year phase-in to fully fund the annual required contribution for retiree healthcare benefits. The last year of the phase-in was originally scheduled for 2012-2013. Extensions of the phase-in for members in the Federated Retirement System were approved by the City Council and are currently set to expire in June 2015. Negotiations between the City and nine Federated Retirement System bargaining units are ongoing regarding potential changes to future retiree healthcare benefits. This Forecast assumes the continuation of the phase-in with previously approved cap increases (0.75% for Tier 1 and Tier 2A/1.5% for Tier 2B and Tier 2C) each year subject to negotiations with the Federated bargaining units, to allow time for ongoing negotiations until an outcome is known. Should

an outcome be determined that would require additional funds in 2015-2016 beyond the capped amount assumed in this Forecast, existing Retiree Healthcare Solutions reserves in most funds are available to offset potential costs.

- The costs to continue services funded on a one-time basis in 2014-2015 in the General Fund as well as those services funded on a two-year basis. The major items include funding for additional enhancements to the San José BEST and Safe Summer Initiative, Police Department Downtown Foot Patrol, Public Works Department Preventative Maintenance Program, Police Department Central ID Unit, Illegal Dumping Rapid Response Program, Anti-Human Trafficking Task Force, and Finance Purchasing Information Technology Manager, among others. There were also programs funded on a two-year basis totaling approximately \$5.1 million, including the Homeless Rapid Rehousing, the Homeless Response Team, an enhanced San José BEST and Safe Summer Initiative Program, and Community Action and Pride Grants. Many of these programs and services will likely need to be re-evaluated for continued funding in 2015-2016. This analysis will be conducted during the 2015-2016 budget process and funding recommendations for these programs and services will be included in the 2015-2016 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.
- The costs to restore service levels in critical service areas, including police, fire, libraries, and community centers to January 1, 2011 levels as previously directed by the City Council (see *Appendix A*). This cost is estimated at approximately \$37 million based on 2014-2015 costs.
- The costs associated with a Police Staffing Restoration Strategy (to increase budgeted sworn officers from 1,109 to 1,250 positions) that was approved with the adoption of the 2014-2015 budget. As part of this strategy, ongoing cost savings from new police officers who receive Tier 2 retirement benefits are to be dedicated to restoring sworn police staffing. Consistent with this strategy, the forecast sets aside estimated sworn police retirement savings ranging from \$3.5 million in 2015-2016 to \$8.5 million in 2019-2020 to fund a portion of this cost.
- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were last calculated in April 2014 at \$15 million annually in the General Fund (\$178 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling \$39 million in the General Fund (\$1.05 billion all funds). These figures will be updated and presented to the Transportation and Environment Committee in spring 2015.
- One-time revenues that may become available or one-time expenditure needs. This includes the 2015-2016 Future Deficit Reserve of \$2.4 million. 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 designed to be 100% cost recovery and have been programmed to have a neutral impact on the Forecast by adjusting the revenue and costs to be equal. In the Fire Fee Program, revenues are sufficient to cover the Base Budget costs. In the Planning, Building, and Public Works Development Fee Programs, however, budget gaps are currently projected for 2015-2016. Sufficient fee program reserves are available in each of these programs to address these variances and have been programmed into the Forecast.

2015-2016 Budget Balancing Strategy Guidelines

The 2015-2016 Budget Balancing Strategy Guidelines provide recommended direction on the general approaches to use in the development of the 2015-2016 Proposed Budget. These guidelines are essentially the same as those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2014-2015 with minor clarifications and the addition of language associated with the Police Staffing Restoration Strategy that was approved in the 2014-2015 Adopted Budget.

2015-2016 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management. Maintain adequate reserves to cover any budgetary shortfalls in the following year as a stopgap measure if necessary.
3. Focus on business process redesign in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
4. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
5. 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.
6. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
7. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. If additional resources become available, spending on increasing compensation and restoring services should both be considered.
10. Focus service restorations the baseline January 1, 2011 service levels previously identified by the City Council in the areas of fire, police, library, community centers, and street maintenance, as well as the Police Staffing Restoration Strategy.
11. In addition to considering service restorations previously identified by the City Council, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels as approved by the City Council on March 20, 2012, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
12. Incorporate compensation adjustments in a fiscally responsible manner that does not result in a reduction or elimination of services in the General Fund.
13. Engage employees in department budget proposal idea development.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.

Framework and Guiding Principles for Restoring City Service Levels

As the City Council is aware, it is important that the City take a holistic approach regarding the restoration of services as additional resources become available. As mentioned previously, one of the goals of the City Council is to restore services to January 1, 2011 levels (see *Appendix A* for Service Restorations Previously Identified by City Council (January 1, 2011 Levels)). Another City Council goal is to implement the Police Sworn Staffing Restoration Strategy.

The Service Restoration Decision Making Framework and the City Council-approved Guiding Principles for Restoring City Service Levels (both included in *Appendix A*) provide the broader context that should be considered when analyzing potential service restorations. The Service Restoration Decision Making Framework provides a multi-pronged approach to restoring direct services to the community that takes into consideration various factors, including adequate strategic support resources, adequate infrastructure, service delivery method to ensure efficient and effective operations, service delivery goals and current performance status, service sustainability, and staffing resources. The Guiding Principles for Restoring City Service Levels, which were approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2012-2013, provide a solid guide to help the City determine not only the appropriate service levels and most cost-effective method for service delivery, but also the critical areas for investment. The principles extend beyond the January 1, 2011 service restorations to include considerations such as infrastructure maintenance, technology improvements, and alternative service delivery models. These principles fall into three general categories: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve the efficiency and effectiveness of service delivery.

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

Incorporating Strategies into the 2015-2016 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2015-2016 City Manager's Budget Request combined with the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City of San José Budget Principles to approach the 2015-2016 budget development process. In December 2014, the Administration directed the City departments to develop 2015-2016 budget proposals using a draft version of the 2015-2016 Budget Balancing Strategy Guidelines. For the first time in over a decade, reduction targets were not issued to departments as the budget was expected to remain stable. Instead of service reductions, departments were asked to analyze their core responsibilities and functions to drive the creation of proposals that improve service delivery methods and outcomes without increasing costs. These may include organizational reconfigurations to close service delivery gaps or reallocation of existing resources to 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. As a standard practice, opportunities to reduce costs without impacting direct services, generate new revenues, and/or implement new service delivery models were also to be pursued. The Administration will continue to consider cost reductions and service delivery efficiencies that make sense, but does not anticipate any direct service reductions in 2015-2016 consistent with the approach over the past three years.

As part of the 2015-2016 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2015-2016 Budget Balancing Strategy Guidelines, with any desired revisions. These guidelines incorporate both short-term and long-term approaches to budget balancing efforts and service level restoration and reflect the City's sound fiscal principles. City Council priorities and goals identified in prior policy sessions will also guide the City's budget balancing efforts. Input from the community through community surveys, the Neighborhood Associations/Youth Commission 2015-2016 Priority Setting Session, and various City Councilmember and stakeholder outreach activities will also serve as an important tool in this process.

The Mayor is scheduled to issue a proposed March Budget Message on March 16, 2015, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide specific guidance for the preparation of the City Manager's 2015-2016 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 22, 2015 and May 1, 2015, respectively. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Proposed Budget Study Sessions and Public Hearings to discuss the budget proposals and the associated impacts on performance measures and service delivery. The Administration will also work with the City Council to provide informational meetings on the Proposed Budget in each City Council District in May 2015. 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 2015.

2016-2020 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2016-2020 Five-Year Forecast and Revenue Projections portion of this document is divided into five sections.

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

2. **Base General Fund Forecast** – The forecast model is presented in this section. It includes projections for each of the General Fund revenue and expenditure categories. The expenditure summary is divided into two sections:
 - *Base Case without Committed Additions* – This section describes projections associated with existing expenditures only.
 - *Base Case with Committed Additions* – This section describes the existing expenditures (Base Case) along with those expenditures to which the City is committed by previous City Council direction and has less discretion, such as maintenance and operating costs for capital projects scheduled to come on-line during the next five years.

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

3. **Committed Additions to the Base General Fund Forecast** – This section describes the committed additions per previous City Council direction considered in the Forecast, including the financial impact in each year of the Five-Year Forecast. This section also includes a discussion of Budget Principle #8, which pertains to capital projects with General Fund operating and maintenance costs in excess of \$100,000.
4. **Alternative Forecast Scenarios** – Because all forecasts are burdened with a large degree of uncertainty, two plausible alternative forecast scenarios are presented – an Optimistic Case and a Pessimistic Case that modify revenue assumptions. These cases are compared with the Base Case, with committed additions, to show the range of growth rates for revenues and the associated operating margins.
5. **Capital Revenue Forecast** – This section describes the estimates for construction and real estate related revenues that are major sources of funding for the City's Five-Year Capital Improvement Program.
6. **Appendices** – Three appendices are also included in this document. *Appendix A* includes the following: Service Restorations Previously Identified by City Council (January 1, 2011 Levels); the Service Restoration Decision Making Framework; the City Council-approved Guiding Principles for Restoring City Service Levels; and the overall City Council-approved City of San José Budget Principles. *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.

2016-2020 General Fund Forecast

The following table displays the projected General Fund revenues and expenditures over the next five years and the total cumulative surplus. In addition to the cumulative surplus, the incremental surplus or shortfall (assuming each preceding surplus or shortfall 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 surplus and/or shortfall 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.

**2016-2020 General Fund Five-Year Forecast
(\$ in Millions)**

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Projected Revenues	\$952.4	\$984.2	\$1,016.2	\$1,040.9	\$1,068.7
Projected Expenditures	\$943.8	\$970.4	\$1,002.1	\$1,028.2	\$1,050.2
Total Cumulative Surplus/(Shortfall)	\$8.6	\$13.8	\$14.1	\$12.7	\$18.5
Total Incremental Surplus/(Shortfall)	\$8.6	\$5.2	\$0.3	(\$1.4)	\$5.8

Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; costs associated with fully funding the annual required contributions for retiree healthcare; costs associated with services funded on a one-time basis in 2014-2015; costs associated with restoration of key services (police, fire, libraries, community centers, and street maintenance) to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

In the 2016-2020 Forecast, small incremental General Fund surpluses are anticipated for four of the five years. Similar to last year, overall revenue growth is close to the expenditure growth over the forecast period, with an annual variance of less than 0.5% of the budget (revenues and expenditures). However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast. The Forecast also does not reflect Fiscal Reform Plan cost reduction and revenue generation strategies that have not yet been implemented.

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

When reconciling next year’s Forecast to the 2014-2015 Adopted Budget, the projected surplus of \$8.6 million for 2015-2016 is the result of the following: a surplus carryover from the 2014-2015 Adopted Budget of \$1.8 million, improved revenues of \$37.5 million, offset by increased costs of \$30.7 million.

General Fund revenues are estimated to improve \$37.5 million when compared to the ongoing revenue performance assumed in the 2014-2015 Adopted Budget. Revenue performance in 2014-2015 continues to reflect moderate growth and is estimated to exceed current budgeted levels. In 2015-2016, revenue categories that are forecasted to grow year-over-year include: Property Tax based on the most recent information provided by the County of Santa Clara (\$19.2 million), Sales Tax to reflect improved current year growth rates (\$9.2 million); Licenses and Permits (\$2.7 million) primarily reflecting the addition of fee revenues associated with the implementation of the Medical Marijuana Regulatory Program approved by the City Council December 2014; Transient Occupancy Tax (\$2.2 million) based on current year activity levels which will be allocated to a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve per

previous City Council direction, and miscellaneous categories that have experienced a net increase based on actual collections experience (\$4.2 million).

On the expenditure side, several upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of \$30.7 million in 2015-2016. The most significant expenditure changes are the following: the establishment of an Employee Compensation Planning Reserve (\$11.7 million); a negotiated pay increase for employees represented by the SJPOA (\$7.0 million); an increase to the Police Department Staffing Reserve (\$3.5 million) funded by Police sworn Tier 2 savings per previous City Council direction; an increase to the Cultural Facilities Capital Maintenance Reserve (\$2.1 million) funded by increased Transient Occupancy Tax receipts per City Council direction; and non-management step and management pay-for-performance increases (\$2.9 million). These cost increases are partially offset by lower health and dental costs (\$3.2 million).

City Retirement Contributions

Given the major impact of retirement costs on the City's budget in recent years, detailed information is provided on the retirement projections incorporated into this Forecast. Overall, the City Retirement contribution costs are determined by the two Retirement Boards as guided by actuarial recommendations and take into account overall benefit levels, the funding status of each retirement plan, and economic and demographic assumptions. The retirement costs in this Forecast assume the pre-payment of the annual required City contribution for Tier 1 participants in the Federated Retirement System, and Tier 1 members of the Police and Fire Department Retirement Plan. For 2015-2016, net budgetary savings are estimated at approximately \$7.5 million in the General Fund (includes borrowing costs) (\$10.2 million in all funds); however, based on a recent conversation with the Office of Retirement Services staff, the Retirement Boards' joint investment committee recommended that staff engage in discussions on the prefunding practice in context of the current investment environment. Analysis by the Office of Retirement Services is underway and a meeting will occur within the next few weeks.

As detailed in the table on the following page, General Fund retirement contributions are projected to increase by \$9.3 million, or 4%, from 2014-2015 to 2015-2016 (by \$14.3 million, or 4.7%, in all funds). Over the Forecast period, the General Fund retirement contributions are estimated to increase by \$6.0 million, or 2.5% from \$243.9 million in 2015-2016 (25.8% of the General Fund) to \$249.9 million in 2019-2020 (23.8% of the General Fund). During the same period, the City retirement contribution for all funds will increase by \$10.0 million, or 3.2%, from \$318.8 million in 2015-2016 to \$328.8 million in 2019-2020.

**2016-2020 City Retirement Contribution Costs
And Budgetary City Retirement Contribution Rates
(\$ in Millions and with Pre-Payment Discount)**

Retirement Plan	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Fed. Ret. System Tier 1 – Pension	\$64.7	\$68.8	\$68.5	\$69.5	\$68.7	\$66.4
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	\$10.1	\$10.6	\$10.9	\$10.7	\$9.9	\$9.1
Fed. Retirement Plan Tier 1 – Total	\$74.8	\$79.4	\$79.4	\$80.2	\$78.6	\$75.5
Budgetary Contribution Rates	67.3%	73.8%	76.9%	81.4%	83.6%	85.4%
Fed. Ret. System Tier 2A – Pension	\$0.6	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
Fed. Ret. Syst. Tier 2A – Ret. Healthcare*	\$1.0	\$0.9	\$0.9	\$0.9	\$0.9	\$0.8
Fed. Retirement Plan Tier 2A – Total	\$1.6	\$1.4	\$1.4	\$1.4	\$1.4	\$1.3
Budgetary Contribution Rates	14.9%	15.9%	16.6%	16.9%	16.7%	16.4%
Fed. Ret. System Tier 2B – Pension	\$1.5	\$2.1	\$2.7	\$3.3	\$4.0	\$4.6
Fed. Ret. Syst. Tier 2B – Ret. Healthcare*	\$3.4	\$5.4	\$7.5	\$8.8	\$10.1	\$11.4
Fed. Retirement Plan Tier 2B – Total	\$4.9	\$7.5	\$10.2	\$12.1	\$14.1	\$16.0
Budgetary Contribution Rates	18.2%	19.9%	21.4%	20.9%	20.4%	19.9%
Fed. Ret. System Tier 2C – Pension	N/A	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Fed. Ret. Syst. Tier 2C – Ret. Healthcare*	N/A	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Fed. Retirement Plan Tier 2C – Total	N/A	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Budgetary Contribution Rates	N/A	20.1%	21.6%	21.1%	20.6%	20.1%
Police Ret. Plan Tier 1 – Pension	\$77.2	\$75.0	\$72.7	\$72.5	\$70.3	\$68.1
Police Ret. Plan Tier 1 – Ret. Healthcare**	\$11.8	\$11.3	\$11.2	\$11.0	\$10.8	\$10.4
Police Retirement Plan Tier 1 – Total	\$89.0	\$86.3	\$83.9	\$83.5	\$81.1	\$78.5
Budgetary Contribution Rates	80.3%	81.2%	79.7%	80.7%	80.2%	80.2%
Police Retirement Plan Tier 2 – Pension	\$1.3	\$2.1	\$2.8	\$3.5	\$4.3	\$5.2
Police Ret. Plan Tier 2 – Ret. Healthcare**	\$1.3	\$2.1	\$2.7	\$3.4	\$4.1	\$5.0
Police Retirement Plan Tier 2 – Total	\$2.6	\$4.2	\$5.5	\$6.9	\$8.4	\$10.2
Budgetary Contribution Rates	21.8%	22.3%	22.4%	22.4%	22.4%	22.3%
Fire Retirement Plan Tier 1 – Pension	\$54.2	\$56.2	\$56.0	\$57.3	\$57.1	\$56.9
Fire Ret. Plan Tier 1 – Retiree Healthcare**	\$6.8	\$8.0	\$8.4	\$8.5	\$8.5	\$8.6
Fire Retirement Plan Tier 1 – Total	\$61.0	\$64.2	\$64.4	\$65.8	\$65.6	\$65.5
Budgetary Contribution Rates	80.0%	82.7%	81.5%	82.4%	81.7%	81.5%
Fire Retirement Plan Tier 2 – Pension	N/A	\$0.0	\$0.2	\$0.4	\$0.7	\$1.0
Fire Ret. Plan Tier 2 – Retiree Healthcare**	N/A	\$0.0	\$0.2	\$0.4	\$0.6	\$1.0
Fire Retirement Plan Tier 2 – Total	N/A	\$0.1	\$0.4	\$0.8	\$1.3	\$2.0
Budgetary Contribution Rates	N/A	21.8%	22.2%	22.2%	22.2%	22.2%
Other Retirement Costs	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$0.8
Total General Fund	\$234.6	\$243.9	\$246.0	\$251.6	\$251.4	\$249.9
Total All Funds	\$304.5	\$318.8	\$323.3	\$331.2	\$331.3	\$328.8

* Federated Retirement System rates in 2015-2016 and 2016-2017 differ from Board approved rates due to ongoing negotiations with nine Federated bargaining units on retiree healthcare costs. Federated Tier 2C rates were approved by the Retirement Board in 2014-2015 with a 0.20% premium on retiree healthcare compared to Tier 2B rates to cover dental coverage included in Tier 2C but not included in Tier 2. This premium is assumed throughout the Forecast period. Cheiron's Letter did not break out Tier 2C due to the timing of the requested information and approval of a Tier 2C plan.

** Police and Fire Retiree Healthcare is capped at the negotiated rate per MOA.

Source: 2014-2015 Modified Budget; Cheiron Letters dated January 30, 2015 and February 2, 2015 with applied pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan Tier 1, and the Fire Retirement Plan Tier 1.

General Fund Committed Additions

Cost estimates for a number of specific “Committed Additions” that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2015-2019 Adopted Capital Improvement Program or for projects approved by the City Council during 2014-2015. The costs of the additions total \$526,000 in 2015-2016 and increase to approximately \$1.9 million by the end of the Forecast period.

**2016-2020 General Fund Committed Additions
Maintenance and Operations Costs**

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
New Municipal Improvements	\$48,000	\$61,000	\$63,000	\$64,000	\$66,000
New Parks and Recreation Facilities	186,000	380,000	580,000	682,000	787,000
New Traffic Infrastructure Assets	51,000	148,000	164,000	178,000	185,000
Measure O (Library)	228,000	701,000	722,000	743,000	763,000
Measure P (Parks)	0	0	87,000	88,000	84,000
Measure O (Public Safety) - Fire	13,000	26,000	27,000	28,000	28,000
Total	\$526,000	\$1,316,000	\$1,643,000	\$1,783,000	\$1,913,000

Some of the larger facilities expected to come on-line during this forecast period include: the Southeast Branch Library, the Lake Cunningham Bike Park, Fire Station 21, and the Softball Complex. The future operating and maintenance costs of approximately \$3.3 million for Fire Station 37 are not included in this forecast due to the lack of sufficient funding for project construction. Due primarily to the unexpectedly high cost of construction during much of the Measure O (Public Safety) program, the decision to rebuild instead of remodel Fire Station 2 (which resulted in a net cost increase of approximately \$4.1 million), and the higher bid prices received for the construction of Fire Station 21, the Administration anticipates that only \$2.8 million in public safety bond funding will remain after the completion of Fire Station 21. This amount leaves the Fire Station 37 project over \$4.8 million short of the funds needed to complete the project. Given the funding shortfall, the Mayor’s June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, included Manager’s Budget Addendum #17 which, in part, directed staff to continue its analysis of response time performance through a comprehensive Fire Department organizational review. Pending completion of this analysis, the Fire Station 37 project has been deferred indefinitely. A detailed listing of all capital project operating and maintenance costs included in this 2016-2020 General Fund Forecast can be found in Section III - 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. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast that have not been approved by the City Council may be recommended for certification as part of the 2016-2020 Proposed Capital Improvement Program. If certified by the City Council, the operating and maintenance costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

Alternative Forecast Scenarios

In order to model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2015-2016 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios. In addition, as directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve, therefore no change in Transient Occupancy Tax growth is modeled as part of these cases as there is no impact to the operating margin.

The Base Case Forecast is built on the assumption of continued moderate recovery from the deep global recession on a national level. At the local level, the technology industry continues to drive strong growth with many revenues exceeding pre-recession levels. Local employment levels are expected to continue to experience moderate growth and the unemployment rate is expected to continue to remain around historical normal levels. Home values continue to show steady growth and are anticipated to continue to improve over the five years. In the Base Case Forecast, General Fund revenue collections are anticipated to experience moderate growth over the forecast period.

The Optimistic Case assumes both a faster and more robust recovery than the Base Case anticipated. When compared to the Base Case scenario, the real estate market improves significantly with increases not only in the price of housing, but also the volume of home sales, outpacing the growth rates assumed in the Base Case. This housing market recovery with both an increase in new home construction and increased prices is driving growth in inflation higher than in the Base Case. Due to the currently high employment growth, the optimistic case presumes only slightly higher employment levels than the Base Case. This strong recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax and

Sales Tax. In the Optimistic Case, the City would experience surpluses in all years of the Forecast ranging from \$6.5 million to \$15.8 million.

The Pessimistic Case assumes that a combination of adverse factors impede the moderate recovery underlying the Base Case and keep inflation low, causing a more sluggish recovery. Under this scenario, neither a crash at the international level nor the national level are anticipated. However, it does model lower than expected growth of the key factors and determinants of the City's revenue; local employment, local housing prices and number of sales, and local inflation are all lower than those of the Base Case. For example, a key assumption for this lower forecast is lower home prices, which are modeled to fall from their current double digit growth rates to 6% growth to 2% growth in this pessimistic case. In this scenario, the City's revenues, particularly Property Tax and Sales Tax, would be significantly impacted by an economic slowdown. In the Pessimistic Case, the City would experience one surplus and four shortfalls over the Forecast ranging from -\$8.0 million to \$0.8 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 2015-2016 Capital Budget and the 2016-2020 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 [2016-2020]). 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 2015-2019 Adopted CIP. As shown below, revenues are anticipated to decrease as activity is tapering off as projects are completed. Based on the lower level of inventory in the real estate market, construction activity estimates, and a review of revenue collection patterns, a decrease in these taxes and fees of \$28.6 million, or 8%, is expected when comparing the 2016-2020 Forecast to the 2015-2019 Adopted CIP estimates.

Capital Revenue Forecast Comparison Summary
(\$ in Thousands)

	2015-2019 CIP	2016-2020 Forecast	Difference	% Change
Construction and Conveyance Tax	\$195,000	\$175,000	(\$20,000)	(10%)
Building and Structure Construction Tax	66,000	62,000	(4,000)	(6%)
Construction Excise Tax	87,000	83,000	(4,000)	(5%)
Municipal Water System Fees	750	500	(250)	(33%)
Residential Construction Tax	950	950	0	0%
Sanitary Sewer Connection Fee	3,750	3,400	(350)	(9%)
Storm Drainage Connection Fee	750	750	0	0%
TOTAL	\$354,200	\$325,600	(\$28,600)	(8%)

Real estate activity (primarily housing sales) determines the collection level of one of the major capital revenue sources, 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 rose to \$35.5 million in 2013-2014, but are expected to remain at \$35.0 million in 2014-2015 and each year of the Forecast. Due to the lower level of inventory, the number of property transfers (sales) for all types of residences dropped from the prior year, which is holding down growth in this category. As a result, this category is projected to generate \$175 million in this Forecast, which represents a 10% decrease from the estimates assumed in the 2015-2019 Adopted CIP.

The remaining economically sensitive capital revenue categories are directly linked to private development activity. Based on projections provided by the Planning, Building and Code Enforcement (PBCE) Department, construction activity valuation is anticipated to continue at high levels but lower than the peak levels experienced in 2013-2014. In 2014-2015, construction valuation is estimated at \$1.3 billion for 2014-2015, a 26% decrease compared to \$1.7 billion in 2013-2014. This level of activity is expected to drop slightly to \$1.1 billion in 2015-2016, then down to \$910 million in 2016-2017 as projects are anticipated to be completed. PBCE expects a slight increase to \$965 million per year in 2017-2018 and 2018-2019 to reflect a slight surge of accelerated development activity prior to the implementation of the Housing Impact Fee, and then fall to \$790 million in 2019-2020 to reflect the anticipated lower level of development activity. For the largest categories, revenue decreases are projected, including a 6% (\$4 million) decrease to the Building and Structure Construction Tax and a 5% (\$4 million) decrease to the Construction Excise Tax, due to a decrease of development activity over the next several years across residential, commercial, and industrial sectors.

Next Steps in the 2015-2016 Budget Process

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

March 2015

- 2015-2016 Neighborhood Associations/Youth Commission Priority Setting Session
- 2015-2016 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2015

- 2015-2016 Proposed Capital Budget and 2016-2020 Capital Improvement Program Released

May 2015

- 2015-2016 Proposed Operating Budget and 2015-2016 Proposed Fees and Charges Released
- 2015-2016 Community Budget Meetings in Each City Council District
- City Council Study Sessions and Initial Public Hearing on 2015-2016 Proposed Operating Budget, 2016-2020 Proposed Capital Budget and Capital Improvement Program, and 2015-2016 Proposed Fees and Charges

June 2015

- 2015-2016 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2015-2016 Operating Budget, 2015-2016 Capital Budget and 2016-2020 Capital Improvement Program, and 2015-2016 Fees and Charges adopted by City Council

CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. In 2015-2016, a small General Fund surplus of \$8.6 million is projected, which the Administration seeks to allocate in a way that addresses the City's most urgent needs. In the remaining years of the Forecast, a small General Fund shortfall and surpluses ranging from -\$1.4 million to \$5.8 million annually are projected. These margins are very narrow when put into context of the size of the projected General Fund budget, ranging from -0.1% to 0.5% of the projected annual budget (revenues and expenditures).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document, and it is important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the Forecast period, including: 1) impacts associated with the implementation of the remaining elements of the Fiscal Reform Plan (cost savings and additional revenues); 2) costs associated with fully funding the annual required contributions for retiree healthcare; 3) costs associated with services that were funded on a one-time basis in 2014-2015; 4) costs associated with the restoration of key services to January 1, 2011 levels; 5) costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); 6) costs associated with

unmet/deferred infrastructure and maintenance needs; and 7) one-time revenue sources or expenditure needs. In addition, no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

The revenue and expenditure projections for 2015-2016 will continue to be refined over the next several months as additional information becomes available. This is particularly important in the areas of Sales Tax and Property Tax. Sales Tax data for the second quarter of 2014-2015, which covers the 2014 holiday period, will be received in March 2015. Based on this additional data, any necessary adjustments will be incorporated into the 2015-2016 Proposed Operating Budget. Similarly, as additional Property Tax data becomes available, it may be necessary to adjust the 2015-2016 revenue estimates.

This document also provides the recommended 2015-2016 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. With a projected surplus of less than 0.5% of the budget, the Administration does not anticipate major service enhancements this year. However, efforts will be taken to address the most urgent community needs and organizational risks, and identify modifications to improve service delivery methods and outcomes without significantly increasing costs.

Over the past several years, the City's budget has stabilized as a result of very difficult budget actions and continued improvement in the economy. 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 and providing for modest pay increases for our employees. This diligence has served the City well as it moves on from its most difficult financial crisis in recent history. While a very small budgetary surplus is available in 2015-2016, the City continues to experience a "service deficit". Continued focus and commitment to strategies that will enable the City to rebuild its core services and maintain organizational competitiveness remains a priority for 2015-2016 and beyond.



Norberto Dueñas
Interim City Manager

*Five-Year Economic Forecast
and
Revenue Projections*

2016-2020

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three alternative Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2015-2016 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast, however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment.

- ❑ **Base Case** – The Base Case Forecast is built on the assumption of continued moderate recovery from the deep global recession on a national level. At the local level, the technology industry continues to drive strong growth with many revenues exceeding pre-recession levels. Local employment levels are expected to continue to experience moderate growth and the unemployment rate is expected to continue to remain around historically normal levels. Home values continue to show steady growth and are anticipated to continue to improve over the five years. In the Base Case Forecast, General Fund revenue collections are anticipated to experience moderate growth over the forecast period.
- ❑ **Optimistic Case** – The Optimistic Case assumes both a faster and more robust recovery than the Base Case anticipated. When compared to the Base Case scenario, the real estate market improves significantly with increases not only in the price of housing, but also the volume of home sales, outpacing the growth rates assumed in the Base Case. This housing market recovery, with both an increase in new home construction and increased prices, is driving growth in inflation higher than in the Base Case. Due to the currently high employment growth, the optimistic case presumes only slightly higher employment levels than the base case. This strong recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax and Sales Tax.
- ❑ **Pessimistic Case** – The Pessimistic Case assumes that a combination of adverse factors impede the moderate recovery underlying the Base Case and keep inflation low, causing a more sluggish recovery. Under this scenario, neither a crash at the international level nor the national level are anticipated. However, it does model lower than expected growth of the key factors and determinants of the City’s revenue; local employment, local housing prices and number of sales, and local inflation are all lower than those of the Base Case. For example, a key assumption for this lower forecast is lower home prices, which are modeled to fall from their current double digit growth rates to 6% growth to 2% growth in this pessimistic case. In this scenario, the City’s revenues, particularly Property Tax and Sales Tax, would be significantly impacted by an economic slowdown.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

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 2015-2016 Proposed Operating Budget, scheduled to be published on May 1, 2015.

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.

Current National Economic Conditions

The U.S. economy is currently growing at a relatively subdued pace. Real U.S. Gross Domestic Product (GDP) increased 2.4% in 2014, compared with an increase of 2.2% in 2013. The year-over-year growth is primarily the result of increased consumer spending, increased business investment, increased exports, increase government spending, and increased residential fixed investment. These gains were partially offset by an increase in imports.¹ National employment saw slightly lower gains than GDP, and continues to reflect a slow recovery from the “Great Recession” of 2009. The U.S. unemployment rate stood at 5.7% in January 2015, down from 6.6% in January 2014, according to the U.S. Department of Labor's Bureau of Labor Statistics February 6, 2015 report. Although the lower rate for 2015 represents improvement, it does not take into account those workers too discouraged to search for work. Overall, the rate remains above the pre-recession levels of 4%-5%.

Perhaps the brightest sector of the U.S. economy has been the consistently high pace of new car sales. Car sales are back to the levels they were at before the recession - about 17 million cars per year. Ample availability of credit and continued improvements in models are pulling buyers into showrooms at a very strong pace. The high level of car sales shows no sign of ebbing any time soon. 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.

Despite the strong growth in automotive sales, there are some weaker sectors that need improvement before the economy returns to its pre-recession levels, including wage growth, energy, and housing. The weakening of the energy sector due to the sudden and sharp decline in oil prices represents an important development since the 2015-2019 Five Year Forecast. The

¹ U.S. Department of Commerce Bureau of Economic Analysis, GDP Increases in Fourth Quarter, January 30, 2015

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

United States has recently become the world's largest single producer of oil and the decline in the price of oil from \$90 a barrel for most of 2014 to around \$50 a barrel (at the time of this forecast) will have serious repercussions throughout the U.S. domestic oil belt as well as our neighbors, Mexico and Canada. Forecasts vary on how this drastic change will impact the economy. There is both good and bad news about this change in price; the price decline will free up consumer disposable income to spend on items other than oil, however, the decline also represents an actual decline in income for domestic oil producers and, in some cases, a loss of investment. This decline in oil prices also exerts downward pressure on inflation rates, and could result in actual price declines for the next few quarters before the economy absorbs the impact and returns to a slightly inflationary path.

On a national level, the real estate market continues to improve, however, existing home sales are being hampered by a lack of available inventory. From December 2014 to January 2015, total housing inventory increased by 0.5% to 1.87 million existing homes for sale, though this level is slightly below prior year levels of 1.88 million. According to Lawrence Yun, NAR Chief Economist, "... [the] overall low housing supply and the ongoing rise in home prices above the pace of inflation appeared to slow sales despite interest rates remaining near historic lows."² Nonetheless, from January 2014 to January 2015, the median existing home price is up 6.2% and the number of existing home sales is up 3.2%. Additionally, privately owned housing starts in January of 1.06 million (seasonally adjusted) were 2.0% below the revised December estimate of 1.09 million, but still 18.7% above the January 2014 rate of 897,000.³ In a normal year, housing starts have historically averaged around 1.5 million. Approximately 31.8% of the housing starts are multi-family residences, which will still exert upward pressure on the economy, but somewhat less than the equivalent amount of single-family homes. Mortgage rates are also anticipated to rise slightly when the Federal Reserve Board lessens its monetary stimulus activities.

National Economic Outlook

Moderate economic growth appears likely for the next several years, driven by growth across most sectors of the economy, combined with increased business spending and an end to the decline in federal, State and local government spending, according to the December 2014 UCLA Anderson Business School Forecast. Typically, the UCLA Anderson Forecast is a significant input to the assumptions in this forecast. Although a critical component of this forecast, the projections in this forecast rely on extrapolation of the trends in the Anderson Forecast, as the December 2014 forecast did not take into account the full effects of the current decline in oil prices.

A modest rate of inflation is a key driver for business and consumer demand, and for future property and sales taxes. The Federal Reserve Board continues to target a core annual inflation rate of 2% and continues to signal that it will begin to gradually raise interested rates in 2015, returning monetary policy to a more neutral position. The Consumer Price Index (CPI) declined

² National Association of Realtors, News Release, February 23, 2015

³ U.S. Census Bureau and U.S. Department of Housing and Urban Development, News Release, February 18, 2015

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

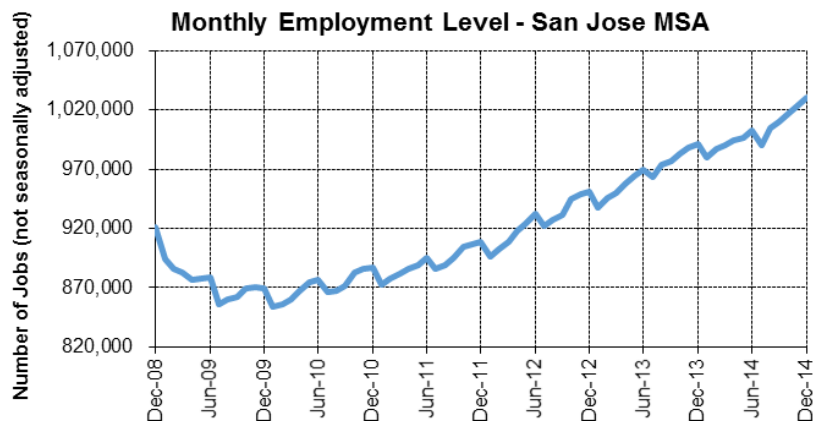
0.4% in December 2014 (seasonally adjusted) and increased 0.8% over the last 12 months (before seasonal adjustment).⁴ In January 2015, it actually declined 0.7% (seasonally adjusted), which resulted in a 12 month rate of -0.1% (before seasonal adjustment), the first negative 12 month rate since October 2009, which can be attributed to a significant decline in the gasoline index. The gasoline index declined 18.7% in January, bringing the energy index down 9.7%. Had the gasoline index remained unchanged, the all items index would have risen 0.1% in January. This low rate of CPI growth is further notable given the efforts of the Federal Reserve to inject money into the economy.

The declining oil prices currently being experienced in the U.S. is dampening overall economic growth and will continue to put significant downward pressure on all prices. As a result of this downward pressure, it is anticipated that overall inflation of 2% will not be achieved until midway through the forecast period. Offsetting the impacts of the current energy sector include the continued booming technology industry as well as increased spending in State and local governments, which have only begun to rehire employees previously let go during the recession. At a global level, the slowing of the Chinese economy and the continued turmoil in Europe should not be ignored; however, this forecast anticipates that these weak economies will not crash.

Current City of San José Economic Conditions

Economic performance in Silicon Valley continues to be a bright spot with growth at a robust pace. Most local economic indicators, including employment, local construction, and real estate activity measures, show sustained economic growth.

The San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) continues to report positive trends in employment. Total employment grew by 39,300, or 4.0%, from the previous peak of 991,900 in December 2013 to a preliminary estimate of 1.03 million in December 2014. Job gains in industries dominated by high-tech, including computer systems design and computer and electronic products manufacturing, accounted for 43.3% of the total job gain (17,000 jobs). The largest single category of growth was Professional and Business Services (11,600 jobs), up 6.0% from last December.⁵



⁴ U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index News Release, February 26, 2015

⁵ State of California Employment Development Department Labor Market Information Division Press Release, January 23, 2015

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

As noted in the Beacon Employment Report, along with a substantial year-over-year decline in the statewide unemployment rate, workers are becoming more optimistic about their employment prospects by choosing to re-enter the job market. From December 2013 to December 2014, 260,500 residents entered the labor force, the largest December-to-December increase since 1999 to 2000.⁶

In December 2014, the unemployment rate in the San José MSA fell to 4.6%, down from the December 2013 rate of 5.8%. This compares favorably to the revised rate from November 2014 of 5.2%, to the unadjusted employment rate for California of 6.7%, and to the overall rate for the nation of 5.4%. For the City of San José, the December 2014 preliminary unemployment rate was calculated at 5.0%.⁷

Unemployment Rate (Unadjusted)

	Dec. 2013	Nov. 2014	Dec. 2014 ²
San José Metropolitan Statistical Area ¹	5.8%	5.2%	4.6%
State of California	7.9%	7.1%	6.7%
United States	6.5%	5.5%	5.4%

¹ San Benito and Santa Clara Counties

² Preliminary Estimate

Source: California Employment Development Department

Private Sector Construction Activity (Valuation in \$ Millions)

	July-Dec. 2013	July-Dec. 2014	% Increase/ (Decrease)
Residential	\$ 451.2	\$ 363.3	(19%)
Commercial	\$ 239.5	\$ 130.7	(45%)
Industrial	\$ 379.2	\$ 138.2	(64%)

As expected, development activity has declined compared to the surge experienced in 2013-2014. Through December, construction activity is generally in line with the projections used to develop the 2014-2015 budget and all sectors are on pace to outperform 2011-2012 and 2012-2013.

While this activity level is anticipated to continue to taper off in the next several years, the increased supply of residential, commercial, and industrial buildings is anticipated to provide future economic gains to San José.

Performance in the housing market continues to be strong, though the persistent lack of inventory has restrained growth. The median single-family home price was \$750,000 in December 2014, which is an increase of 9.5% from the median home price of \$685,000 in December 2013. The average days-on-market for single-family and multi-family dwellings was 20, a significant drop from the prior year average days-on-market of 37. The number of listings of new single-family and multi-family dwellings on the market has dropped approximately 15.5%, from 355 listings in December 2013 to 300 in December 2014. The number of property transfers (sales) for all types of residences fell below last year's levels, from 654 in December 2013 to 615 in December 2014.

⁶ Beacon Economics, Employment Report, January 2015

⁷ Monthly city and CDP labor force data are derived by multiplying current estimates of county employment and unemployment by the employment and the unemployment shares (ratios) of each city and CDP at the time of the 2000 Census. This method assumes no change in the ratio of employment and unemployment, since 2000 (i.e., that the shares are still accurate). This assumption is untested, therefore, caution should be employed when using this data.

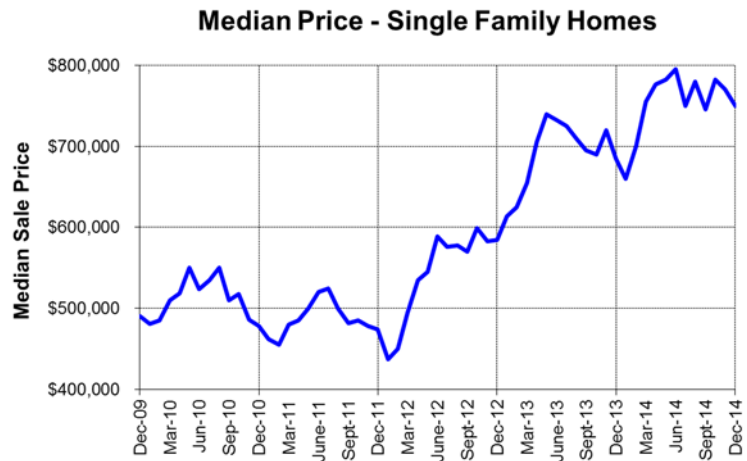
ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Cumulatively, property transfers from July through December totaled 4,002, which was down 4.5% from the 4,190 transfers during the first six months of 2013-2014.

Economic conditions will continue to be closely monitored and factored into the development of the 2015-2016 Proposed Budget, scheduled to be released May 1, 2015.



City of San José Economic Outlook

Although the economic indicators driving this forecast are slightly lower than the previous year's forecast, the outlook for Silicon Valley overall, and San José in particular, is positive in the near term and in the out years of this Forecast. Due to the concentration of technology firms in the Silicon Valley, this region is heavily influenced by the technology sector. The strength in the technology sector as well as continued improvement in the housing sector are expected to grow the local economy through 2015.

In the near term, the strength in the technology industry will keep employment levels increasing. In the longer term, rebounds in State and local government hiring, as well as the gains in construction, are expected to bolster the employment rate in the long term. However, signs such as the high stock valuations of many technology companies indicate that the current technology product cycle may be over its peak. As this technology cycle recedes, which has been defined by the emergence of mobile-social networking, employment will continue to grow, but at a more sustainable long-term level. However, caution surrounding this booming technology environment in relation to the current weakened economic environment in China should be monitored. China is a large consumer of technology products both at a consumer level as well as investments directly in the Silicon Valley. Should the economy in China deteriorate, a loss or slowed investment in Santa Clara County may be realized.

Continued strength in private development construction is also expected over the Forecast period, though the growth rates are anticipated to be lower than the peak that was reached in 2013-2014 and are tapering off somewhat. With a continued greater supply of land than in some other areas in the County of Santa Clara, it is likely that both companies and workers will find San José an attractive place to build offices and homes. This will translate to growth in residents and jobs, and bring revenues to the City. However, on the negative side, the limited supply of housing may eventually push prices too high and begin to act as a disincentive for new talent to move into the area, thus dampening growth.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Taken together, San José can expect a continued recovery from the steep declines experienced during the economic recession and continues to be positioned well to experience moderate growth throughout the forecast period among economically sensitive revenues such as Sales Tax, Property Tax, and Transient Occupancy Tax receipts.

Optimistic Case

In the Optimistic Case, the economy is assumed to grow at a much more rapid pace than assumed in the Base Case. This growth is primarily due to greater employment growth and greater inflation in both the national economy and at the local level.

The higher economic growth rates envisioned by this scenario may come to pass. The economy is at a point in its business cycle where many of the lagging sectors could exhibit much stronger growth than expected, particularly in housing. The Optimistic Case is based partly on the assumption that the real estate sector, nationally and locally, improves faster due to a rapid increase in the number of new home starts over the next several years. With mortgage rates still low, employment increases and a well-performing stock market could spur a greater number of home purchases. As a partial result of more rapid new home construction, the country's overall employment and wage levels would improve.

Under the Optimistic Case, the economically sensitive revenues are expected to experience much stronger performance as general increases in employment and consumer attitudes promote increased spending, which generate Sales Tax for the City. Improvement in the real estate market will result in higher Property Tax revenues. Conversely, Gas Taxes are slightly lower as a result of a faster return to normal oil prices and continued increases in mandated fuel economy, which is anticipated to cause the number of taxable gallons consumed to fall. By the end of the Forecast period, revenues are \$37.6 million above the Base Case.

It should be noted that, as directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve, therefore no change in Transient Occupancy Tax growth is modeled as part of this case as there is no impact to the operating margin.

Pessimistic Case

The Pessimistic Case assumes lower than expected growth of the key national and local economic determinants of the City's revenues. Thus, local employment, local housing, and local inflation are all lower than those of the Base Case. Like the Optimistic Case, the prospects for a lower scenario could still occur.

The world economy, already slow to recover, could still encounter setbacks from a variety of sources, including a slowing Chinese economy or problems between Greece and the rest of the

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Pessimistic Case

European Union. However, this pessimistic case does not envision any sort of market crash at either the national or international level. In this scenario, national GDP never rises above 3% and local employment growth and the inflation rate both remain below 2% through the five-year period.

A critical driver for this lower forecast is lower home prices. The Base Case forecasted continued strong increases in local home prices. This lower scenario presumes that prices for local homes fall from their current double-digit growth rates in the first year to a 6% growth rate, to an even lower 2% growth rate in the out years. The result of the lessened U.S. economic activity and lower local home prices in this scenario is that San José's revenues would be much lower, especially in the categories of Property Tax and Sales Tax. By the end of the Forecast period, total revenues are \$32.1 million below the Base Case.

As noted in the Optimistic Case, as directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve, therefore no change in Transient Occupancy Tax growth is modeled as part of this case as there is no impact to the operating margin.

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 2015-2016 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2014-2015 and build upon those projections to develop the 2015-2016 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 2015-2016 Proposed Operating Budget scheduled to be released on May 1, 2015.

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 \$890.1 million in 2015-2016 to \$1.0 billion in 2019-2020, for an average growth rate of 3.1% per year.

February 2016-2020 Forecast Revenue Summary

General Fund Revenue Category	Modified Budget	Forecast				
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
General Revenues						
Property Tax	\$ 233,973,240	\$ 253,210,000	\$ 268,453,000	\$ 283,621,000	\$ 298,653,000	\$ 313,346,000
Sales Tax	180,024,000	189,195,000	195,174,000	201,439,000	208,167,000	215,348,000
Transient Occupancy Tax	13,000,000	13,975,000	14,814,000	15,554,000	16,021,000	16,501,000
Franchise Fees	45,346,879	47,205,000	48,418,000	49,488,000	50,463,000	51,341,000
Utility Tax	94,825,000	93,986,000	96,326,000	98,330,000	100,228,000	102,192,000
Telephone Line Tax	20,700,000	20,800,000	20,871,000	20,933,000	21,000,000	21,065,000
Business Tax	43,700,000	44,000,000	44,229,000	44,423,000	44,606,000	44,775,000
Licenses and Permits	46,395,293	49,029,000	50,892,000	52,775,000	54,358,000	55,771,000
Departmental Charges	39,743,435	39,082,000	42,226,000	43,788,000	45,102,000	46,275,000
Fines, Forfeitures & Penalties	14,205,334	14,436,000	14,574,000	14,780,000	14,985,000	15,092,000
Money and Property	2,914,023	3,317,000	3,368,000	3,445,000	3,527,000	3,607,000
Revenue From Local Agencies	27,307,083	22,857,000	22,634,000	22,934,000	23,271,000	23,597,000
Revenue from the State	12,538,099	10,576,000	10,335,000	10,335,000	10,335,000	10,335,000
Federal Revenue	11,466,924	952,000	962,000	990,000	1,019,000	1,048,000
Other Revenue	165,200,681	13,864,000	13,638,000	13,883,000	7,881,000	7,938,000
Gas Tax	15,000,000	16,900,000	16,486,000	16,051,000	15,483,000	14,936,000
Total General Revenues	\$ 966,339,991	\$ 833,384,000	\$ 863,400,000	\$ 892,769,000	\$ 915,099,000	\$ 943,167,000
Transfers & Reimbursements						
Overhead Reimbursements	\$ 38,058,612	\$ 37,067,000	\$ 38,475,000	\$ 39,899,000	\$ 41,096,000	\$ 42,164,000
Transfers	19,558,121	18,931,000	19,138,000	19,449,000	19,680,000	19,926,000
Reimbursements for Services	775,406	723,000	751,000	779,000	802,000	823,000
Total Transfers & Reimbursements	\$ 58,392,139	\$ 56,721,000	\$ 58,364,000	\$ 60,127,000	\$ 61,578,000	\$ 62,913,000
Total General Fund Revenues	\$ 1,024,732,130	\$ 890,105,000	\$ 921,764,000	\$ 952,896,000	\$ 976,677,000	\$ 1,006,080,000
Beginning Fund Balance	\$ 270,638,395	\$ 62,251,000	\$ 62,363,000	\$ 63,257,000	\$ 64,223,000	\$ 62,633,000
Grand Total Sources	\$ 1,295,370,525	\$ 952,356,000	\$ 984,127,000	\$ 1,016,153,000	\$ 1,040,900,000	\$ 1,068,713,000
Growth %			3.34%	3.25%	2.44%	2.67%

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 2015-2016 General Fund Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

Property Tax receipts of \$243.9 million are projected for 2014-2015, which represents 9.1% growth from the prior year and is above the modified budget estimate of \$234.0 million. Growth in 2014-2015 is reflected primarily in the Secured (9.8%) and Airplane (13.3%) categories. As discussed below, a portion of the Secured Property Tax growth is attributed to an estimated one-time payment to the City of \$4.4 million as result of excess Educational Revenue Augmentation Fund (ERAF) funds. Excluding this one-time payment, the property tax category is projected to increase 7.1% over 2013-2014 receipts. This compares to the overall growth experienced in 2013-2014 of 9.1% and continues to be much stronger than the modest year-over-year growth seen in 2011-2012 and 2012-2013, where actual Property Tax receipts were up 2.3% and 1.6%, respectively.

Overall, in 2015-2016, collections are expected to continue to experience solid growth with an increase of 3.8% to \$253.2 million in the category from estimated 2014-2015 levels, including a 1.998% California Consumer Price Index (CCPI) increase that will be assessed in the Secured Property Tax category. Excluding the one-time payment from the 2014-2015 estimated receipts, the adjusted growth in 2015-2016 is projected at 5.7%. 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 2014-2015, Secured Property Tax receipts are expected to total \$223.0 million, reflecting an increase of 9.8% from the 2013-2014 collection level. The projected increase can be attributed to an increase of 7.4% in the assessed value for 2014-2015, which reflects both the net increase in residential and commercial valuation resulting from the full or partial restoration of property values that were temporarily reassessed downwards under Proposition 8 due to the declining market value and the change in the California Consumer Price Index (CCPI) of 0.45%. In addition to the assessed value growth, a one-time payment of \$4.4 million is anticipated in 2014-2015 as a result of excess ERAF funds. 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 2013-2014, the City received over \$200,000 from excess funds in 2012-2013. Currently, the County of Santa Clara anticipates approximately \$56 million in excess ERAF for Santa Clara County from 2013-2014, of which approximately \$4.4 million is anticipated to be allocated to the City of San José. No ongoing excess ERAF funding is programmed in this forecast. Based on discussions with the County of Santa Clara, these funds are being treated as one-time payments.

In 2015-2016, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2015, are expected to increase by 3.9% to \$231.7 million; excluding the one-time ERAF payment anticipated in 2014-2015 as discussed above, the year-over-year growth rate is 6.0%. This projected increase is related to two factors: the change in the CCPI and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2015-2016 tax

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

roll is an increase of 1.998%, significantly above the prior year level of 0.45% and nearly at the cap of 2%. A net increase in residential and commercial valuation is also anticipated from the combination of changes in ownership, new construction, and the continued partial or full restoration of property values that had previously been reassessed downward under Proposition 8 due to declining home values. All properties that have received a reduction under Proposition 8 do not automatically receive the CCPI adjustment as these properties are assessed annually and adjusted upward or downward depending on the changes to property values. Proposition 8 partial or full restorations have been a significant driver of the strong growth in both 2013-2014 and 2014-2015. On a County-wide basis, the 2014-2015 roll growth was driven primarily by and changes in ownership (42.9%) and Proposition 8 adjustments (33.4%). In San José, the number of properties receiving Proposition 8 adjustments has dropped significantly from 76,600 in 2012-2013 to 46,500 in 2013-2014 and to approximately 24,000 in 2014-2015. With the continued recovery in the real estate market, it is anticipated that upward adjustments will continue to be realized in 2015-2016. In calendar year 2014, residential real estate experienced gains as the December 2014 median sales price of \$750,000 for single-family homes was 9.5% above the December 2013 level of \$685,000.

It should be noted that final data on the actual tax levy for 2015-2016 is not yet available as adjustments are made through June 30, 2015. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Many of the adjustments, however, are not reflected until the latter months of a given fiscal year (April-June). The impact of reassessments of commercial property will not be known until the end of 2014-2015. As this information becomes available, refinements to the Property Tax estimates may be brought forward during the 2015-2016 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 December, Unsecured Property Tax receipts are estimated at \$12.5 million in 2014-2015, which is slightly above the prior year level of \$12.4 million, though below the most recent peak of \$12.6 million in 2012-2013. Collections are expected to increase 4.0% in 2015-2016 to \$13.0 million based on the current economic conditions. While the 2015-2016 estimate exceeds the recent peak of \$12.6 million in 2012-2013, it remains below the peak of \$14.1 million in 2002-2003.

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. In recent years, collections in this category had fallen significantly, due, in part, to a substantial number of refunds that were due to property owners as a result of declining home values. In 2014-2015, receipts are estimated to remain at prior year levels of \$5.0 million. This estimate reflects the combined impact of a change in methodology for the SB 813 distribution offset by growth in the category due to the strength in the real estate market. In 2004-2005, the

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

State Motor Vehicle In-Lieu (VLF) Swap involved the permanent conversion of VLF backfill funds to Property Tax that was part of the approved State budget. Since SB 813 Property Tax receipts are pooled receipts allocated to each jurisdiction based on their share of secured property taxes, an increase in the City's Secured Property Taxes increased the City's share of SB 813 receipts. Per conversations with the County of Santa Clara, beginning in 2014-2015, VLF receipts associated with the swap will not be considered Property Tax for the SB 813 calculation and, therefore, will reduce the City's relative share of this tax. Although the 2014-2015 estimate of \$5.0 million is above actual collection levels in recent years of \$3.0 million in 2012-2013 and \$3.3 million in 2011-2012, receipts are expected to remain well below the peak of \$10.1 million received in 2005-2006 and below levels seen just a few years ago (e.g., \$8.0 million in 2006-2007 and \$7.9 million in 2007-2008) based on the revised methodology. In 2015-2016, collections in this category are projected to increase approximately 2.0% to \$5.1 million.

The **Aircraft Property Tax** payment is estimated at \$2.4 million in 2014-2015, a 13.3% increase from prior year levels. In 2015-2016, receipts are anticipated to remain at prior year levels.

The **Homeowners Property Tax Relief** category is projected at \$1.0 million for 2015-2016, which is consistent with the 2014-2015 revenue estimate and 2013-2014 actual collections.

In the out years of the Forecast, annual Property Tax receipts are projected to increase approximately 4.9% to 6.0% annually over the five-year period. A portion of this growth due to an estimated 2% CCPI increase annually.

Sales Tax

The Sales Tax category includes General Sales Taxes and Proposition 172 Sales Taxes. Overall, 2014-2015 collections are expected to increase 4.5% over prior year levels to \$181.1 million. In 2015-2016, year-over-year growth of 4.5% is again expected, bringing the projected revenue to \$189.2 million.

For the General Sales Tax revenue category, only one quarter of 2014-2015 data is available. Based on this limited information, year-over-year growth of 4.3% is projected in 2014-2015, resulting in collections of \$175.2 million. This increase from the \$168.0 million collected in 2013-2014 factors in one-time adjustments and the "Triple Flip"¹ payments from the State for estimated 2014-2015 collections as well as a true-up payment for 2013-2014. The 2014-2015 estimate reflects actual growth of 6.3% in the first quarter and projected underlying growth of 4.0% in the

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

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

remaining three quarters based on recent sales tax performance and current economic conditions. With continued strength in the economy, sales tax growth is also expected to continue.

For 2015-2016, the General Sales Tax revenue projection of \$183.0 million assumes moderate growth of 4.0% in taxable sales from 2014-2015 levels. Based on information received from the State of California, it is currently anticipated that during 2015-2016, the Triple Flip will end with the final payment of the State Economic Recovery Bonds projected in July 2015. Once the bonds are repaid, the State Board of Equalization will revert back to the full local 1% tax rate in the first whole quarter at least 90 days after the repayment. While the timing of the bond repayment is subject to change by the State, this action is expected to occur at some point during 2015-2016. It should be noted though that as a result of the wind-down of the Triple Flip methodology, one-time monies are anticipated during either 2015-2016 or 2016-2017 to account for the final quarters of the Triple Flip methodology and the true-up due for 2014-2015 collections. As additional details are available as to both the schedule of the wind-down and the final Triple Flip true-up payment amount, any necessary actions will be brought forward as part of the appropriate budget process. Due to the uncertainty and one-time nature of these funds, no assumption is included in this forecast for these activities.

To put the 2015-2016 estimate into perspective, the projected revenue of \$183.0 million exceeds historic peak collections of \$164.3 million in 2000-2001, and continue to reflect revenues above pre-recession levels and above levels seen during the dotcom boom (not adjusted for inflation). The Sales Tax revenue projections for 2014-2015 will continue to be refined over the next couple of months as additional information becomes available. Sales Tax data for the second quarter of 2014-2015, which covers the 2014 holiday period, will be received in March 2015. Based on this additional data, any necessary adjustments to the estimate will be incorporated into the 2015-2016 Proposed Operating Budget.

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total \$5.9 million in 2014-2015, which represents an 8.4% increase from the prior year collections of \$5.4 million based on activity through the first seven months of 2014-2015. In 2015-2016, collections are projected to increase 5.0%, to \$6.2 million based on historic average growth rates.

In the out-years of the Forecast, annual Sales Tax performance is expected to show moderate growth of 3.2% to 3.5% annually over the five-year period.

Transient Occupancy Tax

Currently, Transient Occupancy Tax (TOT) receipts in 2014-2015 are projected to reach \$13.0 million, reflecting an increase of approximately 10% from the 2013-2014 collection level. Current year receipts mark the fifth year of growth and the fourth year of double-digit strong growth in this category, which is in stark contrast to declines of 11.5% and 18.5% in 2009-2010 and 2008-2009,

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Transient Occupancy Tax

respectively. Overall, the hotel industry continues to experience solid growth with increases in occupancy levels (approximately 7% year-over-year growth in fiscal year 2014-2015 through January 2015) and average daily room rates (approximately 11% growth) with an average revenue-per-available room reflecting an increase of approximately 22% from prior year levels.

In 2015-2016, growth of 7.5% from the 2014-2015 estimate to \$14.0 million is anticipated which reflects continued strong performance in this category and the addition of hotel rooms including the Hyatt House, the AC Hotel, and the Bay 101 Hotel. In the out years of the forecast, revenues are anticipated to grow between 3.0% to 6.0% annually, with an assumed increase in room capacity inventory in both 2015-2016 and 2016-2017 included in this forecast. As directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve. In this forecast, \$2.1 million beginning in 2015-2016 to \$4.6 million in 2019-2020 is set aside in a reserve for this purpose.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, Tow, Water, and Nitrogen Gas/Jet Fuel Pipeline categories. Overall, collections are projected at \$46.1 million in 2014-2015, an increase of 0.8% from prior year receipts of \$45.7 million. The projected increase in 2014-2015 is primarily due to higher collections in Cable receipts. In 2015-2016, Franchise Fees are expected to increase 2.3% to \$47.2 million due to growth in the Gas (4.4%), Electric (4.0%), and Cable (1.0%) categories.

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 2014-2015 are based on the calendar year 2014). 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. When comparing 2013 and 2014 calendar year Utility Tax receipts, Gas receipts showed a decrease of 4.6% and Electric showed an increase of 1.4%. The reconciliation of annual receipts from PG&E for 2014-2015 will be received in April 2015.

In the **Electric Franchise Fee** category, collections in 2014-2015 are expected to reach \$19.5 million, reflecting growth of approximately 1% compared to actual receipts in 2013-2014 and are slightly below the actual growth in Electric Utility Tax receipts in calendar year 2013 compared to 2014. In 2015-2016, growth of 4.0% from 2014-2015 estimates is anticipated reflecting a rate increase of 4% to 6% effective January 2015 per PG&E forecasts. It should be noted that due to the uncertainty regarding the outcome of rate cases, no rate increases associated with any pending rate cases have been assumed.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

In the **Gas Franchise Fee** category, the 2014-2015 estimated collections of \$4.6 million reflect a 3.0% decrease from the \$4.8 million received in the prior year. This is compared to the actual decline in Gas Utility Tax receipts of 4.6% from calendar year 2013 to 2014. In 2015-2016, Gas Franchise Fee collections are projected to increase by approximately 4%. Based on PG&E forecasts, rate increases of 3% to 7% are estimated primarily due to the approval of the 2014 rate case by the California Public Utilities Commission (CPUC) in August 2014, partially offset by changes in consumption levels. It should be noted that due to the uncertainty regarding the outcome of any rate cases, no rate increases associated with pending rate cases have been assumed in 2014-2015.

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of \$11.2 million in 2014-2015, 1.4% above the prior year collections. 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 new 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 no increase was approved for 2013-2014; the first increase was approved in 2014-2015. Therefore, the 2015-2016 estimate does not assume growth from 2014-2015 as City Council approval of a rate increase would be required.

In the **Cable Franchise Fee** category, the estimated 2014-2015 collections of \$9.6 million reflect growth of 2.1% from the prior year receipts. In 2015-2016, additional modest growth of 1% is projected, bringing the estimate to \$9.7 million.

In **City Generated Tow**, projected revenues of \$900,000 in 2014-2015 are consistent with prior year levels. Collections are anticipated to remain flat at \$900,000 in 2015-2016.

Remaining categories, including **Water, Nitrogen Gas Pipeline, and Jet Fuel Pipeline**, are estimated to end 2014-2015 at \$362,000 and remain at that level in 2015-2016.

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase from 1.7% to 2.6% annually. Over the next five years, however, it should be noted 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. In addition, the City's current Cable Franchise Fee agreement is scheduled to sunset in 2016.

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2014-2015 are anticipated to total \$91.1 million, representing a decrease of 2.9% from the 2013-2014

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Utility Tax

collection level. The majority of this decline is projected in Telephone receipts, reflecting both a decline in activity and a one-time legal settlement which refunds \$1.3 million to settle claims made by AT&T Mobility on behalf of its customers against California cities and counties that collect utility taxes. The decline in the Telephone Utility Tax category is partially offset by increased Electricity Utility Tax receipts.

In 2015-2016, Utility Tax collections are projected to increase 3.2% to \$94.0 million. Overall, a number of rate cases were approved by the California Public Utilities Commission (CPUC) in August 2014 and additional proposed rate cases have been filed that would impact electricity, gas, and water rates and consequently revenues. Overall, PG&E revenues are estimated to increase 6% between Gas and Electric activity. 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 adjust for anticipated 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 \$42.8 million in 2014-2015, a 4.7% increase from prior year levels. After recent rate cases approved by the California Public Utility Commission (CPUC), rates were adjusted in the fall of 2014 and as outlined by PG&E, an additional 4% to 6% increase took effect in January 2015. In 2015-2016, revenues are estimated to increase 2.8% to \$44.0 million, which adjusts for the January 2015 rate increase, partially offset by slight changes in anticipated consumption levels.

Gas Utility Taxes are projected at \$8.7 million in 2014-2015, a 0.8% decrease from 2013-2014 levels. This decrease reflects current collection levels as well as the expected change in rates, consistent with information from PG&E on the anticipated 3% to 7% increase in prices. In 2015-2016, revenues are projected to increase by approximately 2.3% to \$8.9 million once the 2014-2015 rate changes and activity levels are annualized. Actual collections continue to be subject to significant fluctuations from the impact of weather conditions and/or rate changes.

Water Utility Tax receipts of \$11.5 million are anticipated to be received in 2014-2015, a 1.0% increase from 2013-2014. The CPUC recently settled a rate case submitted by San Jose Water approving the following approximate rate adjustments: August 2014, 10% increase; September 2014, 10%-11% increase; and January 2015, 3% increase. However, due to the significant measures taken to reduce water usage to address the California drought, consumption levels have been greatly reduced. Through December, receipts are tracking 4% below prior year levels despite the 20% rate changes that went into effect in August and September.

In 2015-2016, receipts are projected to increase 1.7% to \$11.7 million based on the continued rising wholesale price of water with an estimated increase in price in July 2015 with continued dampened consumption levels. It should be noted that on January 5, 2015, San Jose Water Company filed a General Rate Case (GRC), which is under review by the Public Utilities Commission. The GRC recommends a total increase in rates of 20.7% over a three year period – 12.2% in 2016, 3.1% in 2017, and 5.4% in 2018. The current estimates do not factor in additional

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Utility Tax

rate increases or changes in consumption, rather it annualizes approved rate changes in the 2014-2015 fiscal year and the anticipated July 2015 change in the wholesale price of water as discussed above.

In the **Telephone Utility** category, revenues are collected on landlines, wireless, and VoIP. Based on current tracking, receipts in 2014-2015 are anticipated to reach \$28.1 million, a 14.3% decline from 2013-2014 (\$32.8 million) due to lower receipts in both landlines (-11.9%) and cellular (-17.7%). Approximately one-quarter of the decline reflect a legal settlement of \$1.3 million to refund customers for prior payments, which will settle claims made by AT&T Mobility on behalf of its customers against California cities and counties that collect utility taxes. Once adjusted for this settlement, overall receipts are anticipated to decline 10% from prior year levels. The lower collections reflect significant competition among telecommunication providers and lower average cost per user as well as the impact of increased usage of prepaid contracts not currently taxed (tax application to start in January 2016). In addition, the Internet Tax Freedom Act, which extends the moratorium on taxing internet access, has been extended through 2015; resulting in corresponding declines in tax revenue for the City, most notably AT&T, which had previously applied the utility tax to internet access. In 2015-2016, revenues reflect growth of 4.7% from prior year levels however, once adjusted to exclude the one-time refund accounted for in 2014-2015, no growth is anticipated for 2015-2016. Ongoing implications of the changes in service delivery of telecommunication activities through alternative services such as Wi-Fi and broadband are unknown. As a result of these changes, receipts may reduce further, however, they potentially will be offset by the change in tax application in January 2016 for prepaid contracts.

In the out years of the Forecast, growth ranging from 1.9% to 2.5% annually is expected in the Utility Tax category. As discussed above, there is significant volatility and uncertainty regarding the performance in this category based on outstanding rate cases as well as consumption levels; over the last five years average growth of only 1.8% has been seen in this category. The Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts in both 2014-2015 and 2015-2016 are anticipated to total \$20.8 million, which is very close to the collection levels seen since 2009-2010. Given the steady nature of collections in this category, receipts are anticipated to remain relatively flat in the out years of the Forecast with annual growth of only 0.3%.

Business Taxes

This category includes General Business Tax, Disposal Facility Tax, Cardroom Tax, and Marijuana Business Tax. In 2014-2015, Business Taxes are estimated to reach \$44.6 million, a 1.9% decline from prior year levels. Collections were higher in 2013-2014 primarily as a result

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Business Taxes

of the Marijuana Business Tax collections. In 2015-2016, revenues are estimated to decrease 1.3% to \$44.0 million due to a decrease in Disposal Facility Tax as discussed below.

In 2014-2015, **General Business Tax** proceeds are expected to reach \$11.0 million, a slight increase of 1.3% from the prior year level of \$10.9 million and takes into consideration the remaining billing cycles, account closeouts and cleanups anticipated in 2014-2015, and the historical collections rates of invoices. In 2015-2016, revenues are anticipated to remain flat at \$11.0 million, which is slightly below historical levels.

Based on current performance, collections in the **Cardroom Tax** category are estimated at \$17.0 million in 2014-2015, an increase of 4.1% from the prior year collection level (\$16.3 million). In 2015-2016, receipts are anticipated to remain at 2014-2015 levels.

In the **Disposal Facility Tax** category, collections are estimated at \$12.1 million in 2014-2015 based on current collection trends, which assume a slight decline (1.1%) from prior year collection levels of \$12.2 million. Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream varies due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. In recent years, revenues in this category have experienced year-over-year declines due, in large part, to increased waste diversion and the overall slowdown in the economy. However, in 2013-2014, collections spiked due to increased activity from neighboring agencies dumping in San José landfills. In 2015-2016, revenues are projected to return to the former trend of slight declines as a result of waste diversion and fall 5% below estimated 2014-2015 levels to \$11.5 million.

Marijuana Business Taxes are currently being collected at a 10% rate on gross receipts as approved by the voters in Ballot Measure U in 2010 on medical and non-medical, legal and illegal sales. In 2014-2015, collections are anticipated to fall to \$4.5 million, a reduction of approximately 25% from prior year levels of \$6.1 million. Beginning in June 2014, enforcement of the Medical Marijuana Regulatory Program significantly impacted activity levels and decreased the number of collectives operating within San José. In 2015-2016, collections are anticipated to remain flat at \$4.5 million until final implications of the implementation of the Medical Marijuana Regulatory Program are known.

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

Licenses and Permits and Departmental Charges

The Licenses and Permits and Departmental Charges categories contain fees and charges collected by various departments. The most significant revenue sources are development-related fees. Revenue collection levels are projected based on City Council-approved cost-recovery policies

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Licenses and Permits and Departmental Charges

with the goal of a net-zero impact on the General Fund. In 2015-2016, the Licenses and Permits category is estimated at \$49.0 million and the Departmental Charges category is estimated at \$39.1 million.

For 2015-2016, the development-related revenues are expected to continue strong performance, though they will fall below the recent peak activity levels seen in 2013-2014. In cases where the development-related base costs are projected to exceed revenues, there are sufficient earmarked reserves to bring projected revenues and expenditures into alignment for a net-zero General Fund impact. For 2015-2016, the Building Fee Program, Planning Fee Program, and Public Works Fee Program base expenditures are projected to exceed the base revenue estimates. This Forecast assumes that in 2015-2016 Fee Program Reserves will be used to address these shortfalls as outlined in the Beginning Fund Balance section below. However, beginning in 2016-2017, the Planning Development Fee Program anticipates that revenue collections will be revised to maintain cost recovery levels. In the Fire Development Fee Program, revenues are projected to exceed the base program costs and, for purposes of this Forecast, the revenues in this program have been set at the base cost level. Budget actions will be brought forward in each of these fee programs to maintain cost-recovery and ensure resources are available to address service needs.

For the non-development-related fees and charges, the 2015-2016 estimates are based on current collection trends. Included in these estimates are the revenues associated with the implementation of the Marijuana Regulatory Program Annual Operating Fee and Renewable Permit Fees of \$2.2 million, as approved by the City Council in December 2014, which offsets the corresponding costs associated with this program.

In the out years of the forecast, both the Licenses and Permits and Departmental Charges categories are expected to experience growth ranging from 2.6% to 8.0%. A spike in Departmental Charges growth of 8.0% in 2016-2017 reflects the reallocation from the use of Development Fee Program Reserves to an increase in revenues associated with the Planning Development Fee Program. Currently, the Planning Development Fee Program has insufficient reserve levels to sufficiently offset the base costs that exceed base revenues in the out years of the forecast. The growth rates in the out years are tied to the expected increases in costs which the fees are designed to recover, including increased personal services costs.

Fines, Forfeitures and Penalties

In 2014-2015, the Fines, Forfeitures and Penalties category is expected to generate \$14.7 million. The largest component of this revenue category is Parking Fines, which are currently expected to generate approximately \$10.2 million in 2014-2015, consistent with 2013-2014 collection levels. It should be noted that parking fine revenues have remained below projections and well below the 2011-2012 level of \$11.8 million due to a higher level of staff absences as a result of injuries and non-work related injuries/illnesses. In 2015-2016, Parking Fines are expected to remain flat at \$10.2 million. Total revenue in 2015-2016 is estimated at \$14.4 million in the Fines, Forfeitures,

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Fines, Forfeitures and Penalties

and Penalties category. In the out years of the Forecast, annual growth of approximately 0.7% to 1.4% is projected.

Money and Property

This category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, and interest income and is projected to generate \$3.3 million in 2014-2015 and 2015-2016. In 2015-2016, \$1.7 million is expected to be generated from the rental of City-owned facilities. An additional \$350,000 is projected from subrogation recovery efforts and \$1.0 million is projected from various interest earnings. For the General Fund portion of pooled funds, the 2015-2016 estimate for interest earnings assumes an average interest rate of only 0.74% applied to an average cash balance of approximately \$140 million for a total collection level of \$1.0 million. In the out years of the Forecast, growth of 1.5% to 2.4% annually is assumed.

Revenue from Local Agencies

In 2015-2016, revenue of \$22.9 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency of San Jose and the Central Fire District. This is slightly lower than levels in prior years due to a number of one-time payments from various grants, reimbursements from the Successor Agency to the Redevelopment Agency of San Jose, and the elimination of the reimbursement from the County of Santa Clara to support the paramedic program.

The largest revenue estimate in this category is a reimbursement from the Successor Agency to the Redevelopment Agency of San Jose for the payment of the Convention Center Debt Service of \$15.3 million. This obligation continues to be evaluated as part of the winding down of the Successor Agency and the method, timing, and ability to reimburse the payment continues to be under review. A corresponding expenditure is assumed in the City-Wide Expenses category for this debt service payment.

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on information provided by the Central Fire District staff, 2014-2015 payments of \$5.5 million are anticipated in 2014-2015 including an approximately \$100,000 true-up payment from the prior year. This reflects an 8.2% increase from the prior year levels. In 2015-2016, collections are projected to increase 1.9% to \$5.6 million, this accounts for approximately 4% growth from prior year levels once adjusted to exclude the one-time payment in 2014-2015.

Payment from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) was eliminated from the budget beginning in 2014-2015 and this forecast continues to assume no revenue collections in 2015-2016. In 2013-2014, \$2.2 million in

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue from Local Agencies

reimbursement from the County was budgeted to offset a portion of the City's paramedic program costs as the delivery of these services is a responsibility of the County. However, because the City had not met the response time performance standards set forth in the agreement with the County, the County withheld payment for this service. Although the 2014-2015 budgeted estimate is currently zero, it is anticipated that approximately \$1.5 million will be received as a result of the completion of recent negotiations and the execution of a Second Amendment to the 911 Emergency Medical Services (EMS) Provider Agreement between the City and the County of Santa Clara that will expire December 2015. The \$1.5 million figure represents only the portion of the agreement associated with EMS Resource Management (Annex B, Category A funds) and is calculated from when the County began withholding payments, beginning the fourth quarter of 2012-2013 through the end of 2014-2015, with the exception of two payments authorized by the County and made by Rural Metro during 2013-2014. Additional Annex B, Category A funds totaling approximately \$400,000 are expected to be received in 2015-2016, but because the agreement ends in December 2015, those funds are considered one-time and will be brought forward later in the budget process. While the Fire Department continues to work on improving their emergency medical response performance, no payments for that portion of the agreement (Annex B, Category B funds) are assumed over the forecast period. It should be noted, however, that the direct incremental cost to the City to provide the advanced life support-level of service totaling over \$5 million annually remains in the Forecast. The opportunity to renegotiate the overall EMS Provider Agreement will occur in 2015-2016 as the master agreement expires on July 1, 2016.

In addition, other projected payments from local agencies total \$2.0 million in 2015-2016, the largest of which are reimbursements for services provided by the Animal Care and Services Program (\$930,000), funding provided by the Valley Transportation Authority related to the Bay Area Rapid Transit (BART) extension (\$400,000), and payments associated with the annexation in the Cambrian area to the City of Campbell (\$199,000).

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately -1.0% to 1.5%. In 2016-2017, the decline of 1.0% reflects the completion of various grant activities of \$610,000 in 2015-2016.

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 \$10.6 million in 2015-2016 and decline to \$10.3 million in 2016-2017 through 2019-2020. Tobacco Settlement payments account for the majority of revenue in this category and are estimated at \$8.75 million in 2015-2016, consistent with both the projected 2014-2015 receipts and 2013-2014 actual collections.

The following State grants and reimbursements are expected in 2015-2016: Abandoned Vehicles Abatement Program (\$675,000); Auto Theft reimbursement (\$370,000); California Department

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue from the State of California

Conservation Sustainability Community Planning Grant (\$212,000); Highway Maintenance Charges reimbursement (\$105,000); and a Local Enforcement Agency Grant for Planning Building and Code Enforcement Department (\$30,000). Vehicle License Fees Collection in Excess are also estimated at \$435,000 annually and 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.

Adjustments to the grant amounts are reflected in the remaining years of the Forecast. A decrease of \$241,000 is expected in 2016-2017 to reflect the elimination of the California Department Conservation Sustainability Community Planning Grant and Local Enforcement Agency Grant for Planning Building and Code Enforcement department. No annual growth is projected in the remaining three out years of the Forecast.

Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues and rental income. The following grants are anticipated in 2015-2016: National Forum Capacity-Building Grant OJJDP 2012-2015 (\$99,000) and Urban Area Security Initiative – Police (UASI) (\$60,000). The corresponding expenditures for these grants are also included in this forecast. In addition, rental income of \$793,000 is included in 2015-2016 to account for the lease agreement between the City and the United States Patent and Trade Office (USPTO) for the USPTO to occupy space at City Hall. Lease payments in 2015-2016 are prorated to account for the phased move in schedule, which current anticipated full occupation by September 2015. Additional information regarding this move can be found in a memorandum to the City Council for consideration on March 3, 2015: <http://sanjoseca.gov/DocumentCenter/View/40451>

In the out-years of the Forecast, no grant funding is included, only the current lease schedule for the USPTO is reflected.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including Arena Rental, Suite, Parking, and Naming revenues, 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 2014-2015, this category is expected to generate \$166.5 million. The 2014-2015 estimate includes a number of large adjustments not included in 2015-2016: 1) \$100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANS) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; 2) \$39.6 million in proceeds related to the sale of 22.8 acres of the Airport West property to Coleman Airport Partners for the Coleman Highline mixed use development; and 3) \$8.7 million in financing proceeds associated with the Energy and Utility Conservation Measures Program.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Other Revenue

Factoring out these large adjustments, 2014-2015 collections for this category are estimated to total \$18.2 million.

In 2015-2016, the revenue estimate of \$13.9 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2015-2016 costs or agreements and the elimination of one-time funding sources. This figure excludes revenues associated with the issuance of the TRANs that will be brought forward in 2015-2016 with an offsetting expenditure based on estimated cash flow needs.

In 2015-2016, Arena Rental, Suite, Parking, and Naming revenues are projected at \$5.7 million. The cost reimbursement for the Investment Program is estimated at \$2.0 million based on the current allocation of staff to this function. Payments from Comcast and AT&T are estimated at \$1.9 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities. There is an associated City-Wide Expenses allocation for this purpose. In addition, the proceeds from the Sale of Surplus Property category has been set at \$915,000 based on the anticipated assets that will be sold next fiscal year. Arena Rental, Suite, Parking, and Naming revenues are eliminated beginning in 2018-2019, which represents a significant decline in anticipated revenues in this category, to reflect the expiration of the current agreement with Sharks Sports Entertainment to lease the San José Arena and the naming rights agreement with SAP. Negotiations to extend or modify the lease are currently in progress and any resulting revenue changes will be incorporated into future forecasts, as appropriate. Therefore, growth in the out years range from a decline of 43.2% to slight increases of 1.8%.

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2014-2015 are projected to reach \$17.8 million, which is consistent with the prior year level collection level. Collections are expected to decline by approximately 5% to \$16.9 million in 2015-2016, which is similar to experience in past years. Several factors impact collections, including volatile gas prices, the lingering impacts of the economic downturn, and a move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In the out years of the Forecast, collections are expected to decline by between 2.5% and 3.5% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2015-2016, a total of \$37.1 million in reimbursements are projected based on 2015-2016 overhead rates (which are overall lower than the prior year rates) for the majority of City funds prepared by the Finance Department applied against the projected 2015-2016 salaries for those positions for which an overhead rate is applied.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Overhead Reimbursements

In the remaining years of the Forecast, annual increases ranging from 2.6% to 3.8% are 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 \$18.9 million in 2015-2016, which is at anticipated 2014-2015 levels. The largest component of this category (\$10.3 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 2015-2016, these reimbursements have been built to cover the direct 2015-2016 base costs as well as indirect costs. For the Fire Rescue reimbursement, the indirect costs have been discounted to help with cost competitiveness of this service.

Additional large transfers programmed for 2015-2016 include the Construction and Conveyance Tax Fund transfer (\$3.4 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer (\$1.8 million) for pavement maintenance activities; and the Workforce Investment Act Fund transfer (\$548,000) for use of various community centers and Workforce Investment Act program services.

Annual increases in the out years range from 1.1% to 1.6%. 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 and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2015-2016 of \$723,000. In the remaining years of the Forecast, annual increases are expected to recover the projected cost increases from 2.6% to 3.9%.

Beginning Fund Balance

The \$62.3 million forecast estimate of available 2015-2016 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of \$32.7 million is carried forward at the current level based on the assumption that this amount will not be used in 2014-2015 and will be available for use in 2015-2016. The current funding level is approximately enough to cover General Fund payroll costs for less than two and one-half weeks in an emergency. (On the expenditure side, the Contingency Reserve is increased to \$33.1 million in 2015-2016 to comply with the City Council policy to set aside 3% of expenditures.)

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Beginning Fund Balance

- A total of \$23.0 million in fund balance will be achieved from a combination of excess revenues and expenditure savings as well as the liquidation of prior-year carryover encumbrances, consistent with levels assumed in the 2015-2019 Five Year General Fund Forecast.
- An additional \$6.6 million reflects the liquidation of reserves: \$4.2 million from the Building Development Fee Program Reserve; \$1.6 million from the Planning Development Fee Program Reserve; and \$699,000 from the Public Works Development Fee Program Reserve. The use of these reserves have been included in the fund balance estimate to cover a portion of the 2015-2016 base costs associated with these programs that cannot be addressed with fee revenue.

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue of 1.0% and expenditure savings, including liquidations of carryover encumbrances, of 1.75% would be generated annually; that the revised Contingency Reserve of \$33.1 million would be carried over each year; and the use of the Development Fee Program Reserves for Building and Public Works would continue in the out years to support development fee projected program costs in excess of revenues. In total, the Beginning Fund Balance ranges from \$62.3 million in 2015-2016 to \$62.6 million in 2019-2020.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

An in-depth analysis of the General Fund expenditure categories was completed to develop the 2015-2016 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2015-2016 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from \$943.8 million in 2015-2016 to \$1.05 billion in 2019-2020, for an average growth rate of 2.8% per year.

February 2015 Forecast Expenditure Summary

Expenditure Category	Modified Budget	Forecast				
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Personal Services						
Salaries and Other Compensation	\$ 390,905,400	\$403,001,000	\$416,948,000	\$ 431,381,000	\$ 446,314,000	\$ 461,766,000
Retirement	234,649,055	243,880,000	245,990,000	251,586,000	251,394,000	249,915,000
Health and Other Fringe Benefits	53,305,282	53,271,000	56,890,000	60,755,000	64,882,000	69,290,000
Total Personal Services	\$ 678,859,737	\$700,152,000	\$719,828,000	\$ 743,722,000	\$ 762,590,000	\$ 780,971,000
Total Non-Personal/Equipment	\$ 103,545,956	\$ 88,850,000	\$ 90,207,000	\$ 93,236,000	\$ 95,585,000	\$ 96,400,000
City-Wide						
City-Wide Expenses	\$ 263,688,135	\$ 77,578,000	\$ 78,736,000	\$ 80,123,000	\$ 81,378,000	\$ 82,716,000
Capital Projects	44,415,000	5,450,000	6,025,000	6,025,000	6,025,000	6,025,000
Transfers	36,807,380	27,175,000	29,607,000	30,737,000	32,507,000	31,845,000
Earmarked Reserves	135,354,317	10,922,000	11,540,000	13,461,000	15,248,000	17,228,000
Contingency Reserve	32,700,000	33,100,000	33,100,000	33,100,000	33,100,000	33,100,000
Total City-Wide	\$ 512,964,832	\$154,225,000	\$159,008,000	\$ 163,446,000	\$ 168,258,000	\$ 170,914,000
Committed Additions						
New Municipal Improvements Maint & Operations		\$ 48,000	\$ 61,000	\$ 63,000	\$ 64,000	\$ 66,000
New Parks and Recreation Facilities Maint. & Operations		186,000	380,000	580,000	682,000	787,000
New Traffic Infrastructure Assets Maint. & Operations		51,000	148,000	164,000	178,000	185,000
Measure O (Library) Maint. & Operations		228,000	701,000	722,000	743,000	763,000
Measure P (Parks) Maint. & Operations				87,000	88,000	84,000
Measure O (Public Safety) Maint. and Operations - Fire		13,000	26,000	27,000	28,000	28,000
Total Committed Additions		\$ 526,000	\$ 1,316,000	\$ 1,643,000	\$ 1,783,000	\$ 1,913,000
Total Base Exp. w/ Committed Additions	\$ 1,295,370,525	\$943,753,000	\$970,359,000	\$ 1,002,047,000	\$ 1,028,216,000	\$ 1,050,198,000
Growth %			2.8%	3.3%	2.6%	2.1%

It is important to note that adjustments are made to the Forecast to eliminate one-time additions/deletions and annualize partial-year allocations that were included in the 2014-2015 Adopted Budget. Various one-time additions totaling over \$3 million are scheduled to expire in June 2015. The major items include funding for additional enhancements to the San José BEST and Safe Summer Initiative, Police Department Downtown Foot Patrol, Public Works Department Preventative Maintenance Program, Police Department Central ID Unit, Illegal Dumping Rapid Response Program, Anti-Human Trafficking Task Force, and Finance Purchasing Information Technology Manager, among others. There were also programs funded on a two-year basis totaling approximately \$5.1 million, including the Homeless Rapid Rehousing, the Homeless Response Team, an enhanced San José BEST and Safe Summer Initiative Program, and Community Action and Pride Grants. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2015-2016. This analysis will be conducted during the 2015-2016 budget process and funding recommendations

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

for these programs and services will be included in the 2015-2016 Proposed Operating Budget, as appropriate, and in 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 (2015-2016) projection for personal services costs in this Forecast has been calculated at a detailed level. An extract of payroll system information as of August 2014 was used as the starting point. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Also, 2014-2015 ongoing position additions (cost increases) and reductions (cost savings) were annualized and all categories of benefit costs in the coming year were projected. In January 2015, the most recent retirement plan and health plan information for each position was also updated from the payroll system.

For the 2015-2016 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the General Fund's total costs. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the \$700.2 million projected personal services total for 2015-2016, salaries and other compensation costs amount to \$403.0 million (57.6% of projected personal services), retirement costs amount to \$243.9 million (34.8% of projected personal services), and health and other fringe benefits costs amount to \$53.3 million (7.6% of projected personal services). Over the forecast period, modest growth is expected in each of the personal services categories.

Following is a discussion of the specific factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. For this Forecast, the out years are projected to inflate at a composite rate of approximately 2.9%.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Salaries and Other Compensation:

An Employee Compensation Planning Reserve for all employees except San José Police Officers Association (SJPOA) is included in each year of this Forecast in order to set aside funds for potential employee pay increases. This reserve allocation, totaling \$11.7 million for 2015-2016 increases, represents a modest amount of funding and would require City Council labor negotiations direction and discussions with the City's bargaining groups before any form of distribution could be made. It should be noted that the Employee Compensation Planning Reserve also contains funding totaling \$6.6 million representing potential 2014-2015 employee pay increases for employees represented by the International Association of Fire Fighters (IAFF), Local 230 that have not yet been agreed upon. For employees represented by the SJPOA, the Forecast includes a 3.33% increase in 2015-2016 (\$7.0 million) reflective of the current agreement through December 2015. Total ongoing funding of \$1.25 million is also included in an Employee Market Competitiveness Reserve in 2015-2016 to provide funding for potential salary increases for specific job classifications where recruitment and retention issues are being experienced. Further analysis is underway to determine which classifications may be considered for a special employee compensation pay increase.

Salary step increases for current non-management employees and pay for performance for management employees for 2015-2016 are projected at \$2.9 million, or an increase of 0.42%. With the exception of employees represented by the SJPOA and IAFF, 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. The out years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

Overtime expenditures in the General Fund total \$21.3 million for 2015-2016, with the majority of the expenditures for Police Department (\$12.4 million) and Fire Department (\$5.2 million) operations. The out years of the Forecast continue these costs, with small adjustments using salary step growth as the inflationary factor.

Retirement:

The City's two retirement systems, the Federated 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. 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 police members. Effective January 2, 2015, a lower defined benefit plan (Tier 2) was implemented for new Fire members.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

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). Effective January 18, 2015, Federated employees that had left City employment with prior dental coverage vesting and return to the City, retain that benefit (Tier 2C). 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 2 plan or the Tier 3 plan. The Tier 3 plan provides for a City contribution of 3.75%.

For 2015-2016, retirement costs total \$243.9 million for the General Fund based on the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. To generate budgetary savings, this cost assumes the pre-payment of the City's annual required contribution (ARC) for Federated Retirement System Tier 1 members and contributions for the Police and Fire Department Retirement Plan for Tier 1 police and fire members. For 2015-2016, net budgetary savings are estimated at approximately \$7.5 million in the General Fund (includes borrowing costs) (\$10.2 million in all funds); however, based on a recent conversation with Office of Retirement Services staff, the Retirement Boards' joint investment committee recommended that staff engage in discussions on the prefunding practice in context of the current investment environment. Analysis by the Office of Retirement Services is underway and a meeting will occur within the next few weeks.

Retirement costs, which are up \$9.2 million from the 2014-2015 Modified Budget of \$234.6 million (and includes pay increase assumptions described earlier), represents 25.8% of the total General Fund base expenditure budget with committed additions. Of the \$243.9 million General Fund retirement cost, \$243.1 million is associated with the ARC for pension and retiree healthcare as follows: \$88.4 million is projected to be paid to the Federated Retirement System (\$79.4 million for Tier 1, \$1.4 million for Tier 2A, \$7.5 million for Tier 2B, and \$0.1 million for Tier 2C); and \$154.8 million to the Police and Fire Department Retirement Plan (\$86.3 million for police Tier 1, \$4.2 million for police Tier 2, \$64.2 million for fire Tier 1, and \$0.1 million for fire Tier 2). The remaining \$0.7 million in retirement costs are associated with part-time, contract and temporary employees, the Mayor and City Council, and new employees in Unit 99, who opted to participate in a defined contribution plan versus a defined benefit plan.

In comparison to the February 2014 Forecast for the 2015-2016 retirement cost projections, the 2015-2016 retirement costs experienced an increase of \$2.0 million, from \$241.9 million to \$243.9 million, due to additional positions added as part of the 2014-2015 Adopted Budget and economic and demographic assumption changes approved for the Federated Retirement System and the Police and Fire Department Retirement Plan. The overall increase was partially offset by savings from a larger number of employees anticipated to be part of lower cost Tier 2 plans.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

In 2010-2011, the Retirement Boards adopted an annual required contribution methodology, which requires the City to pay a minimum ARC or a percentage of payroll, whichever is greater. With this ARC funding methodology, if the City's pensionable payroll amount decreases due to staffing reductions or vacancies, the City's total retirement cost will not change if the City's estimated payroll projection drops below the estimate provided by the Retirement Board's actuary. An evaluation is done to compare the independently estimated payroll projections by the Retirement Boards' actuary with the City's forecasted payroll. The higher estimated payroll projection is used to determine whether, for the City retirement contributions for Federated Retirement System Tier 1 and Tier 1 members of the Police and Fire Department Retirement Plan, retirement costs are based on the minimum ARC as required by the Boards or an ARC based on Board approved percentage of budgeted payroll as calculated by the City Manager's Budget Office, whichever is greater. For all years of this Forecast, since the estimated City pensionable payroll is above the estimated payroll projections provided by the Retirement Boards' actuary, the City's payment of retirement costs is assumed as a percentage of payroll. In September 2014 and October 2014, the Federated Retirement System Board and the Police and Fire Department Retirement Plan Board, respectively, approved that for Tier 2 members, the City's contribution shall only be based on a percentage of payroll.

In 2009, the City and bargaining units contributing to the Federated Retirement System reached an agreement to begin a five-year phase-in to fully fund the annual required contribution for retiree healthcare benefits. The last year of the phase-in was originally scheduled for 2012-2013. Extensions of the phase-in for members in the Federated Retirement System were approved by the City Council and are currently set to expire in June 2015. Negotiations between the City and nine Federated Retirement System bargaining units are ongoing regarding potential changes to future retiree healthcare benefits. This Forecast assumes the continuation of the phase-in with previously approved cap increases (0.75% for Tier 1 and Tier 2A/1.5% for Tier 2B and Tier 2C) each year, subject to negotiations with the Federated bargaining units, to allow time for ongoing negotiations until an outcome is known. Should an outcome be determined that would require additional funds in 2015-2016 beyond the capped amount assumed in this Forecast, existing Retiree Healthcare Solutions reserves in most funds are available to offset potential costs.

Per the respective Memoranda of Agreements with SJPOA and IAFF, the annual retiree healthcare contribution rate is capped at 11.0% for the City and 10.0% for employees. The City's retiree healthcare contribution rate for police members assumes the 11% cap through the Five-Year Forecast. The City's retiree healthcare contribution rate for fire members is increasing by 1.3 percentage points from 9.3% in 2014-2015 to 10.6% in 2015-2016, and is projected to increase to the 11% cap in 2016-2017 and remain at that cap through the remaining Forecast period.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, the following table details the General Fund's retirement costs and budgetary retirement contribution rates for the Federated Retirement System and the Police and Fire Department Retirement Plan and the respective pension and retiree healthcare costs for the forecast period.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

2016-2020 CITY RETIREMENT CONTRIBUTION COSTS AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES (\$ in Millions and with Pre-Payment Discount)

Retirement Plan	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Fed. Ret. System Tier 1 – Pension	\$64.7	\$68.8	\$68.5	\$69.5	\$68.7	\$66.4
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	\$10.1	\$10.6	\$10.9	\$10.7	\$9.9	\$9.1
Fed. Retirement Plan Tier 1 – Total	\$74.8	\$79.4	\$79.4	\$80.2	\$78.6	\$75.5
Budgetary Contribution Rates	67.3%	73.8%	76.9%	81.4%	83.6%	85.4%
Fed. Ret. System Tier 2A – Pension	\$0.6	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
Fed. Ret. Syst. Tier 2A – Ret. Healthcare*	\$1.0	\$0.9	\$0.9	\$0.9	\$0.9	\$0.8
Fed. Retirement Plan Tier 2A – Total	\$1.6	\$1.4	\$1.4	\$1.4	\$1.4	\$1.3
Budgetary Contribution Rates	14.9%	15.9%	16.6%	16.9%	16.7%	16.4%
Fed. Ret. System Tier 2B – Pension	\$1.5	\$2.1	\$2.7	\$3.3	\$4.0	\$4.6
Fed. Ret. Syst. Tier 2B – Ret. Healthcare*	\$3.4	\$5.4	\$7.5	\$8.8	\$10.1	\$11.4
Fed. Retirement Plan Tier 2B – Total	\$4.9	\$7.5	\$10.2	\$12.1	\$14.1	\$16.0
Budgetary Contribution Rates	18.2%	19.9%	21.4%	20.9%	20.4%	19.9%
Fed. Ret. System Tier 2C – Pension	N/A	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Fed. Ret. Syst. Tier 2C – Ret. Healthcare*	N/A	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Fed. Retirement Plan Tier 2C – Total	N/A	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Budgetary Contribution Rates	N/A	20.1%	21.6%	21.1%	20.6%	20.1%
Police Ret. Plan Tier 1 – Pension	\$77.2	\$75.0	\$72.7	\$72.5	\$70.3	\$68.1
Police Ret. Plan Tier 1 – Ret. Healthcare**	\$11.8	\$11.3	\$11.2	\$11.0	\$10.8	\$10.4
Police Retirement Plan Tier 1 – Total	\$89.0	\$86.3	\$83.9	\$83.5	\$81.1	\$78.5
Budgetary Contribution Rates	80.3%	81.2%	79.7%	80.7%	80.2%	80.2%
Police Retirement Plan Tier 2 – Pension	\$1.3	\$2.1	\$2.8	\$3.5	\$4.3	\$5.2
Police Ret. Plan Tier 2 – Ret. Healthcare**	\$1.3	\$2.1	\$2.7	\$3.4	\$4.1	\$5.0
Police Retirement Plan Tier 2 – Total	\$2.6	\$4.2	\$5.5	\$6.9	\$8.4	\$10.2
Budgetary Contribution Rates	21.8%	22.3%	22.4%	22.4%	22.4%	22.3%
Fire Retirement Plan Tier 1 – Pension	\$54.2	\$56.2	\$56.0	\$57.3	\$57.1	\$56.9
Fire Ret. Plan Tier 1 – Retiree Healthcare**	\$6.8	\$8.0	\$8.4	\$8.5	\$8.5	\$8.6
Fire Retirement Plan Tier 1 – Total	\$61.0	\$64.2	\$64.4	\$65.8	\$65.6	\$65.5
Budgetary Contribution Rates	80.0%	82.7%	81.5%	82.4%	81.7%	81.5%
Fire Retirement Plan Tier 2 – Pension	N/A	\$0.0	\$0.2	\$0.4	\$0.7	\$1.0
Fire Ret. Plan Tier 2 – Retiree Healthcare**	N/A	\$0.0	\$0.2	\$0.4	\$0.6	\$1.0
Fire Retirement Plan Tier 2 – Total	N/A	\$0.1	\$0.4	\$0.8	\$1.3	\$2.0
Budgetary Contribution Rates	N/A	21.8%	22.2%	22.2%	22.2%	22.2%
Other Retirement Costs	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$0.8
Total General Fund	\$234.6	\$243.9	\$246.0	\$251.6	\$251.4	\$249.9
Total All Funds	\$304.5	\$318.8	\$323.3	\$331.2	\$331.3	\$328.8

* Federated Retirement System rates in 2015-2016 and 2016-2017 differ from Board approved rates due to ongoing negotiations with nine Federated bargaining units on retiree healthcare costs. Federated Tier 2C rates were approved by the Retirement Board in 2014-2015 with a 0.20% premium on retiree healthcare compared to Tier 2B rates to cover dental coverage included in Tier 2C but not included in Tier 2. This premium is assumed throughout the Forecast period. Cheiron's Letter did not break out Tier 2C due to the timing of the requested information and approval of a Tier 2C plan.

** Police and Fire Retiree Healthcare is capped at the negotiated rate per MOA.

Source: 2014-2015 Modified Budget; Cheiron Letters dated January 30, 2015 and February 2, 2015 with applied pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan Tier 1, and the Fire Retirement Plan Tier 1.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

During the forecast period, General Fund retirement contributions will increase by approximately \$6.0 million, or 2.5%, from \$243.9 million in 2015-2016 (25.8% of the General Fund) to \$249.9 million in 2019-2020 (23.8% of the General Fund). Projected retirement costs are estimated to peak in 2017-2018 at \$251.6 million (25.1% of the General Fund) before decreasing modestly in the following two years. This decrease is reflective of the combined effect of the leveling off of Police and Fire retirement rates, combined with the impact of new employees entering into lower cost Tier 2 plans. However, the City's budgetary retirement contribution rates show significant increases for the Federated Retirement System Tier 1 participants. During the same period, across all City funds, the retirement contribution is anticipated to increase by \$10.0 million from \$318.8 million in 2015-2016 to \$328.8 million in 2019-2020.

To cover the necessary City payment for Federated Retirement System Tier 1 members, the budgetary retirement contribution rate increases from 73.8% in 2015-2016 to 85.4% in 2019-2020; for Federated Retirement System Tier 2A, the budgetary contribution rate increases from 15.9% in 2015-2016, peak at 16.9% in 2017-2018, and declines slightly to 16.4% in 2019-2020; for Federated Retirement System Tier 2B members, the budgetary City contribution rate increases from 19.9% in 2015-2016, peaks at 20.9% in 2017-2018, and falls to 19.9% in 2019-2020; for Federated Retirement System Tier 2C members, the budgetary City contribution rate increases from 20.1% in 2015-2016, peaks at 21.6% in 2016-2017, and falls to 20.1% in 2019-2020; for police Tier 1 members, the budgetary City contribution rate decreases from 81.2% in 2015-2016 to 80.2% in 2019-2020; for the police Tier 2, the budgetary retirement contribution rate increases from 22.27% in 2015-2016 to 22.34% in 2019-2020; for fire Tier 1 members, the rate decreases from 82.7% in 2015-2016 to 81.5% in 2019-2020; and, for fire Tier 2 members, the rate increases from 21.79% in 2015-2016 and stays flat at 22.17% through the rest of the forecast period.

For illustration purposes only, the following table depicts the Retirement Board approved contribution rates for 2015-2016 and the Cheiron projected rates for the out years of the Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

It should be noted, as discussed above, that the City budgetary rate differs from the Federated Retirement Board approved rate to reflect continued negotiations regarding retiree healthcare costs and the application of a pre-payment of Federated, Police and Fire Tier 1 member contributions. Subject to negotiations with the Federated bargaining units, a recommendation to change the retiree healthcare rates approved by the Federated Retirement Board may be submitted to the Board for the April 2015 meeting based on the ongoing negotiation of retiree healthcare benefits.

2016-2020 BOARD APPROVED CITY CONTRIBUTION RATES

Retirement Plan	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Fed. Ret. System Tier 1 – Pension	60.3%	66.2%	68.6%	73.0%	75.8%	77.7%
Fed. Ret. Syst. Tier 1 – Ret. Healthcare	9.4%	11.6%	11.5%	11.2%	10.9%	10.7%
Fed. Retirement Plan Tier 1 – Total	69.7%	77.8%	80.1%	84.2%	86.7%	88.4%
Fed. Ret. System Tier 2A – Pension	5.5%	5.7%	5.7%	5.7%	5.7%	5.7%
Fed. Ret. Syst. Tier 2A – Ret. Healthcare	9.4%	11.6%	11.5%	11.2%	10.9%	10.7%
Fed. Retirement Plan Tier 2A – Total	14.9%	17.3%	17.2%	16.9%	16.6%	16.4%
Fed. Ret. System Tier 2B – Pension	5.5%	5.7%	5.7%	5.7%	5.7%	5.7%
Fed. Ret. Syst. Tier 2B – Ret. Healthcare	12.7%	16.1%	15.7%	15.2%	14.7%	14.2%
Fed. Retirement Plan Tier 2B – Total	18.2%	21.8%	21.4%	20.9%	20.4%	19.9%
Fed. Ret. System Tier 2C – Pension	5.5%	5.7%	5.7%	5.7%	5.7%	5.7%
Fed. Ret. Syst. Tier 2C – Ret. Healthcare*	12.9%	16.3%	15.9%	15.4%	14.9%	14.4%
Fed. Retirement Plan Tier 2C – Total**	18.4%	22.0%	21.6%	21.1%	20.6%	20.1%
Police Ret. Plan Tier 1 – Pension	72.1%	73.0%	71.4%	72.5%	71.9%	71.9%
Police Ret. Plan Tier 1 – Ret. Healthcare**	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Police Retirement Plan Tier 1 – Total	83.1%	84.0%	82.4%	83.5%	82.9%	82.9%
Police Retirement Plan Tier 2 – Pension	10.8%	11.3%	11.4%	11.4%	11.4%	11.3%
Police Ret. Plan Tier 2 – Ret. Healthcare**	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Police Retirement Plan Tier 2 – Total	21.8%	22.3%	22.4%	22.4%	22.4%	22.3%
Fire Retirement Plan Tier 1 – Pension	73.5%	75.0%	73.3%	74.2%	73.5%	73.3%
Fire Ret. Plan Tier 1 – Ret. Healthcare**	9.3%	10.6%	11.0%	11.0%	11.0%	11.0%
Fire Retirement Plan Tier 1 – Total	82.8%	85.6%	84.3%	85.2%	84.5%	84.3%
Fire Retirement Plan Tier 2 – Pension	10.9%	11.2%	11.2%	11.2%	11.2%	11.2%
Fire Ret. Plan Tier 2 – Retiree Healthcare**	9.3%	10.6%	11.0%	11.0%	11.0%	11.0%
Fire Retirement Plan Tier 2 – Total	20.2%	21.8%	22.2%	22.2%	22.2%	22.2%

* Federated Tier 2C rates were approved by the Retirement Board in 2014-2015 with a 0.20% premium on retiree healthcare compared to Tier 2B rates to cover dental coverage included in Tier 2C but not included in Tier 2. This premium is assumed through the Forecast period. Cheiron's did not break out Tier 2C due to the timing of the requested information and approval of a Tier 2C plan.

** Police and Fire Retiree Healthcare is capped at the negotiated rate per MOA.
Source: Cheiron Letters dated January 30, 2015 and February 2, 2015.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Health and Other Fringe:

A projected health rate increase of 8% is included in the 2015-2016 Forecast based on national and City trend information received from the City's Human Resources Department benefits consultant. The annual rate increase assumptions are held constant at 8% 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, a 2.5% increase is anticipated in 2015-2016. For the out years, the Forecast assumes annual 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. For the payment of Unemployment Benefit Claims, the City is self-insured. Based on actual claims experienced in 2014-2015, current funding available in the Unemployment Insurance Fund, and projected future claims, the unemployment insurance rate continues to be suspended through the five-year forecast period.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total \$88.9 million in 2015-2016. In general, the process used by the City Manager's Budget Office to calculate this amount includes adjusting each department's current year budget to eliminate one-time cost allocations, annualizing all partial-year reductions or additions approved for 2014-2015, and including projected increases or decreases for specific large non-personal/equipment allocations (e.g., utilities, contractual services, vehicle maintenance and operations costs, and Police Department vehicle replacement). The resulting 2015-2016 estimates represent a decrease of \$14.7 million from the 2014-2015 Modified Budget level of \$103.5 million, primarily due to the elimination of rebudgeted or carryover projects.

Departmental gas and electricity funding for 2015-2016 totaling \$13.3 million has been slightly adjusted in this Forecast to reflect projected rate increases, full year costs of new facilities coming online, and consumption changes. As described further in this section, partial year savings are assumed for 2015-2016 from anticipated energy savings (\$887,000) and lower materials costs (\$460,000) related to Energy Services Company (ESCO) funded projects. Increases for negotiated contracts are included in this section, primarily in the Public Works Department (\$560,000) for custodial and animal care costs, Police Department (\$315,000) for academy, technology, and County lab costs, City Attorney's Office (\$300,000) for outside legal counsel costs, and Information Technology Department (\$290,000) for technology maintenance costs. Vehicle maintenance and operations costs in the General Fund including fuel, inventory, and fleet staffing reflect a \$850,000 decrease (total of \$14.5 million) from the 2014-2015 Adopted Budget, primarily due to decreased fuel costs, partially offset by increases in parts and personnel costs. The 2015-2016 non-personal/equipment base includes an adjustment for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles from the Adopted Budget level of \$3.4 million to \$2.7 million based on the current replacement schedules and

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

projected costs for these vehicles. Police vehicle replacement costs are expected to decline in the first two Forecast years and increase in the last two years, 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 \$17.6 million.

For the out years of the Forecast, a growth rate of 2.0% has been assumed from the 2015-2016 non-personal/equipment base levels in each of the four years, adjusted for police vehicle replacement costs in those years. With this adjustment, the average growth rate for the non-personal/equipment category is 2.1% annually.

City-Wide

City-Wide Expenses in the first year of the Forecast (2015-2016) total \$77.6 million, a decline from the 2014-2015 Modified Budget of \$263.7 million. This large reduction primarily reflects the impact of deleting the \$100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; deleting allocations that were rebudgeted to 2014-2015 (\$20.7 million); and the elimination of one-time budget actions (\$8.7 million).

This category also includes any necessary contributions to Successor Agency to the Redevelopment Agency (Successor Agency). As part of determining the current financial state of the Successor Agency, in the context of the continuing efforts to wind down and dissolve the former Redevelopment Agency of San Jose, the Administration reviewed property tax increment revenues and the current level of enforceable obligations for the forecast period. For the purpose of this Forecast, assumptions regarding Property Tax Increment receipts over the five year period (2% growth annually), as well as sale of property timing, have been made. Based on these assumptions, it is projected that there will not be sufficient property tax increment revenues to pay all enforceable obligations during the forecast period and that the City will continue to assume a portion of certain contractually obligated payments of the Successor Agency (4th Street Garage Debt Service, Convention Center Debt Service, HUD 108 Loan payments, and ERAF Loan Payments) as necessary. In addition, it is assumed that the City will also fund Successor Agency administrative support costs over the forecast period. The City's legal challenge of the County's actions of withholding a percentage of former agency tax increment to fund the County employees' retirement plan (the PERS levy) remains unknown, therefore, this forecast does not assume receipt of those revenues. Total General Fund support of \$1.3 million is assumed in 2015-2016 and primarily covers administrative support costs. This figure remains flat at \$1.3 million annually in the out years of this forecast to reflect the status quo of the financial outlook of the Successor Agency. In addition to the General Fund support, the General Purpose Parking Fund and Community Development Block Grant Fund are projected to provide financial support for the 4th Street Garage Debt Service and HUD 108 Loan payments, respectively, as necessary.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

The remaining line-items in this category are adjusted to reflect anticipated costs for 2015-2016 based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2015-2016 allocations in this category include: Workers' Compensation Claims (\$20.5 million); Convention Center Lease Payments (\$15.3 million); Sick Leave Payments Upon Retirement (\$5.0 million), FMC Debt Service Payments (\$3.4 million), City-owned Facility Operating Agreements (\$3.3 million); San José BEST and Safe Summer Initiative Program (\$3.1 million); General Liability Claims (\$3.0 million), ESCO Debt Service (\$2.5 million), Parking Citations/Jail Courthouse Fees (\$2.3 million); Property Tax Administration Fee (\$2.0 million), Banking Services (\$1.7 million), Property Leases (\$1.4 million), and Successor Agency Legal Obligations Subsidy (\$1.3 million).

In the out years of the Forecast, City-Wide Expenses are projected to increase at an average growth rate of 1.7%. While several of the individual line items are expected to remain at 2014-2015 levels over this period, there are some categories that are expected to experience growth over the five years, including Workers' Compensation Claims (from \$20.5 million to \$24.4 million). The FMC debt service payment is expected to increase in the out years (from \$3.4 million to \$4.2 million) based on higher variable interest rate assumptions. Additionally, this forecast incorporates Energy Services Company (ESCO) Debt Service (\$2.5 million in 2015-2016 increasing to \$2.8 million during the forecast period), partially offset by energy and material cost savings and rebates (\$1.4 million in 2015-2016 increasing to \$1.8 million during the forecast period). When comparing ESCO projected costs and savings, it should be noted that the General Fund cost over the five-year forecast period (\$5.7 million) reflects an increase of \$2.0 million compared to the figures estimated and presented to the City Council in May 2014. This increase is reflective of the combined impact from higher debt services costs (based on higher than projected interest rates) and lower energy savings projected (a 2.0% energy escalation assumed in this forecast compared to a 4.5% increase assumed as part of data provided by Chevron in May 2014).

The anticipated administrative costs to issue TRANs Debt Service are also expected to climb (from \$350,000 to \$750,000 over the forecast period) based on a conservative estimate of the size of the issuance required and anticipated increases in variable interest rates and higher bank fees. Prefunding the City's portion of Tier 1 retirement contributions over the past several years has been successful in generating budgetary savings for the General Fund and other City funds.

The General Fund Capital Projects category totals \$5.5 million in 2015-2016 and remains at this level in each of the out years of the Forecast. The largest item in this category is fire apparatus replacement (\$4.0 million annually). The investment in fire apparatus replacement in this Forecast is based on an analysis of projected replacement schedules, replacement costs, and apparatus changes to meet safety needs. It also assumes that the Fire Construction and Conveyance Tax Fund will pay \$400,000 annually for these costs. The Capital Projects category also includes the continuation of annual allocations for Arena repairs (\$100,000 in the out years), unanticipated maintenance of City facilities (\$750,000, an increase from \$600,000 annually), fuel tanks and methane monitoring control and replacement (\$350,000), and annual capital expenditures (\$200,000, an increase from \$150,000 annually) to maintain sufficient power backup for the City Hall and the 9-1-1 Police Communications Building.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

The **Transfers** category totals \$27.2 million in 2015-2016 and increases to \$32.4 million in the remaining years of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for the construction of City Hall is the largest line-item in this category and totals \$18.2 million in 2015-2016 (\$18.9 million to \$21.2 million in the remaining years of the Forecast). Other large transfers include the following: funding to cover a portion of the debt service payments and operating costs for the Hayes Mansion Conference Center (\$3.7 million in 2015-2016) and Rancho del Pueblo and Los Lagos Golf Courses (\$2.7 million in 2015-2016); payments in accordance with the San José Arena Management agreement extension (\$750,000 in each year of the Forecast) for Arena capital rehabilitation and enhancements; and a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement (\$1.0 million annually).

All of the debt service and maintenance and operations costs for the Hayes Mansion Conference Center and golf courses are funded in the Community Facilities Revenue and Municipal Golf Course Funds; however, revenues in those funds are not projected to be sufficient to completely cover these costs. The transfer for the Hayes Mansion Conference Center decreased from a \$5.4 million subsidy level in the out years of the last forecast to \$3.7 million required in 2015-2016, and then increases to \$5.3 million in 2018-2019, and then decreases to \$4.5 million the last year of this forecast based on projected debt service payments for that facility. These debt service payments are lower than the last Forecast due to a recent debt refunding and principal pay down. The transfer for the golf course subsidy increases from the \$1.7 to \$1.9 million annual funding assumed in the February 2014 Forecast to \$2.7 million in 2015-2016 and \$2.6 million thereafter based on current operational activity. It should be noted that a review of the Municipal Golf Course Fund (revenues and expenditures) has been included in the City Auditor's work plan and will be underway in the next several weeks.

The payments for Arena capital rehabilitation and enhancements are in compliance with the San José Arena Management Agreement Extension from 2009-2018. Though this agreement expires on June 30, 2018, annual funding of \$750,000 is maintained throughout the forecast. Negotiation efforts are underway to renew the agreement beyond the existing term, the result of which could alter the City's capital payment obligations.

In the Service Yards C&C Fund, this forecast includes transfers to cover Central Service Yards Phase 1 debt service payments (\$575,000 annually starting in 2016-2017).

The transfer to the Vehicle Maintenance and Operations Fund (\$1.0 million annually) is included to fund a vehicle replacement schedule for the General Fleet as well as transfers to the Communications C&C Fund (\$600,000 in 2016-2017 to \$925,000 in the out years) to fund the City's share of capital costs for the Silicon Valley Regional Interoperability Authority.

The Transfers category also includes payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas (\$838,000 to \$881,000 annually).

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

The **Earmarked Reserves** category includes a Deferred Infrastructure and Maintenance Reserve of \$800,000 to fund critical capital maintenance or address urgent technology needs. These resources will be allocated as part of the 2015-2016 Proposed Budget. In addition, annual funding of \$240,000 is allocated to the General Plan Update Reserve to set aside fees collected by developers toward the future update or revision of the General Plan.

Several Earmarked Reserves are included in this Forecast that were not included in the prior Forecast. Additional funds are allocated for the Police Department Staffing Earmarked Reserve (\$3.5 million in 2015-2016, increasing to \$8.5 million in the last year of the forecast) per City Council Policy to set aside Police Tier 2 retirement savings to fund additional police sworn positions until sworn staffing levels reach 1,250 officers (estimated to cost \$25 million annually). This forecast also includes funding set aside for programs previously covered by Recycle Plus Late Fees that will no longer be collected with the billing transition to the County Property Tax roll, but will require evaluation as part of the 2015-2016 Proposed Budget (\$1.8 million annually), an allocation reflecting Transient Occupancy Tax growth from the 2013-2014 actual collections to fund capital maintenance at the City's cultural facilities per City Council Adopted Budget direction (\$2.1 million in 2015-2016, increasing to \$4.6 million in the last year of the forecast), and potential impacts from the Air Service Incentive Program (\$1.0 million in 2015-2016 and 2016-2017) that would reduce the amount of indirect overhead expenses that the City receives should the percentage growth in annual enplanements at the Airport exceed the annual enplanement growth nationwide.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2014-2015 and would be recommended for rebudget or use in 2015-2016. Some of the larger current Earmarked Reserves include the Development Fee Program Reserves, Workers' Compensation/General Liability Catastrophic Reserve, Budget Stabilization Reserve, Salaries and Benefits Reserve, and the 2015-2016 Future Deficit Reserve.

Per City Council policy, the **Contingency Reserve** (\$33.1 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 2015-2016 budget. This amount would be sufficient to cover approximately one pay period of payroll costs (two and one-half weeks). Amounts necessary to remain in compliance with that policy are also included in each of the remaining four years of the Forecast.

Committed Additions to the Base General Fund Forecast

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

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Committed Additions total \$526,000 in 2015-2016 and increase to approximately \$1.9 million by 2019-2020. These Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

The approved bond measures from the elections of November 2000 and March 2002 will result in new and expanded library (Measure O), park (Measure P), and fire (Measure O) facilities and will require additional maintenance and operations funding (\$241,000 in 2015-2016 and increasing to approximately \$875,000 in 2019-2020). The new facilities anticipated to be opened during this forecast period include the Southeast Branch Library, Fire Station 21, and the Softball Complex.

Also included in the Committed Additions are maintenance and operations costs associated with non-bond projects such as the build out of the United States Patent and Trademark Office in the City Hall Wing, new parks and recreation facilities, and new traffic infrastructure. The non-bond projects committed additions costs in the Forecast range from \$285,000 in 2015-2016 and increases to \$1.0 million by 2019-2020.

General Fund Capital Operating and Maintenance/Budget Principle #8

Budget Principle #8 states that Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including operations and maintenance costs, will not require a decrease in existing basic neighborhood services. Consistent with that direction, this Forecast includes a detailed list and discussion of capital projects that were previously certified by the City Council with annual operating and maintenance costs in the General Fund greater than \$100,000. Capital funding for these projects have been included as part of approved Capital Improvement Programs or approved by City Council in 2014-2015. The majority of these costs are associated with the voter-approved General Obligation bonds for Park and Library facilities. The operating and maintenance costs for these facilities are included in the figures presented in this Forecast. The Lake Cunningham Bike Park project, as identified in the Forecast, will need certification in accordance with Budget Principle #8. A recommendation will be brought forward for City Council consideration prior to award of the construction contract.

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 2015-2016, a surplus of \$8.6 million is projected, followed by surpluses in 2016-2017 (\$5.2 million) and 2017-2018 (\$338,000). A small deficit of \$1.4 million is projected in 2018-2019, followed by a surplus of \$5.8 million in 2019-2020. Base Case expenditures, including committed additions, increase from \$943.8 million in 2015-2016 to \$1.05 billion in 2019-2020, for an average annual growth rate of approximately 2.8%. The sources of revenue total \$952.4 million in 2015-2016 and grow to \$1.07 billion in 2019-2020, increasing at a slightly higher average annual growth rate of 3.1%.

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 2015 Forecast is compared to the comparable year in the February 2014 Forecast.

2016-2020 General Fund Forecast Changes in Operating Margin (\$ in Millions)

	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
February 2014 Incremental Surplus/(Shortfall)	(\$4.2)	\$0.4	(\$6.5)	(\$1.7)	N/A
June 2014 Incremental Surplus/(Shortfall)	(\$2.4)	N/A	N/A	N/A	N/A
February 2015 Incremental Surplus/(Shortfall)	\$8.6	\$5.2	\$0.3	(\$1.4)	\$5.8

Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; costs associated with fully funding the annual required contributions for retiree healthcare; costs associated with services funded on a one-time basis in 2014-2015; costs associated with restoration of key services (police, fire, libraries, community centers, and street maintenance) to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

For the February 2015 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2015-2016 and the remaining four years of the forecast period. The 2015-2016 projected surplus of \$8.6 million reflects an improvement from the \$2.4 million budget shortfall projected in June 2014 (2014-2015 Adopted Budget). This change is the net result of numerous revenue and expenditure changes. A major factor contributing to this improvement is the result of significant growth in major revenue categories including Property Tax and Sales Tax, which continue to reflect strong annual growth applied to higher base year estimated receipts than previously assumed in the 2015-2019 Five Year Forecast. On the expenditure side, savings generated from lower health and dental rates are partially offset by anticipated general pay increases (set aside in an Employee Compensation Planning Reserve) and the establishment of other reserves as described elsewhere in this section.

In the remaining years of the Forecast, small General Fund surpluses and a shortfall are projected, ranging from -\$1.4 million to \$5.8 million annually. These margins are extremely narrow when put into context of the size of the projected General Fund budget, ranging from -0.1% to 0.5% of the projected annual budget (revenues and expenditures). Over the five-year period, a total surplus of \$18.5 million is anticipated, or approximately \$3.7 million annually. This average surplus figure equates to only 0.2% of the projected average General Fund annual budget (revenues and expenditures).

PAGE IS INTENTIONALLY LEFT BLANK

*Five-Year Economic Forecast
and
Revenue Projections*

2016-2020

BASE CASE

February 2015 Forecast	MODIFIED					
	BUDGET	FORECAST				
REVENUE SUMMARY	<u>2014-2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
PROPERTY TAX	233,973,240	253,210,000	268,453,000	283,621,000	298,653,000	313,346,000
		8.22%	6.02%	5.65%	5.30%	4.92%
SALES TAX	180,024,000	189,195,000	195,174,000	201,439,000	208,167,000	215,348,000
		5.09%	3.16%	3.21%	3.34%	3.45%
TRANSIENT OCCUPANCY TAX	13,000,000	13,975,000	14,814,000	15,554,000	16,021,000	16,501,000
		7.50%	6.00%	5.00%	3.00%	3.00%
FRANCHISE FEES	45,346,879	47,205,000	48,418,000	49,488,000	50,463,000	51,341,000
		4.10%	2.57%	2.21%	1.97%	1.74%
UTILITY TAX	94,825,000	93,986,000	96,326,000	98,330,000	100,228,000	102,192,000
		(0.88%)	2.49%	2.08%	1.93%	1.96%
TELEPHONE TAX	20,700,000	20,800,000	20,871,000	20,933,000	21,000,000	21,065,000
		0.48%	0.34%	0.30%	0.32%	0.31%
BUSINESS TAX	43,700,000	44,000,000	44,229,000	44,423,000	44,606,000	44,775,000
		0.69%	0.52%	0.44%	0.41%	0.38%
LICENSES AND PERMITS	46,395,293	49,029,000	50,892,000	52,775,000	54,358,000	55,771,000
		5.68%	3.80%	3.70%	3.00%	2.60%
DEPARTMENTAL CHARGES	39,743,435	39,082,000	42,226,000	43,788,000	45,102,000	46,275,000
		(1.66%)	8.04%	3.70%	3.00%	2.60%
FINES, FORFEITURES & PENALTIES	14,205,334	14,436,000	14,574,000	14,780,000	14,985,000	15,092,000
		1.62%	0.96%	1.41%	1.39%	0.71%
MONEY & PROPERTY	2,914,023	3,317,000	3,368,000	3,445,000	3,527,000	3,607,000
		13.83%	1.54%	2.29%	2.38%	2.27%
REVENUE FROM LOCAL AGENCIES	27,307,083	22,857,000	22,634,000	22,934,000	23,271,000	23,597,000
		(16.30%)	(0.98%)	1.33%	1.47%	1.40%
REVENUE FROM THE STATE OF CALIFORNIA	12,538,099	10,576,000	10,335,000	10,335,000	10,335,000	10,335,000
		(15.65%)	(2.28%)	0.00%	0.00%	0.00%
FEDERAL REVENUE	11,466,924	952,000	962,000	990,000	1,019,000	1,048,000
		(91.70%)	1.05%	2.91%	2.93%	2.85%
OTHER REVENUE	165,200,681	13,864,000	13,638,000	13,883,000	7,881,000	7,938,000
		(91.61%)	(1.63%)	1.80%	(43.23%)	0.72%
GAS TAX	15,000,000	16,900,000	16,486,000	16,051,000	15,483,000	14,936,000
		12.67%	(2.45%)	(2.64%)	(3.54%)	(3.53%)
TOTAL GENERAL REVENUES	966,339,991	833,384,000	863,400,000	892,769,000	915,099,000	943,167,000
		(13.76%)	3.60%	3.40%	2.50%	3.07%

BASE CASE

February 2015 Forecast REVENUE SUMMARY	MODIFIED	FORECAST					
	BUDGET	2014-2015	2016	2017	2018	2019	2020
TRANSFERS & REIMBURSEMENTS							
OVERHEAD REIMBURSEMENTS	38,058,612	37,067,000	38,475,000	39,899,000	41,096,000	42,164,000	
TRANSFERS	19,558,121	18,931,000	19,138,000	19,449,000	19,680,000	19,926,000	
REIMBURSEMENTS FOR SERVICES	775,406	723,000	751,000	779,000	802,000	823,000	
TOTAL TRANSFERS & REIMBURSEMENTS	58,392,139	56,721,000	58,364,000	60,127,000	61,578,000	62,913,000	
		(2.86%)	2.90%	3.02%	2.41%	2.17%	
TOTAL GENERAL FUND REVENUES	1,024,732,130	890,105,000	921,764,000	952,896,000	976,677,000	1,006,080,000	
		(13.14%)	3.56%	3.38%	2.50%	3.01%	
BEGINNING FUND BALANCE	270,638,395	62,251,000	62,363,000	63,257,000	64,223,000	62,633,000	
GRAND TOTAL SOURCES	1,295,370,525	952,356,000	984,127,000	1,016,153,000	1,040,900,000	1,068,713,000	
		(26.48%)	3.34%	3.25%	2.44%	2.67%	

BASE CASE

February 2015 Forecast EXPENDITURE SUMMARY	MODIFIED BUDGET	FORECAST				
	<u>2014-2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
PERSONAL SERVICES						
Salaries and Other Compensation	390,905,400	403,001,000	416,948,000	431,381,000	446,314,000	461,766,000
Retirement	234,649,055	243,880,000	245,990,000	251,586,000	251,394,000	249,915,000
Health and Other Fringe Benefits	53,305,282	53,271,000	56,890,000	60,755,000	64,882,000	69,290,000
TOTAL PERSONAL SERVICES	678,859,737	700,152,000	719,828,000	743,722,000	762,590,000	780,971,000
		3.14%	2.81%	3.32%	2.54%	2.41%
TOTAL NON-PERSONAL/EQUIPMENT	103,545,956	88,850,000	90,207,000	93,236,000	95,585,000	96,400,000
		(14.19%)	1.53%	3.36%	2.52%	0.85%
CITY-WIDE						
CITY-WIDE EXPENSES	263,688,135	77,578,000	78,736,000	80,123,000	81,378,000	82,716,000
CAPITAL PROJECTS	44,415,000	5,450,000	5,450,000	5,450,000	5,450,000	5,450,000
TRANSFERS	36,807,380	27,175,000	30,182,000	31,312,000	33,082,000	32,420,000
EARMARKED RESERVES	135,354,317	10,922,000	11,540,000	13,461,000	15,248,000	17,228,000
CONTINGENCY RESERVE	32,700,000	33,100,000	33,100,000	33,100,000	33,100,000	33,100,000
TOTAL CITY-WIDE	512,964,832	154,225,000	159,008,000	163,446,000	168,258,000	170,914,000
		(69.93%)	3.10%	2.79%	2.94%	1.58%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,295,370,525	943,227,000	969,043,000	1,000,404,000	1,026,433,000	1,048,285,000
		(27.18%)	2.74%	3.24%	2.60%	2.13%

OPERATING MARGIN

	MODIFIED BUDGET	FORECAST				
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	<u>2014-2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
GRAND TOTAL REVENUE	1,295,370,525	952,356,000	984,127,000	1,016,153,000	1,040,900,000	1,068,713,000
GROWTH RATE		(26.48%)	3.34%	3.25%	2.44%	2.67%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,295,370,525	943,227,000	969,043,000	1,000,404,000	1,026,433,000	1,048,285,000
GROWTH RATE		(27.18%)	2.74%	3.24%	2.60%	2.13%
OPERATING MARGIN CHANGE		9,129,000	5,955,000	665,000	(1,282,000)	5,961,000
<i>From Prior Year</i>						

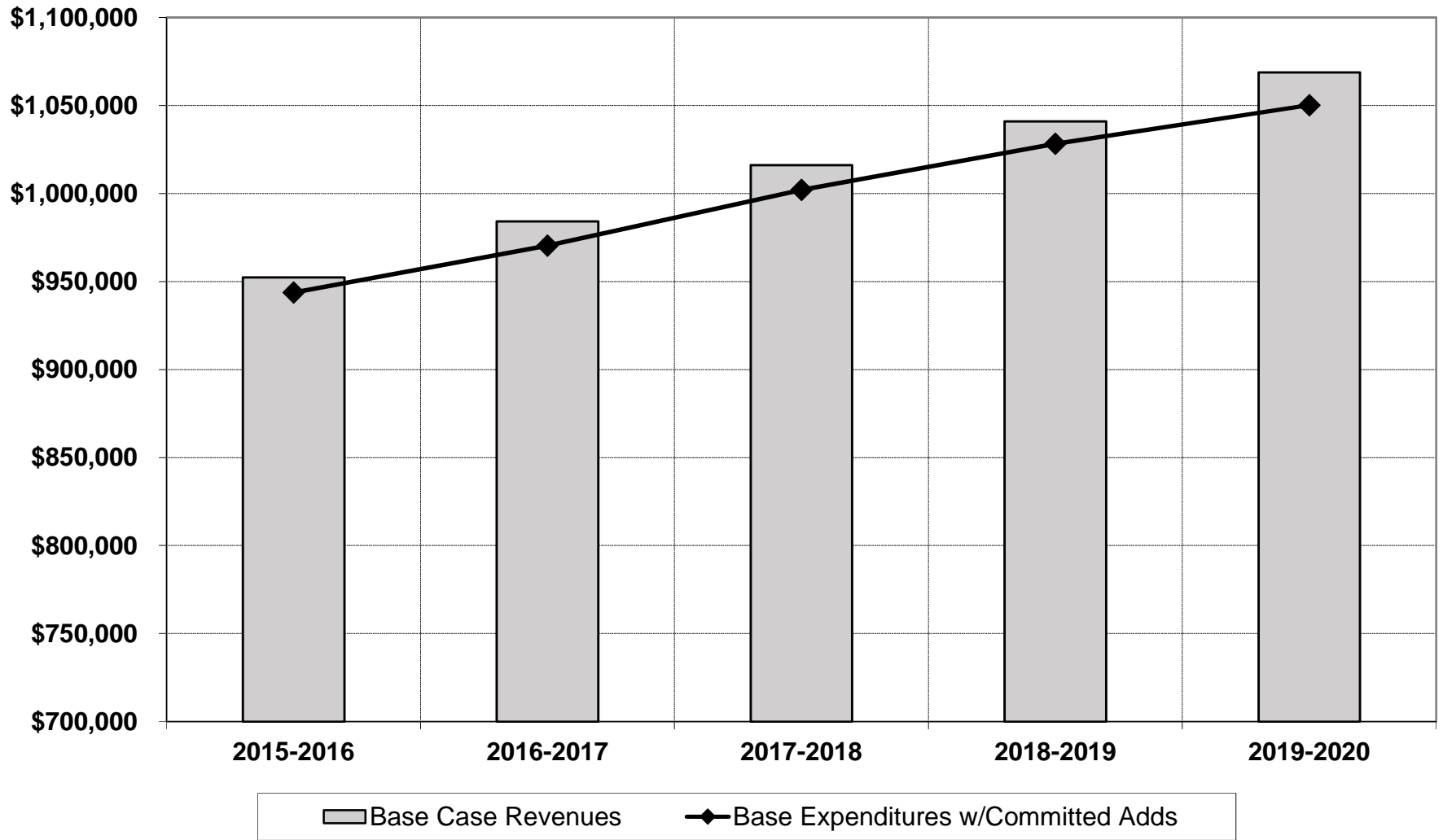
BASE CASE

February 2015 Forecast EXPENDITURE SUMMARY	MODIFIED	FORECAST					
	BUDGET	<u>2014-2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<i>COMMITTED ADDITIONS:</i>							
New Municipal Improvements Maintenance and Operations			48,000	61,000	63,000	64,000	66,000
New Parks and Recreation Facilities Maintenance and Operations			186,000	380,000	580,000	682,000	787,000
New Traffic Infrastructure Assets Maintenance and Operations			51,000	148,000	164,000	178,000	185,000
Measure O (Library) Maintenance and Operations			228,000	701,000	722,000	743,000	763,000
Measure P (Parks) Maintenance and Operations			0	0	87,000	88,000	84,000
Measure O (Public Safety) Maintenance and Operations: Fire			13,000	26,000	27,000	28,000	28,000
TOTAL COMMITTED ADDITIONS	0	526,000	1,316,000	1,643,000	1,783,000	1,913,000	1,913,000
TOTAL BASE EXPENDITURES (w/ COMMITTED ADDITIONS)	1,295,370,525	943,753,000	970,359,000	1,002,047,000	1,028,216,000	1,050,198,000	1,050,198,000
			(27.14%)	2.82%	3.27%	2.61%	2.14%

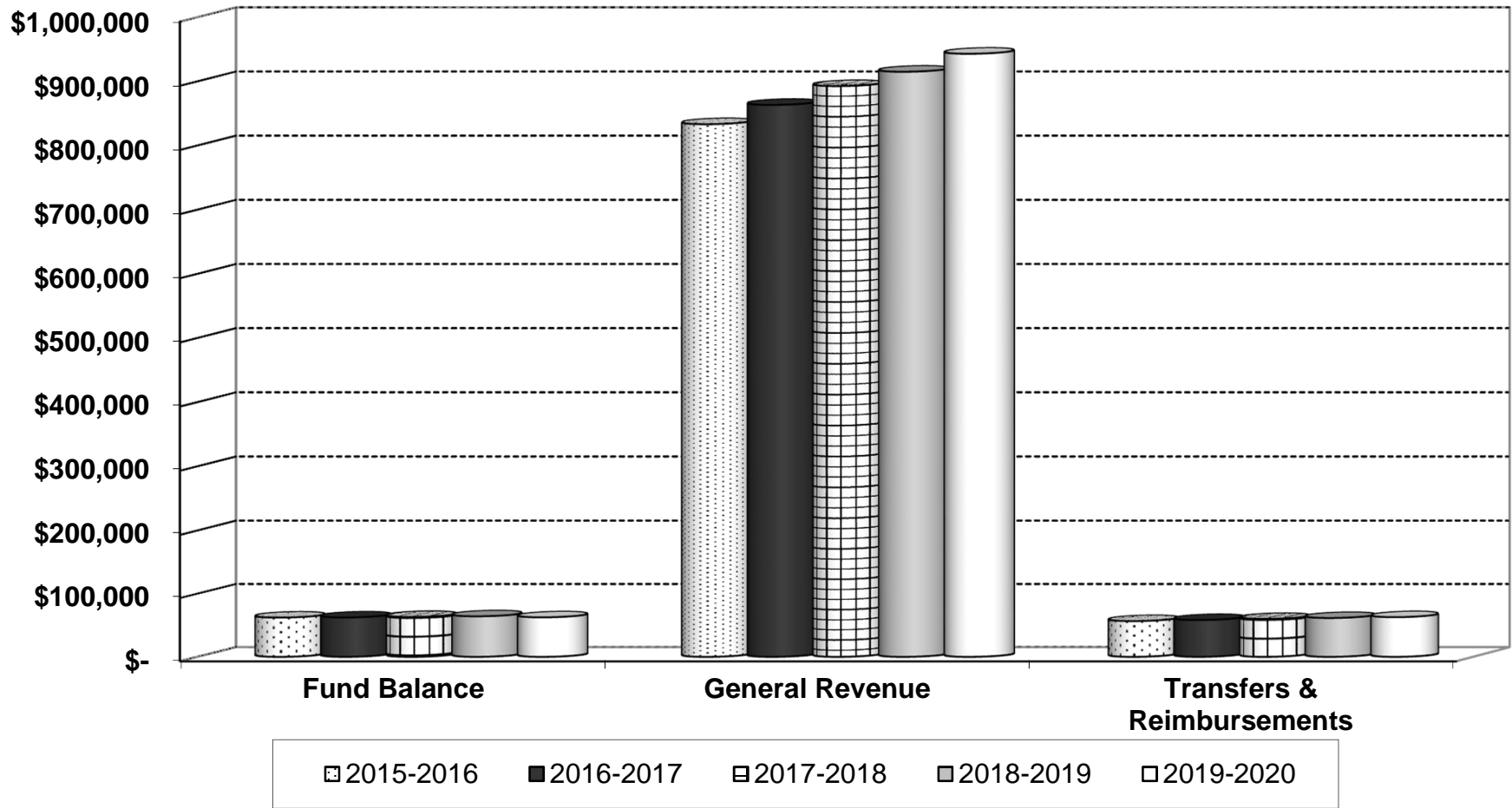
OPERATING MARGIN

	MODIFIED	FORECAST					
	BUDGET	<u>2014-2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
BASE EXPENDITURES (w/ COMMITTED ADDITIONS)							
GRAND TOTAL REVENUE	1,295,370,525	952,356,000	984,127,000	1,016,153,000	1,040,900,000	1,068,713,000	1,068,713,000
GROWTH RATE		(26.48%)	3.34%	3.25%	2.44%	2.67%	
TOTAL BASE EXPENDITURES (w/ COMMITTED ADDITIONS)	1,295,370,525	943,753,000	970,359,000	1,002,047,000	1,028,216,000	1,050,198,000	1,050,198,000
GROWTH RATE		(27.14%)	2.82%	3.27%	2.61%	2.14%	
ONGOING OPERATING MARGIN CHANGE		8,603,000	5,165,000	338,000	(1,422,000)	5,831,000	
<i>From Prior Year</i>							

**2016-2020 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
(\$ in thousands)**

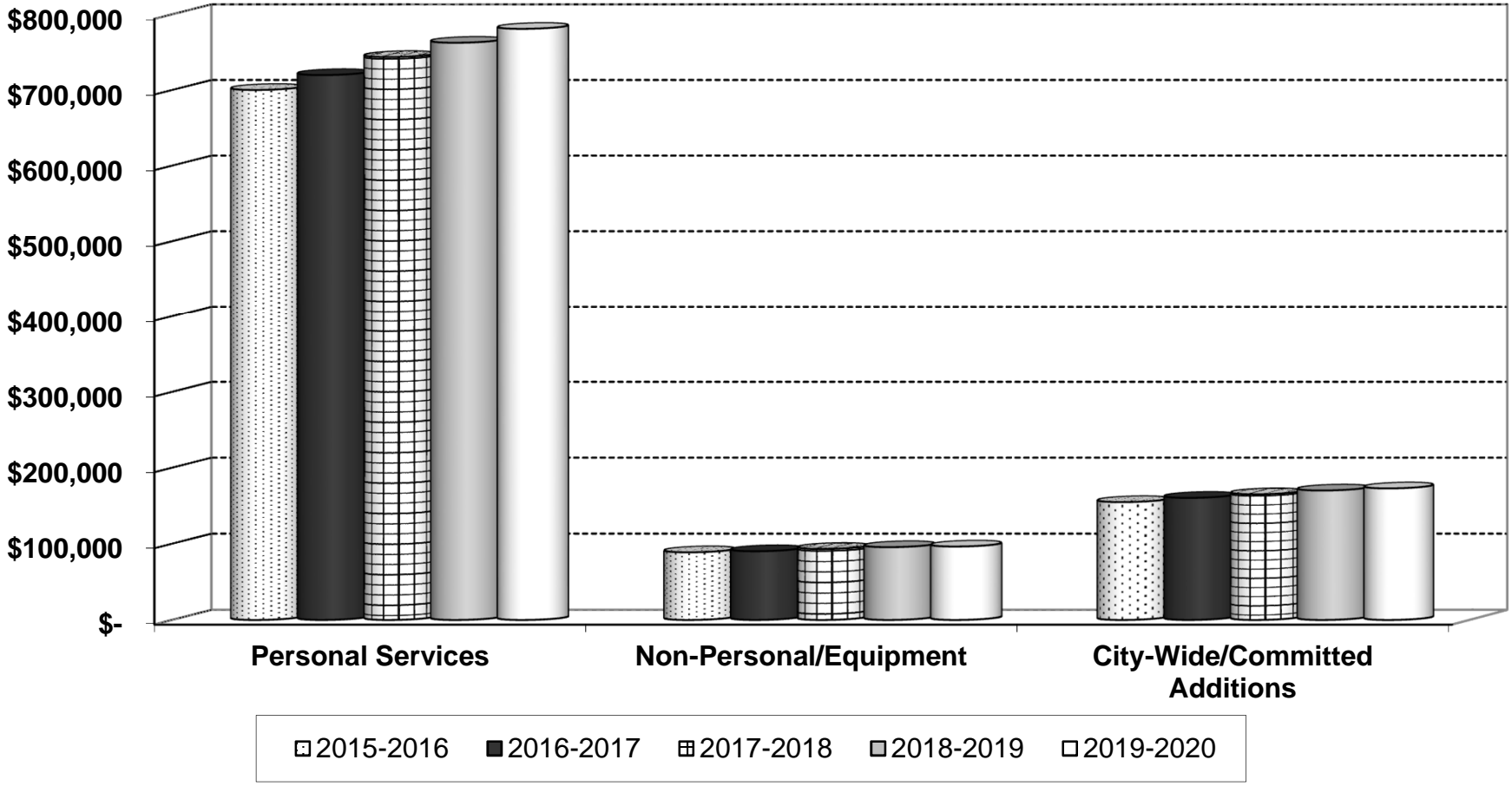


2016-2020 General Fund Forecast FIVE-YEAR SOURCE OF FUNDS COMPARISON (\$ in thousands)



**2016-2020 General Fund Forecast
FIVE-YEAR USE OF FUNDS COMPARISON
(\$ in thousands)**

II - 7



PAGE IS INTENTIONALLY LEFT BLANK

*Five-Year Economic Forecast
and
Revenue Projections*

2016-2020

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 expense changes for projects that have been previously approved by the City Council and deemed relatively unavoidable. The majority of items included in this category are additional maintenance and operating expenses that will be required to operate and maintain approved capital projects scheduled for completion or to open within the five-year horizon of this forecast. These expenses are related to the maintenance and operations of new parks and recreational facilities, traffic infrastructure assets, the build out of the United States Patent and Trademark Office in the City Hall Wing, and the bond-funded Fire Station 21, Southeast Branch Library, and Softball Complex facilities. 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 will be performed prior to bringing them forward for consideration by the City Council in any given year.

A summary of capital projects included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council’s adoption of Budget Principle #8 during the 2008-2009 budget process, a **General Fund Capital Operating and Maintenance/Budget Principle #8** discussion is included in this section. Capital projects with maintenance and operating costs over \$100,000 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 2016-2020 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

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

Committed Additions Summary

New Municipal Improvements Maintenance and Operations – This category reflects the additional costs of maintaining the build out of the satellite office for the United States Patent and Trademark Office (USPTO), which will be located in the City Hall Wing. On April 15, 2014, City Council approved the lease of the City Hall Wing to the USPTO, which will help small businesses and entrepreneurs in the region more readily navigate the nation’s intellectual property system. As part of the lease agreement, the design and construction of tenant improvements will be completed and the final floor will be ready for move-in by October 2015. This Forecast (as reflected in Section I – Elements of the General Fund/Forecast Revenue Forecast) also incorporates lease payments from the USPTO ranging from \$793,000 in 2015-2016 to \$1.0 million in the out-years of the forecast and will cover a portion of the one-time City relocation costs necessitated by this project.

<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
48,000	61,000	63,000	64,000	66,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

Committed Additions Summary

New Parks and Recreation Facilities Maintenance and Operations – This category reflects the projected additional costs of maintaining and operating new and expanded parks and recreation facilities included in the City’s Five-Year Capital Improvement Program. A number of parks scheduled to come online over the next five years include Lake Cunningham Bike Park, Martin Park, and Shady Oaks Sportsfield, to name a few. It should be noted that Lake Cunningham Bike Park includes maintenance and operations costs that will exceed \$100,000; however, this project has not been previously certified by the City Council. Prior to the award of the construction contract, estimated to occur this spring or summer, a recommendation will be brought forward for City Council certification. The forecast also includes operating cost estimates for trail sections for the Coyote Creek Trail, Guadalupe River Trail, Lower Silver Creek Trail, Penitencia Creek Trail, and the Three Creeks Trail. Funding continues to be set aside for Future Trail Projects to help meet the City’s goal to expand the City’s trail system to 100 miles by the year 2020. The City currently has approximately 57 miles of trails.

<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
186,000	380,000	580,000	682,000	787,000

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the anticipated additional costs that will be necessary to operate and maintain transportation-related projects included in the City’s Five-Year Capital Improvement Program. Funding to operate and maintain new traffic signals, landscaping, street lighting, radar speed display signs, and other traffic infrastructure is assumed in this category. Many projects are related to traffic safety enhancements for pedestrians and bicyclists. Notable projects coming online over the forecast period include maintenance of landscape, street trees, streetlights, and traffic signals related to Bus Rapid Transit, Route 280/880 Stevens Creek Upgrade, and The Alameda – A Plan for the Beautiful Way Phase 2. Also assumed in this category is funding to maintain the pedestrian improvements completed along the Valley Transportation Authority’s (VTA) Light Rail route on Capitol Expressway from Capitol Avenue to Quimby Road. The VTA had agreed to fund the costs for three years of the project, starting in 2013-2014, and the City would fund the costs starting in 2016-2017.

<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
51,000	148,000	164,000	178,000	185,000

Measure O (Library) Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of new and expanded branch libraries that were approved by voters in November 2000. The final Measure O-approved library is the Southeast Branch Library, which is scheduled to open in the spring of 2016.

<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
228,000	701,000	722,000	743,000	763,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

Committed Additions Summary

Measure P (Parks) Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of new and expanded parks and community facilities that were included as part of a bond measure approved by the voters in November 2000. The only project included in this forecast—and the last remaining Measure P park project—is the Softball Complex tentatively scheduled to open in 2017-2018 with a projected net operating expenditure of \$87,000. While the City recently identified the Arcadia property as the site to build the Softball Complex, the final costs to maintain the facility and the amount of anticipated revenue collected from field rental fees will likely be revised upon determination of the final project scope.

<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
0	0	87,000	88,000	84,000

Measure O (Public Safety) Maintenance and Operations: Fire – This category reflects the projected additional maintenance and operations costs of new and expanded fire facilities that were included as part of a bond measure adopted by the voters in March 2002. The last two fire stations scheduled for construction under the Measure O program are Fire Station 21 (relocation to White Road) and Fire Station 37 (South Willow Glen). This forecast only includes the costs for Fire Station 21, which is scheduled to open in early 2016.

The future operating and maintenance costs of approximately \$3.3 million for Fire Station 37 are not included in this forecast due to the lack of sufficient funding for project construction. Due primarily to the unexpectedly high cost of construction during much of the Measure O program, the decision to rebuild instead of remodel Fire Station 2 (which resulted in a net cost increase of approximately \$4.1 million), and the higher bid prices received for the construction of Fire Station 21, the Administration anticipates that only \$2.8 million in public safety bond funds will remain after the completion of Fire Station 21. This amount leaves the Fire Station 37 project over \$4.8 million short of the funds needed to complete the project. Given the funding shortfall, the Mayor’s June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, included Manager’s Budget Addendum #17 which, in part, directed staff to continue its analysis of response time performance through a comprehensive Fire Department organizational review. Pending completion of this analysis and identified funding, the Fire Station 37 project has been deferred indefinitely.

<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
13,000	26,000	27,000	28,000	28,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

General Fund Capital Operating and Maintenance/Budget Principle #8

In March 2008, the City Council adopted 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 has been included as part of the approved Capital Improvement Program, approved by the City Council in 2014-2015, or align with previous City Council direction. All capital projects that were previously approved for certification by the City Council with annual maintenance and operating costs in the General Fund greater than \$100,000 have been denoted in the chart with an asterisk. The Softball Complex has been previously certified by the City Council even though early operations and maintenance estimates do not exceed \$100,000; however, these costs may rise upon determination of the final project scope. The Lake Cunningham Bike Park project, as identified in the Forecast, will need certification in accordance with Budget Principle #8. A recommendation will be brought forward for City Council consideration prior to award of the construction contract. By 2019-2020, the costs to maintain and operate all City Council approved projects expected to come online during the five-year period are estimated at approximately \$1.9 million annually, of which approximately \$875,000 are related to voter-approved bond measures.

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 will be performed prior to bringing them forward for consideration by the City Council in any given year.

**CHART A - 2016-2020 GENERAL FUND FORECAST
Net Operating Impact of Capital Programs**

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
NEW MUNICIPAL IMPROVEMENTS MAINTENANCE AND OPERATIONS					
United States Patent and Trademark Office	48,000	61,000	63,000	64,000	66,000
TOTAL NEW MUNICIPAL IMPROVEMENTS MAINTENANCE AND OPERATIONS	48,000	61,000	63,000	64,000	66,000
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Future Trail Projects*	-	63,000	105,000	172,000	245,000
Alum Rock Avenue and 31st Street Park	-	2,000	25,000	25,000	26,000
Council District 4 Dog Park	-	44,000	45,000	46,000	47,000
Del Monte Park Phase II (Fencing/Weed Abatement)	15,000	15,000	15,000	16,000	16,000
Lake Cunningham Bike Park**	66,000	121,000	139,000	157,000	177,000
Martin Park	68,000	70,000	71,000	73,000	74,000
Pellier Park	-	-	17,000	18,000	18,000
Santana Park	-	-	-	7,000	15,000
Shady Oaks Sportsfield	11,000	15,000	15,000	16,000	16,000
Tamien Park	-	5,000	65,000	66,000	67,000
TRAIL: Coyote Creek (Flea Market)	5,000	9,000	9,000	9,000	9,000
TRAIL: Coyote Creek (Story Road to Selma Olinder Park)	7,000	10,000	10,000	10,000	10,000
TRAIL: Guadalupe River Trail (Coleman Rd Undercrossing)	6,000	12,000	12,000	12,000	12,000
TRAIL: Lower Silver Creek (Alum Rock Ave to Highway 680)	-	-	38,000	40,000	40,000
TRAIL: Penitencia Creek Reach 1A (Noble Ave to Dorel Dr)	5,000	7,000	7,000	7,000	7,000
TRAIL: Penitencia Creek Reach 7A (King Road to BART)	2,000	6,000	6,000	6,000	6,000
TRAIL: Three Creeks Pedestrian Bridge	1,000	1,000	1,000	2,000	2,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	186,000	380,000	580,000	682,000	787,000
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Bus Rapid Transit	20,000	60,000	62,000	64,000	66,000
Capitol Expressway Light Rail Pedestrian Improvements	-	27,000	28,000	29,000	30,000
Jackson Complete Streets (OBAG)	4,000	9,000	10,000	10,000	10,000
LED Streetlight Program	-	1,000	1,000	1,000	1,000
Ocala Avenue Pedestrian Improvements (OBAG)	-	8,000	10,000	11,000	11,000
Park Avenue Multimodal Improvements	-	2,000	4,000	4,000	4,000
Route 280/880/Stevens Creek Upgrade	14,000	15,000	15,000	16,000	16,000
Safe Pathways to Diridon Station	1,000	1,000	1,000	1,000	2,000
Safety - Pedestrian Improvements	11,000	19,000	27,000	36,000	38,000
Safety - Traffic Signal Rehabilitation	1,000	2,000	2,000	2,000	2,000
The Alameda - A Plan for the Beautiful Way Phase 2	-	4,000	4,000	4,000	5,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	51,000	148,000	164,000	178,000	185,000
MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS					
Southeast Branch*	228,000	701,000	722,000	743,000	763,000
TOTAL MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS	228,000	701,000	722,000	743,000	763,000
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Softball Complex*	-	-	87,000	88,000	84,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	-	-	87,000	88,000	84,000
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE					
Fire Station 21 - Maintenance and Utilities	13,000	26,000	27,000	28,000	28,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE	13,000	26,000	27,000	28,000	28,000
TOTAL OPERATING IMPACT OF CAPITAL PROGRAMS	526,000	1,316,000	1,643,000	1,783,000	1,913,000

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

**Capital Projects with operating and maintenance costs in the General Fund greater than \$100,000 annually that have not been previously certified by the City Council. Prior to the award of the construction contract, City Council approval will be necessary.

*Five-Year Economic Forecast
and
Revenue Projections*

2016-2020

2016-2020 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

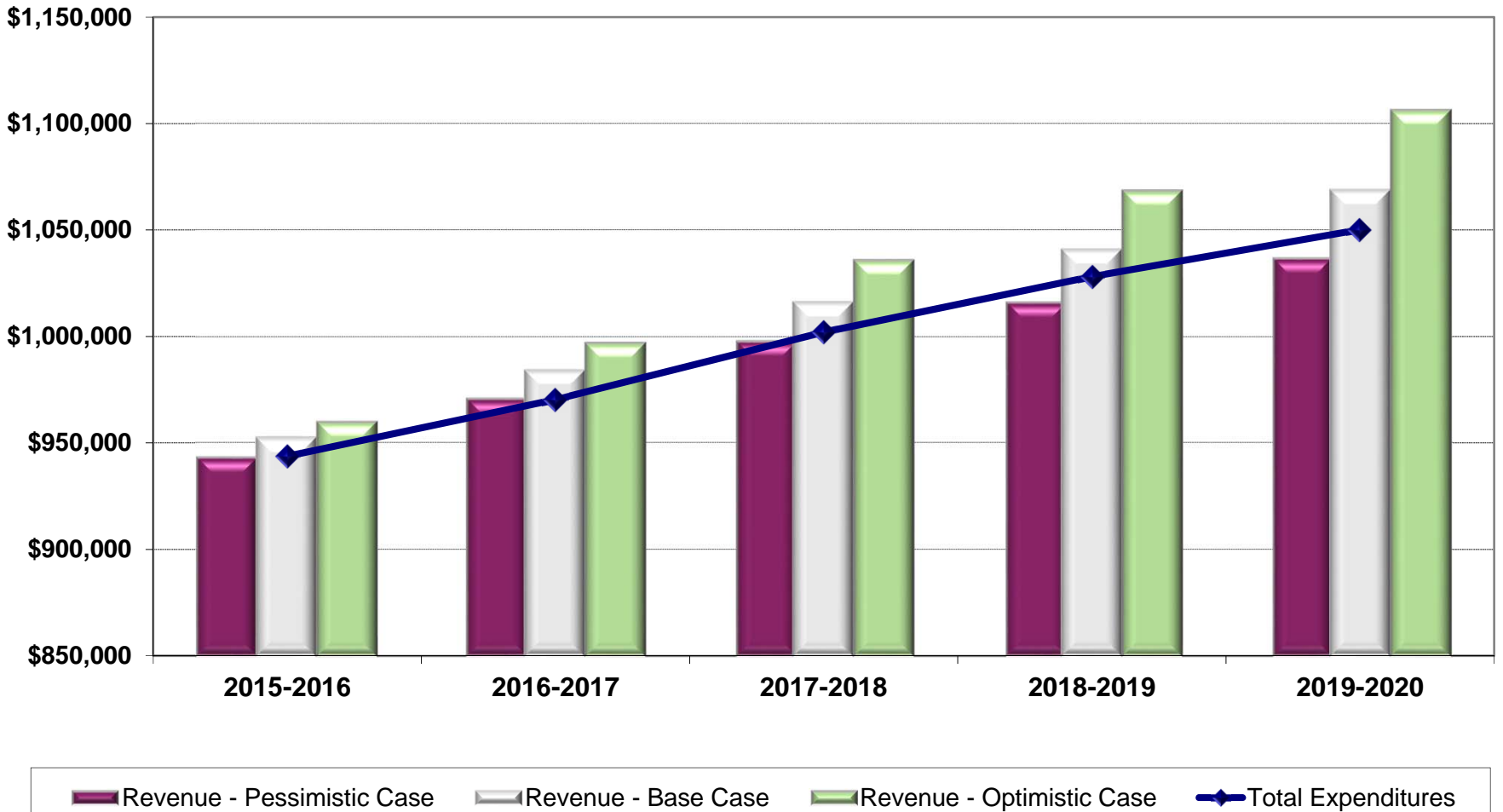
I - VI

BASE CASE					
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
TOTAL REVENUES (\$)	952,356,000	984,127,000	1,016,153,000	1,040,900,000	1,068,713,000
GROWTH RATE		3.34%	3.25%	2.44%	2.67%
TOTAL EXPENDITURES (\$)	943,753,000	970,359,000	1,002,047,000	1,028,216,000	1,050,198,000
GROWTH RATE		2.82%	3.27%	2.61%	2.14%
OPERATING MARGIN - BASE	8,603,000	5,165,000	338,000	(1,422,000)	5,831,000

OPTIMISTIC CASE					
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
TOTAL REVENUES (\$)	959,587,000	997,043,000	1,035,891,000	1,068,542,000	1,106,310,000
GROWTH RATE		3.90%	3.90%	3.15%	3.53%
TOTAL EXPENDITURES (\$)	943,753,000	970,359,000	1,002,047,000	1,028,216,000	1,050,198,000
GROWTH RATE		2.82%	3.27%	2.61%	2.14%
OPERATING MARGIN - OPTIMISTIC	15,834,000	10,850,000	7,160,000	6,482,000	15,786,000

PESSIMISTIC CASE					
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
TOTAL REVENUES (\$)	943,145,000	970,529,000	997,797,000	1,015,999,000	1,036,598,000
GROWTH RATE		2.90%	2.81%	1.82%	2.03%
TOTAL EXPENDITURES (\$)	943,753,000	970,359,000	1,002,047,000	1,028,216,000	1,050,198,000
GROWTH RATE		2.82%	3.27%	2.61%	2.14%
OPERATING MARGIN - PESSIMISTIC	(608,000)	778,000	(4,420,000)	(7,967,000)	(1,383,000)

2016-2020 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
 (\$ in thousands)



PAGE IS INTENTIONALLY LEFT BLANK

*Five-Year Economic Forecast
and
Revenue Projections*

2016-2020

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

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

Construction-related Capital Program revenues are anticipated to decrease slightly from the estimates provided in the 2015-2019 Adopted Capital Improvement Program (CIP). Even with development activity in 2014-2015 remaining strong, activity is anticipated to be lower than the peak that was reached in 2013-2014 and is tapering off as projects are completed. There is a projected decrease of 8% over the 2015-2019 Adopted CIP, from \$354.2 million in the 2015-2019 Adopted CIP to \$325.6 million in the 2016-2020 Forecast. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2015-2019 Adopted CIP.

FORECAST COMPARISON SUMMARY (\$ in Thousands)

	2015-2019 CIP	2016-2020 Forecast	Difference	% Change
Construction and Conveyance Tax	\$195,000	\$175,000	(\$20,000)	(10%)
Building and Structure Construction Tax	66,000	62,000	(4,000)	(6%)
Construction Excise Tax	87,000	83,000	(4,000)	(5%)
Municipal Water System Fees	750	500	(250)	(33%)
Residential Construction Tax	950	950	0	0%
Sanitary Sewer Connection Fee	3,750	3,400	(350)	(9%)
Storm Drainage Connection Fee	750	750	0	0%
TOTAL	\$354,200	\$325,600	(\$28,600)	(8%)

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

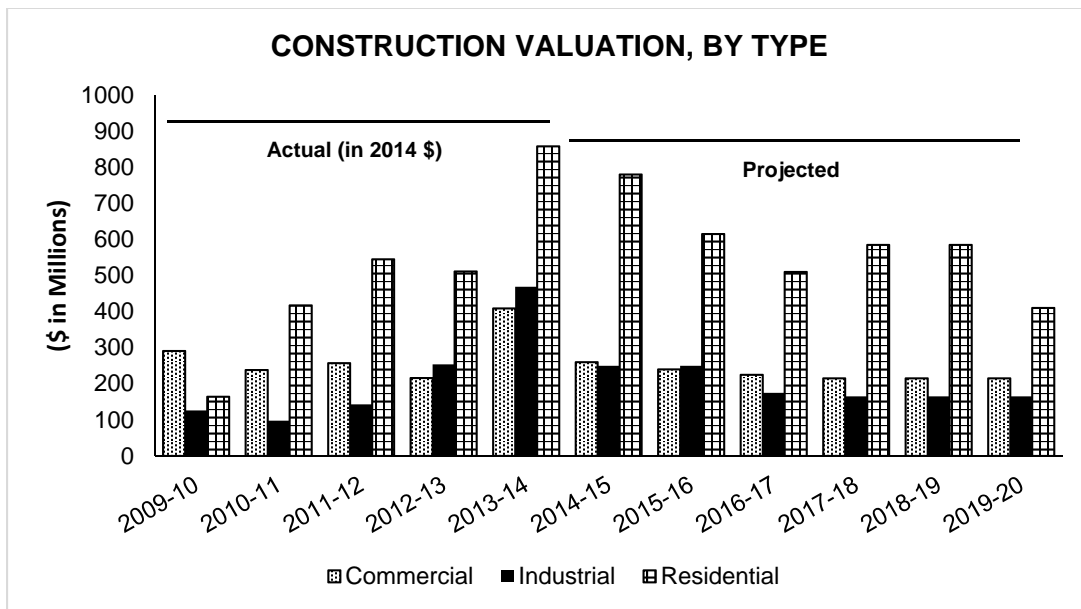
CAPITAL REVENUE FORECAST

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 2014 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 (2016-2020)”, which is included as Appendix C.

Based on projections provided by the PBCE Department, construction activity valuation is anticipated to continue at high levels but lower than the peak levels experienced last year: \$1.3 billion for 2014-2015, a 26% decrease compared to \$1.7 billion in 2013-2014. This level of activity is expected to drop slightly to \$1.1 billion in 2015-2016, then down to \$910 million in 2016-2017 as projects are anticipated to be completed. PBCE expects a slight increase to \$965 million per year in 2017-2018 and 2018-2019 to reflect a slight surge of accelerated development activity prior to the implementation of the Housing Impact Fee, and then fall to \$790 million in 2019-2020 to reflect the anticipated lower level of development activity.

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



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

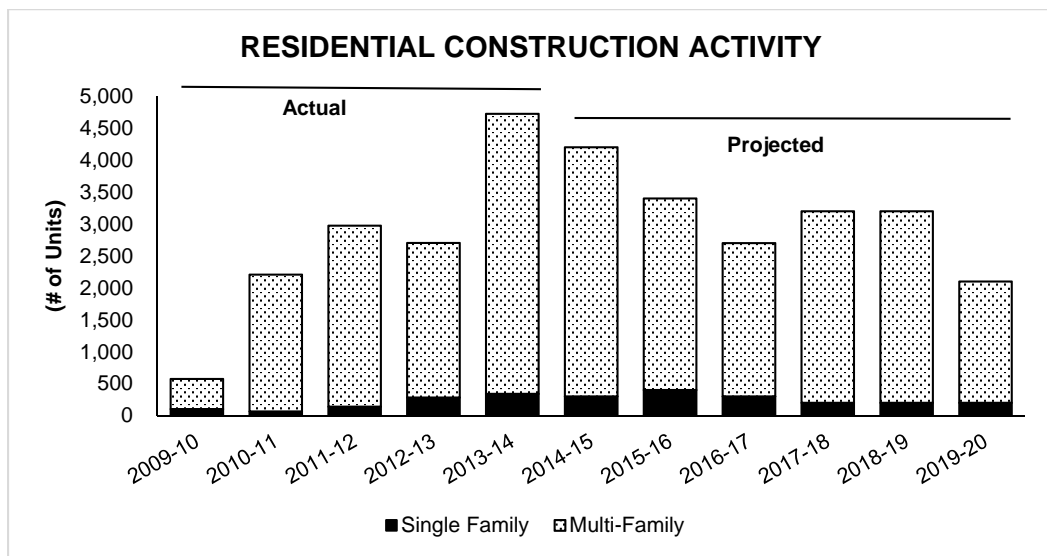
A summary of the PBCE Department construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast. 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, and is expected to reach 4,200 new dwelling units in 2014-2015, a decrease of 11%. This compares to an all-time low of just 573 new dwelling units in 2009-2010.

The total value of residential construction activity projected in this Forecast is \$2.7 billion, a 30% increase over the 2015-2019 Forecast. The PBCE Department expects residential construction activity to generate an estimated 3,400 new units in 2015-2016, 2,700 new units in 2016-2017, 3,200 units in 2017-2018 and 2018-2019, and 2,100 units in 2019-2020. This represents an average of 2,920 units per year or 14,600 units over the forecast period. This activity level has increased by 12% compared to the 13,000 units included in the 2015-2019 Forecast. While activity is expected to fall below the peak in this forecast, the drop off is less pronounced than assumed in the previous forecast.

This forecast expects a total of 13,300 multi-family dwelling units or approximately 91% of all dwelling units (single-family and multi-family) to be constructed. This figure represents a 13% increase compared to the projections in the 2015-2019 Forecast for this category. Only 1,300 new single-family dwelling units are anticipated during this forecast period, which is slightly higher than the projections in the 2015-2019 Forecast, demonstrating that high-density developments will continue to drive residential construction for the foreseeable future. The following chart shows the number of new units, by housing type, anticipated in San José through 2019-2020.



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

B. Commercial Construction Activity

In 2013-2014, commercial construction activity totaled \$409 million, a significant increase of 89% from 2012-2013. This increase was primarily due to the doubling of new construction from the previous year and a 57% increase in alterations of existing buildings. However in 2014-2015, the PBCE Department expects commercial activity to drop to \$260 million in total permit valuation as a result of the anticipated slow down in activity.

The total commercial construction valuation projected in this Forecast is \$1.1 billion, which is a 9% decrease from the previous five-year forecast. As discussed in the attached report provided by the PBCE Department, the anticipated commercial construction activity will be lower than the projected 2014-2015 activity, and will be strongly influenced by several hotel projects that are under construction and/or have been approved in the Downtown and North San José area.

Information provided by real estate trade groups for the 4th Quarter 2014 indicated that the San José office and research and development (R&D) vacancy rate was 15.5% and the retail vacancy rate was 3.8%. These rates are slightly below the 4th Quarter 2013 of 17.3% and 4.8%, respectively.

C. Industrial Construction Activity

In 2013-2014, industrial activity was strong and reached the peak levels of 2000-2001 as a result of the continuing improvement in the economy. Overall, activity amounted to \$470 million in 2013-2014, an increase of 85% from 2012-2013. However, without the sustained influx of additional new construction, the PBCE Department expects valuation to decrease to \$250 million in 2014-2015. In 2015-2016, valuation is anticipated to remain at \$250 million, then drop to \$175 million in 2016-2017, and further decrease to \$165 million annually in 2017-2018 through 2019-2020.

Information provided by real estate trade groups for the 4th Quarter 2014 indicated that the San José vacancy rate for industrial space was 5.4%, which is down slightly from the 6.2% vacancy rate for the same period in 2013.

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. To that end, in November 2013, the City Council extended a partial suspension of construction taxes placed on new construction or alteration of office, research and development uses, data center uses and installation of solar photovoltaic systems until March 31, 2017 (R&D Facilities Incentive). The Council has directed staff to target voter approval of a ballot measure in November 2016 to make the incentive program permanent. Additionally, the City Council enacted the Downtown High Rise Incentive Program in May 2012, subsequently modified and extended, that reduced construction taxes by 50% for new downtown residential, commercial and industrial

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

program was effectively replaced by the Downtown Commercial High Rise Development Incentive Program approved by the City Council in December 2014, which suspends the collection of the Building and Structure Construction Tax and the Construction Excise Tax for a single commercial high rise development project that obtains a building permit by December 31, 2016. How these incentive programs are applied to the Building and Structure Construction Tax and the Construction Excise Tax are discussed in the following pages.

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2016-2020) 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.

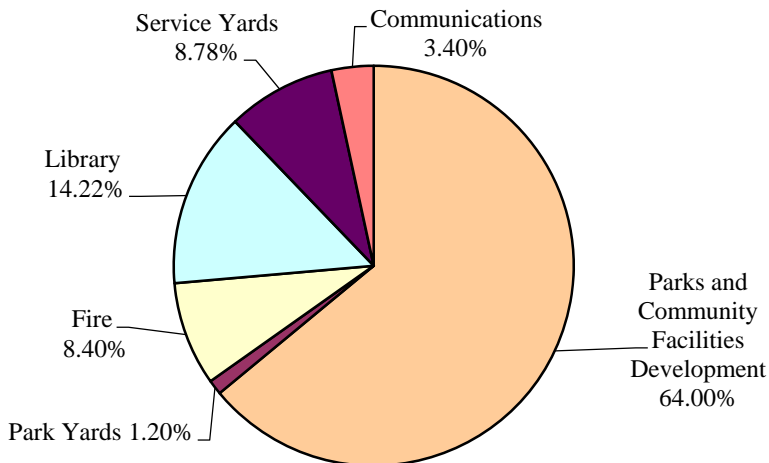
The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds one hundred dollars. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately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

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

CAPITAL REVENUE FORECAST

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 \$175 million, which is 10% lower than the estimate used to develop the 2015-2019 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.

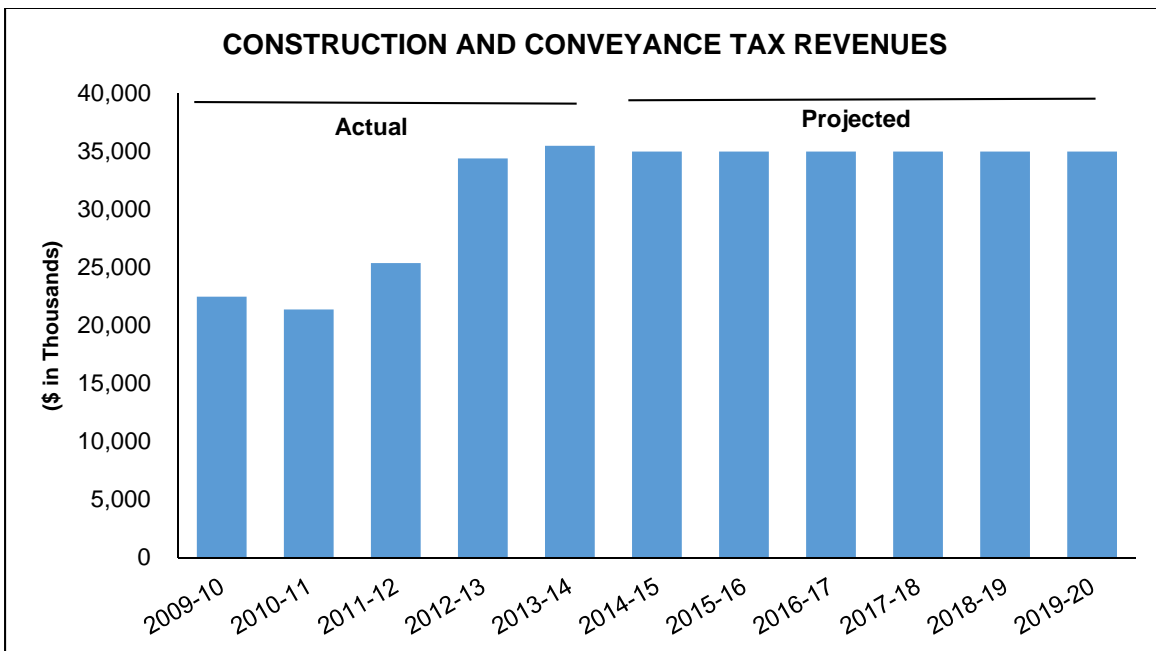
CAPITAL REVENUE FORECAST

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. Since that time, collections have risen to \$34.4 million in 2012-2013 and \$35.5 million in 2013-2014, but are anticipated to drop slightly to \$35.0 million in 2014-2015 as a result of a low level of inventory. Revenues are projected to remain at \$35.0 million annually in 2015-2016 and throughout the forecast period.

The median single-family home price in December 2014 was \$750,000, which is an increase of 9.5% from the December 2013 price of \$685,000. In addition, the average days on market for single-family and multi-family homes dropped 46.0% from 37 days in December 2013 to 20 days in December 2014. However, the number of listings of new single-family and multi-family dwellings on the market has dropped 15.5%, from 355 listings in December 2013 to 300 in December 2014. As a result of the lower level of inventory, the number of property transfers (sales) for all types of residences dropped 6.3%, from 654 in December 2013 to 613 in December 2014. As a result of the decreased level of property transfers, the revenues projected in this Forecast represent a 10% decrease from the 2015-2019 Adopted CIP.

The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.



CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX

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

- 1) Residential – 1.75% of 88% of the Building Official’s valuation.
- 2) Commercial – 1.5% of the Building Official’s valuation.
- 3) Industrial – 1.0% of the Building Official’s valuation.

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

As discussed above, the R&D Facilities Incentive and the Downtown Commercial High Rise Development Incentive Programs impact the Building and Structure Construction Tax. The R&D Facilities Incentive acts to reclassify buildings that were previously identified as commercial – such as research and development facilities and data centers – and treats them as industrial, which results in projects moving from a tax rate of 1.5% to 1.0%. The Downtown Commercial High Rise Development Incentive waives taxes for the first commercial tower that receives a building permit prior to December 31, 2016.

In 2014-2015, Building and Structure Construction Tax receipts through January totaled \$9.8 million, well below the \$13.5 million collected through the same period last year. If collections continue at its current pace, revenues are expected to meet the 2014-2015 Adopted Budget estimate of \$17.0 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 totals \$62.0 million, a decrease of \$4.0 million (6%) from the estimate included in the 2015-2019 Adopted Capital Improvement Program (CIP). However, it should be noted that the collections in 2013-2014 were the highest collection level since the last peak in 2000-2001 as a result of increased development activity. Although collections in 2014-2015 will not reach the same levels as last year, activity remains relatively strong with estimated receipts of \$17.0 million. Collections are projected to drop to \$14.0 million in 2015-2016 and then decrease to \$12.0 million annually in 2016-2017 through 2019-2020 reflecting a return to more moderate development activity levels. 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.

CAPITAL REVENUE FORECAST

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. The current rates are:

- 1) Residential – 2.75% of 88% of the Building Official’s valuation.
- 2) Commercial – 3.0% of the Building Official's valuation.

As mentioned above, this tax is a general purpose tax; however, the majority of the proceeds have generally been used for a variety of essential Traffic Capital projects that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City’s ability to obtain State and federal grants. A portion of these taxes has also been used as a budget balancing solution to address General Fund shortfalls in prior years.

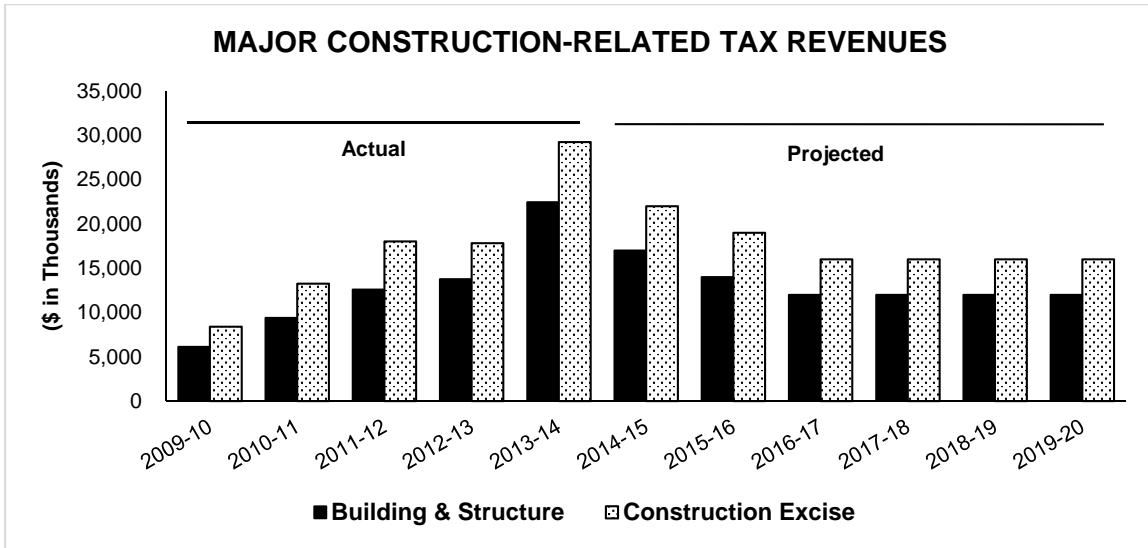
Unlike the Building and Structure Construction Tax, this tax does not apply to industrial development. As a result, changes in industrial building activity do not affect these tax receipts. However, the R&D Facility Incentive reclassifies certain building uses from commercial to industrial. As the Construction Excise Tax does not levy a tax on industrial uses, these facilities would be exempt, resulting in the R&D Facility Incentive having a larger impact on the Construction Excise Tax than the Building and Structure Construction Tax. The Downtown Commercial High Rise Development Incentive waives taxes for the first commercial tower that receives a building permit prior to December 31, 2016.

In 2014-2015, tax receipts through January for the Construction Excise Tax Fund totaled \$12.9 million, lower than the \$15.9 million collected through the same period last year. If collections continue at its current pace, revenues are expected to slightly exceed its 2014-2015 Adopted Budget estimate of \$21.0 million by \$1.0 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 \$83.0 million over the five-year forecast period, with proceeds estimated at \$19.0 million in 2015-2016, then dropping to \$16.0 million annually in 2016-2017 through 2019-2020, reflecting a return to more moderate development activity levels. This collection level represents a decrease of \$4 million (5%) from the 2015-2019 Adopted CIP. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown in the chart that follows.

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX



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 total \$500,000 over the Forecast period. This is down from the \$750,000 projected in the 2015-2019 Adopted CIP due to lower estimates for the Advance System Design Fee and Meter Installation Fee. These fees are detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

(\$ in Thousands)

	2015-2019 CIP	2016-2020 Forecast	Difference	Change
Advance System Design Fee	250	125	(125)	(50%)
Meter Installation Fee	250	125	(125)	(50%)
Service Connection Fee	250	250	0	0%
TOTAL	750	500	(250)	(33%)

CAPITAL REVENUE FORECAST

RESIDENTIAL CONSTRUCTION TAX

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

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

In 2014-2015, receipts are projected to total \$325,000 due to higher than expected year-to-date activity levels. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, collections are expected to drop to \$250,000 in 2015-2016 and to \$175,000 in the out years of the forecast. The drop in receipts reflects a return to more moderate development activity levels. A total of \$950,000 is expected over the five-year period of this forecast, which is consistent with the total in the 2015-2019 Adopted CIP.

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 2014-2015, receipts are projected to total \$950,000 based on year-to-date activity levels. Collections are expected to drop to \$800,000 in 2015-2016 and to \$650,000 in the out years of the forecast. The 2016-2020 Forecast projection for this fee is \$3.4 million, which is a 9% decrease from the 2015-2019 Adopted CIP estimate of \$3.8 million. This estimate is based on the assumptions that development activity will slow down and decline.

STORM DRAINAGE CONNECTION FEE

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

In 2014-2015, receipts are projected to total \$225,000 based on year-to-date activity levels. The five-year forecast for Storm Drainage Connection Fees totals \$750,000, with annual receipts of \$150,000. This collection level matches the estimate included in the 2015-2019 Adopted CIP.

ATTACHMENT A
CONSTRUCTION-RELATED REVENUE
2016-2020 FORECAST
(in \$ thousands)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	5 Yr Total
Construction and Conveyance Tax							
2015-2019 Adopted CIP	39,000	39,000	39,000	39,000	39,000	N/A	195,000
2016-2020 FORECAST	35,000	35,000	35,000	35,000	35,000	35,000	175,000
Difference	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	N/A	(20,000)
Building and Structure Construction Tax							
2015-2019 Adopted CIP	17,000	13,000	12,000	12,000	12,000	N/A	66,000
2016-2020 FORECAST	17,000	14,000	12,000	12,000	12,000	12,000	62,000
Difference	-	1,000	-	-	-	N/A	(4,000)
Construction Excise Tax							
2015-2019 Adopted CIP	21,000	18,000	16,000	16,000	16,000	N/A	87,000
2016-2020 FORECAST	22,000	19,000	16,000	16,000	16,000	16,000	83,000
Difference	1,000	1,000	-	-	-	N/A	(4,000)
Municipal Water Advance System Design Fee							
2015-2019 Adopted CIP	50	50	50	50	50	N/A	250
2016-2020 FORECAST	25	25	25	25	25	25	125
Difference	(25)	(25)	(25)	(25)	(25)	N/A	(125)
Municipal Water Meter Installation Fee							
2015-2019 Adopted CIP	50	50	50	50	50	N/A	250
2016-2020 FORECAST	25	25	25	25	25	25	125
Difference	(25)	(25)	(25)	(25)	(25)	N/A	(125)
Municipal Water Service Connection Fee							
2015-2019 Adopted CIP	50	50	50	50	50	N/A	250
2016-2020 FORECAST	150	50	50	50	50	50	250
Difference	100	-	-	-	-	N/A	-
Residential Construction Tax							
2015-2019 Adopted CIP	225	200	175	175	175	N/A	950
2016-2020 FORECAST	325	250	175	175	175	175	950
Difference	100	50	-	-	-	N/A	-
Sanitary Sewer Connection Fee							
2015-2019 Adopted CIP	1,000	800	650	650	650	N/A	3,750
2016-2020 FORECAST	950	800	650	650	650	650	3,400
Difference	(50)	-	-	-	-	N/A	(350)
Storm Drainage Connection Fee							
2015-2019 Adopted CIP	150	150	150	150	150	N/A	750
2016-2020 FORECAST	225	150	150	150	150	150	750
Difference	75	-	-	-	-	N/A	-
TOTAL							
2015-2019 Adopted CIP	78,525	71,300	68,125	68,125	68,125	N/A	354,200
2016-2020 FORECAST	75,700	69,300	64,075	64,075	64,075	64,075	325,600
Difference	(2,825)	(2,000)	(4,050)	(4,050)	(4,050)	N/A	(28,600)
% Change from 2015-2019 CIP	-4%	-3%	-6%	-6%	-6%	N/A	-8%

*Five-Year Economic Forecast
and
Revenue Projections*

2016-2020

Appendix A

Service Restorations Previously Identified by City Council (January 1, 2011 Levels)
Service Restoration Decision Making Framework
Guiding Principles for Restoring City Service Levels
City of San José Budget Principles

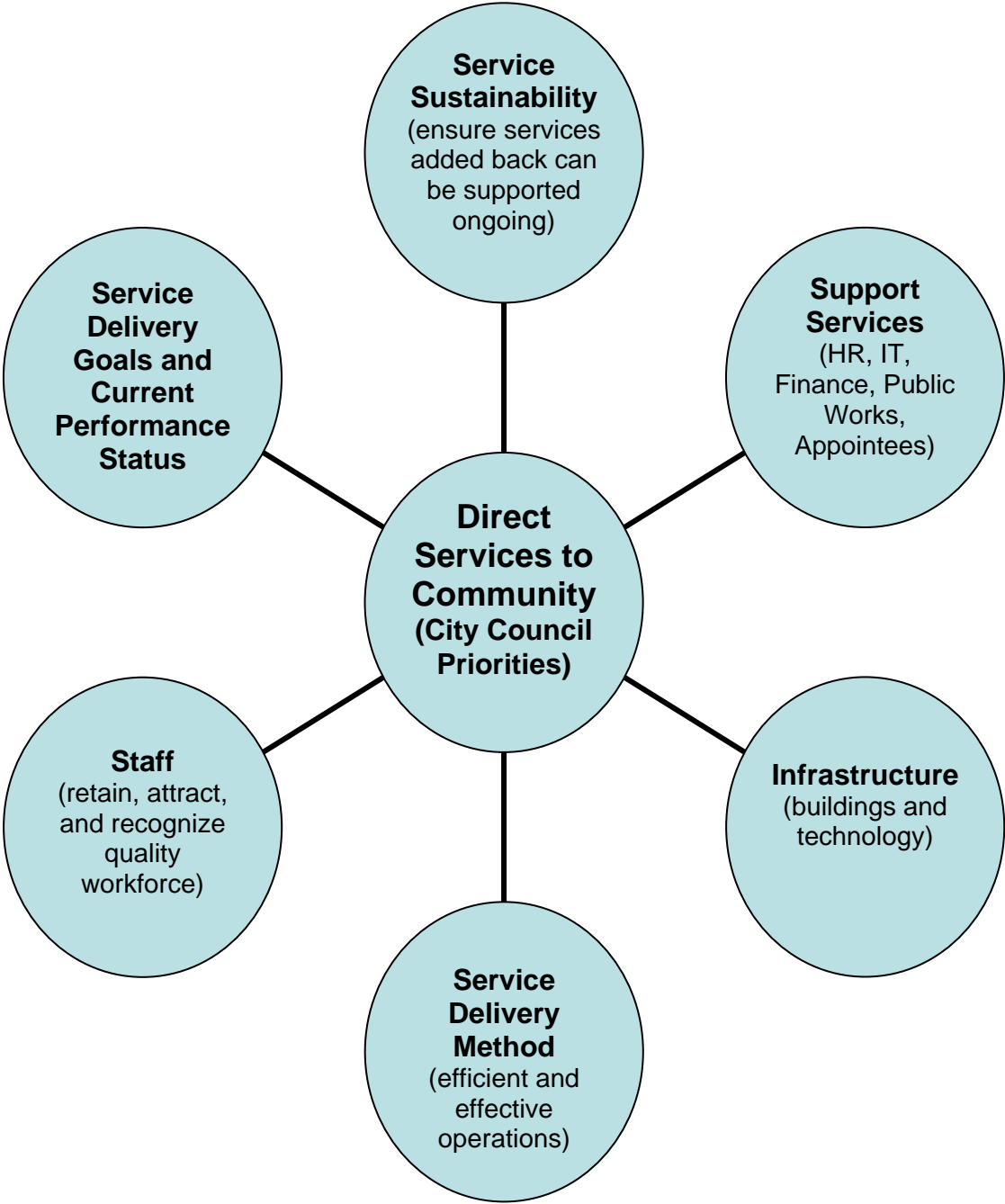
Service Restorations Previously Identified by City Council* (January 1, 2011 Levels)

Fire	<ul style="list-style-type: none"> • 33 Fire Stations open; • On average, responding fire unit arrives within 8 minutes 78.7% of the time for Priority 1 calls**; • On average, responding fire unit arrives within 13 minutes 92.7% of the time for Priority 2 calls**. <p>**Baseline performance data restated due to data collection issues in prior years; performance measures updated to include response time performance for Priority 1 and Priority 2 calls rather than first due and second due units.</p>
Police	<ul style="list-style-type: none"> • On average, Citywide, average response time for Priority One police calls for service (present or imminent danger to life or major damage/loss of property) is 6.04 minutes; • On average, Citywide, average response time for Priority Two police calls for service (injury or property damage or potential for either to occur) is 12.74 minutes; • On average, overall, the clearance rate (number cleared / total cases) for Part 1 crimes is as follows: Homicide (65.00%), Rape (19.37%), Robbery (26.54%), Aggravated Assault (39.93%), Burglary (5.58%), Larceny (18.90%), and Vehicle Theft (8.85%).
Library	<ul style="list-style-type: none"> • On average, 18 library branches are open 39 hours per week.
Community Centers	<ul style="list-style-type: none"> • On average, 10 Hub Community Centers are open 63 hours per week; • On average, 9 Satellite Community Centers are open 40 hours per week; • On average, 8 Neighborhood Centers are open for 15 hours of programming per week.
Street Maintenance	<ul style="list-style-type: none"> • 72 miles of residential and arterial streets resealed and 6 miles of residential and arterial streets resurfaced with various Capital and Grant funds (no General Fund allocation). Maintaining this street maintenance level will be contingent upon receiving commensurate levels of regional, state, and federal funds annually.
Facilities Built or Under Construction/ Opening Deferred	<ul style="list-style-type: none"> • South San José Police Substation. (This facility was temporarily repurposed beginning in 2014-2015)

* This list has been updated to remove services that have been restored to January 1, 2011 service levels.

PAGE IS INTENTIONALLY LEFT BLANK

Service Restoration Decision Making Framework



PAGE IS INTENTIONALLY LEFT BLANK

Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

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

Choose Investments that Achieve Significant Outcomes

4. Ensure restored services represent City Council priorities and the highest current need in the community
5. Balance investments among three categories:
 - Restoration of services (public safety and non-public safety services, including critical strategic support services)
 - Opening of new facilities
 - Maintenance of City infrastructure and assets
6. Prioritize baseline service level restorations using performance goals (*January 1, 2011 levels for Selected Services*)
7. Focus funding on areas where there is a high probability of success and/or high cost of failure
 - Focus funding on infrastructure needs where there is a significant increase in cost if maintenance is delayed (such as street maintenance)
 - Focus investments in technology that have the greater return on investment in terms of services to the public and employee productivity

Improve the Efficiency and Effectiveness of Service Delivery

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

PAGE IS INTENTIONALLY LEFT BLANK

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.

CITY OF SAN JOSE BUDGET PRINCIPLES

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.

*Five-Year Economic Forecast
and
Revenue Projections*

2016-2020

GENERAL FUND REVENUE DESCRIPTIONS

PROPERTY TAX

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

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

SALES AND USE TAX

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

The current distribution of the sales tax proceeds is outlined below. Recent voter approved changes include: a 1/8 cent increase enacted by the Santa Clara Valley Transportation Authority (VTA) on July 1, 2012 (limited to 30 years) to provide operating and maintenance expenses and capital reserve contribution for the Silicon Valley Rapid Transit Project Extension; a State of California 1/4 cent increase effective January 2013; and a Santa Clara County 1/8 cent increase effective April 2013.

Agency	Distribution Percentage
State of California	5.750%
City of San José*	1.000%
Santa Clara County	0.875%
Santa Clara Valley Transportation Authority	0.625%
Public Safety Fund (Proposition 172)	<u>0.500%</u>
Total Sales Tax	8.750%

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

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

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

* Note: As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), starting July 1, 2004, 0.25% of the City's one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue (primarily Educational Revenue Augmentation Funds). This action is to last only for the life of the bonds (currently estimated at five to ten years). The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts is tied to sales tax and because this action is considered to be temporary. This mechanism is anticipated to sunset during 2015-2016.

GENERAL FUND REVENUE DESCRIPTIONS

TRANSIENT OCCUPANCY TAX

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

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (six percent of room rent) is restricted by 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%).
- 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 of the Transient Occupancy Tax was enacted as a general tax.

FRANCHISE FEES

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

FRANCHISE FEES

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, that increased the amount collected for CSW to \$3.34 per cubic yard in 2004-2005. In 2005-2006, the City Council increased the fee by 4.5% (\$0.15 per cubic yard) to \$3.49 per cubic yard. In 2006-2007, an additional 5% increase was approved by the City Council, which brings the fee to \$3.67 per cubic yard. In 2009-2010, the elimination of the fee exclusion for the first 20,000 cubic yards hauled in the fiscal year was approved.

On October 19, 2010, the City Council amended the CSW 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. For 2014-2015, CSW fees will total \$11.2 million; \$5.07 million per year for each of the two geographic collection districts plus a supplemental fee of \$1.01 million.

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 five percent 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) two percent of the utility’s gross annual receipts arising from the use, operation, or possession of facilities located in public streets within the City limits established on or after October 10, 1911, or 2) one percent of all gross receipts derived from the sale of water within the City limits. Those portions of the water company’s system that are established in private right-of-ways or utility easements granted by private developers are exempted from the franchise fee assessment. It should be noted that the City is not assessing a Water Franchise Fee on the San Jose Water Company due to a Santa Clara Superior Court ruling that states San José cannot impose a franchise fee on that company.

GENERAL FUND REVENUE DESCRIPTIONS

UTILITY TAX

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

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

In addition to the rates listed above, City Ordinance number 21518 specifies the assessment of taxes by grouping taxed businesses (each at a different rate) in the following categories: Rental or Lease of Residential or Non-Residential property, Mobile Home Parks, and Water Companies. Rented or leased properties (if three or more residential rental units) are subject to the \$150 minimum tax, but are also assessed \$5/rental unit over 30 units for residential properties and \$0.01 per square foot in excess of 15,000 square feet for non-residential properties. Taxes for both residential and non-residential properties are limited to a maximum of \$5,000. Mobile home parks are treated as residential properties. Water companies are assessed by a schedule that assigns an amount (from \$200 to \$20,000) depending on the number of active metered connections. In November 1996, the rates were increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates (as reflected) were returned to the levels prior to November 1996.

GENERAL FUND REVENUE DESCRIPTIONS

BUSINESS TAXES

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

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

During 1991-1992, Council approved the establishment of a Cardroom Ordinance which contained the provision of a **Cardroom Business Tax** to tax gross receipts from cardrooms located in the City. On June 9, 1992, the City Council approved an ordinance amending the San José Municipal Code, increasing the tax rate schedule and expanding the permissible games authorized. A gross receipt monthly tax schedule was established with taxes ranging from 1% to 13% of gross receipts. In 1993-1994, Council approved a revision to the Cardroom Ordinance, instituting a flat 13% gross receipts tax for all cardrooms located in the City with annual gross revenues in excess of \$10,000. In June 2010, voters approved a ballot measure that increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98.

On November 2, 2010, San José voters approved Ballot Measure U, which allows the City to tax all marijuana businesses (medical and non-medical; legal and illegal) at a rate of up to 10% of gross receipts. On December 13, 2010, the City Council approved Ordinance number 28867 which sets the **Marijuana Business Tax** at 7%; and on June 4, 2013, the City Council approved Ordinance 29262 to increase the rate to 10% effective on July 1, 2013. Details of the Marijuana Business Tax are provided in Municipal Code Chapter 4.66. The Marijuana Business Tax became effective on March 1, 2011.

LICENSES AND PERMITS

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

GENERAL FUND REVENUE DESCRIPTIONS

LICENSES AND PERMITS

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

FINES, FORFEITURES, AND PENALTIES

The City receives a portion of the fines collected in connection with violations of the State Vehicle Code on city streets. Various fines may be assessed in addition to those imposed by the Santa Clara County bail schedule and judges' sentences. The County court system collects the fines as authorized by the State Vehicle Code and makes monthly remittances to the City. Only "on call" emergency vehicles are exempt from Vehicle Code street laws. State legislative action in 1991-1992 reduced the amount (by approximately 50%) of vehicle code fine and forfeiture revenue forwarded to the City. On October 10, 1997, however, the Governor signed Assembly Bill 233 (AB 233) which became effective on July 1, 1998. AB 233 changed how the State and 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 of interest and the funds available to invest. The City has established a formalized and conservative investment policy with objectives emphasizing safety and liquidity. This policy provides guidelines for type, size, maturity, percentage of portfolio, and size of security issuer (among others) of each investment. In addition, the policy statement outlines several responsibilities of the City Council, City Manager, City Auditor, and Finance Director. These policy and monitoring units interact and produce investment performance reports and an annually updated investment policy. All reports 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.

GENERAL FUND REVENUE DESCRIPTIONS

REVENUE FROM LOCAL AGENCIES

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

REVENUE FROM THE STATE OF CALIFORNIA

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

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.

DEPARTMENTAL CHARGES

Departmental Charges are comprised of fees charged for services which are primarily provided by the following departments: Planning, Building and Code Enforcement; Police; Public Works; Transportation; Library; and Parks, Recreation and Neighborhood Services. The 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/prns).

OTHER REVENUE

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

TRANSFERS AND REIMBURSEMENTS

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

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

GENERAL FUND REVENUE DESCRIPTIONS

TRANSFERS AND REIMBURSEMENTS

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 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*

2016-2020

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2016-2020)



Prepared by:

**City of San Jose
Department of Planning, Building and Code Enforcement
February 2015**

Development Activity Highlights and Five-Year Forecast (2016-2020)

For more information, please contact:

**City of San Jose
Department of Planning, Building and Code Enforcement
Planning Division
200 East Santa Clara Street
San Jose, CA 95113
(408) 535-3555**

*This report in color and other information can be found
on the Planning Division website at:*

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

Development Activity Highlights and Five-Year Forecast (2016-2020)

TABLE OF CONTENTS

<u>Section</u>	<u>Title</u>	<u>Page</u>
I	Purpose.....	1
II	Summary.....	1
III	Five-Year Forecast (2016-2020).....	4
IV	Construction Taxes and Exemptions	6
V	Major Development Activity Data.....	8
	<i>Residential.....</i>	<i>8</i>
	<i>Commercial</i>	<i>11</i>
	<i>Industrial</i>	<i>13</i>
VI	Major Development Activity Maps (Planning Areas)	15
	<i>Almaden.....</i>	<i>16</i>
	<i>Alum Rock</i>	<i>17</i>
	<i>Alviso.....</i>	<i>18</i>
	<i>Berryessa.....</i>	<i>19</i>
	<i>Cambrian/Pioneer.....</i>	<i>20</i>
	<i>Central.....</i>	<i>21</i>
	<i>Edenvale</i>	<i>22</i>
	<i>Evergreen</i>	<i>23</i>
	<i>North.....</i>	<i>24</i>
	<i>South.....</i>	<i>25</i>
	<i>West Valley.....</i>	<i>26</i>
	<i>Willow Glen.....</i>	<i>27</i>
VII	Appendix: Sources	28

Development Activity Highlights and Five-Year Forecast (2016-2020)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2016-2020)* 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 Jose; and,
3. A tool for distributing information on major development projects to the public.

II. SUMMARY

Development in San Jose has increased significantly since the end of the Great Recession in mid 2009. In the 2013/2014 fiscal year, the valuation of new construction and tenant improvements (alterations) to existing development reached approximately \$1.73B, a number the City has not seen since fiscal year 2000/2001 during what is known as the dot.com boom. Broken down by major sector, the total construction valuation for industrial has increased from the previous fiscal year by 85%, for commercial by 88%, and for residential by 68%.

A majority of this development was entitled prior to the recession. With the recent improvement in the economy, projects that were put on hold with the economic downturn have begun to break ground. The significant increase in construction activity over the last two years is primarily a result of pre-recession entitlements and projects entitled after the recession moving forward to construction simultaneously.

The increase in construction activity has not been evenly distributed between the residential, commercial, and industrial sectors. The majority of the construction activity has been occurring in the residential sector. While new construction and tentative improvements in the commercial and industrial sectors have been increasing, the total amount of activity for these two sectors combined only represents about half of the total construction valuation.

In fiscal year 2013/2014, the valuation of new industrial construction surpassed the valuation for tenant improvements. While most of the commercial activity continues to be in tenant improvements, the proportion that is new construction increased 150% from the previous year and was 44% of the total commercial construction activity. This is a significant shift from the prior 3 years, in which new construction on average only represented 32% of the total commercial construction. The high growth rate in new construction can be attributed to

decreasing vacancy rates, and therefore the need for new industrial and commercial space to accommodate expanding businesses.

The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2016-2020).

Residential Development

- *New housing production in San Jose exceeded 4,000 dwelling units per year during the late-1990's, and then declined to an average of just over 3,000 units per year from 2001-2006. With the onset of the 2008/09 recession, activity dropped off sharply to an average of about 1,500 units per year; however in late-2010, residential activity, and apartment construction in particular, began a strong rebound, returning activity to an average of 3,000 units per year. This pace has been sustained for the past several years.*
- *In fiscal year 2013/14, the number of residential units built reached nearly 5,000 units, the highest number of units built in any of the last 15 years. As evidence of the strong market for high density residential development, over ninety percent of these units were multi-family.*
- *The record number of residential units constructed in fiscal year 2013/2014 is a result of both projects entitled prior to the recession and post-recession moving forward with construction. Staff anticipates that the residential market will remain strong but, as the number of pre-recession projects decrease, there is likely to be a leveling off residential development, with the total residential valuations projected to be \$500 million a year, on average, over the next 5 years.*

Commercial Development

- *After a five-year-long boom in commercial construction activity that spanned the late-1990's to early 2000's, during which time total permit valuation averaged over \$500 million per year, activity since has generally averaged less than half that level.*
- *In fiscal year 2013/14, commercial construction activity amounted to approximately \$400 million, with a doubling of new construction from the previous year and a steady increase in tenant improvements. Most of the increase in commercial activity is the result of the completion of the San Jose Earthquake Stadium, adjacent Coleman Landings Shopping Center, and retail development at the "Hitachi Site" (former IBM facility along Cottle Road)*

- *While more of the construction activity is still in tenant improvements rather than in new construction, in fiscal year 2013/2014 the growth in new construction has outpaced the growth in tenant improvements, as the vacancy rate of commercial buildings has been steadily decreasing as part of the economic recovery.*
- *For the five-year forecast period, total commercial construction activity is forecasted to average about \$230 million annually, a decrease from fiscal 2013/2014 but consistent with the annual average since the end of the dot.com boom in 2001. Hotel growth is anticipated to remain strong as several projects are under construction and/or have been approved in Downtown and North San José. Furthermore, there are additional hotels currently in the entitlement process. Construction activity for commercial office and retail is not expected to increase, but to remain steady.*

Industrial Development

- *Similar to commercial activity, industrial construction activity averaged nearly \$500 million per year in permit valuation over the five-year period of 1997-2001. Since that time, however, activity has been just a small fraction of that figure, dipping to an annual average construction valuation of less than \$100 million following the 2008/09 recession. With the recent improvement in the economy, there has been a noticeable increase in industrial construction activity.*
- *In fiscal year 2013/2014 the total valuation of new construction and building improvements in the industrial sector reached approximately \$450 million. While the increase in construction activity was in both in new construction and tenant improvements, most of the increase was due to the recent construction of Samsung Semiconductor's 680,000-square foot campus located in North San José.*
- *Based on past trends, the valuation of tenant improvements is expected to remain steady over the forecast period, and will represent the majority of the industrial construction activity. In contrast, new construction is expected to decrease over the five year forecast period. Nevertheless, new construction is still projected to remain at a relatively high level over the next two fiscal years, primarily as a result of two large projects anticipated to move forward. These two projects are the SuperMicro campus at the old San José Mercury News headquarters located in North San Jose and the Trammel Crow project located in Alviso, which includes close to one million square feet of manufacturing, and research and development space.*

III. FIVE-YEAR FORECAST (2016-2020)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). The construction valuation in fiscal year 2014/2015 is expected to remain similar to fiscal year 2013/2014, with the total valuation anticipated to be \$1.29 billion. In fiscal year 2015/2016 development activity is anticipated to slow down, and then remain steady with an average of \$947 million of annual construction valuation over the remainder of the forecast period.

**Table 1
Construction Valuation: FY 09/10 to FY 19/20**

Fiscal Year	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
	Actual Valuation¹ (in millions)					Projected Valuation (in millions)					
<u>New Construction</u>											
Residential	\$93	\$332	\$456	\$424	\$748	\$650	\$525	\$425	\$500	\$500	\$325
Commercial	\$160	\$78	\$80	\$71	\$181	\$120	\$100	\$85	\$75	\$75	\$75
Industrial	\$72	\$9	\$11	\$62	\$266	\$110	\$100	\$25	\$25	\$25	\$25
Subtotal	\$326	\$419	\$547	\$557	\$1196	\$880	\$725	\$535	\$600	\$600	\$425
<u>Alterations</u>											
Residential	\$71	\$85	\$89	\$87	\$110	\$130	\$90	\$85	\$85	\$85	\$85
Commercial	\$131	\$160	\$177	\$145	\$228	\$140	\$140	\$140	\$140	\$140	\$140
Industrial	\$54	\$89	\$132	\$192	\$203	\$140	\$150	\$150	\$140	\$140	\$140
Subtotal	\$255	\$335	\$398	\$424	\$542	\$410	\$380	\$375	\$365	\$365	\$365
GRAND TOTAL	\$581	\$753	\$945	\$982	\$1737	\$1290	\$1105	\$910	\$965	\$965	\$790
<u>Tax Exemptions</u>											
Residential	*	*	*	*	*	\$(50)	\$(50)	\$(50)	\$(50)	\$(50)	\$(50)
Commercial	*	*	*	*	*	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)
Industrial	*	*	*	*	*	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)
Net Total (Taxable)						\$1190	\$1005	\$810	\$865	\$865	\$690

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

¹Valuation figures adjusted to 2014 dollars, per Bureau of Labor Statistics Consumer Price Index (CPI), San Jose-San Francisco-Oakland, all items index.

**Table 2
Residential Units and Non-Residential Square Footage: FY 09/10 to FY 19/20**

Fiscal Year	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
	Actual¹					Projected					
<u>Residential (Units)</u>											
Single-Family	103	66	140	284	341	300	400	300	200	200	200
Multi-Family	470	2,142	2,833	2,418	4,383	3,900	3,000	2,400	3,000	3,000	1,900
TOTAL	573	2,208	2,973	2,702	4,724	4,200	3,400	2,700	3,200	3,200	2,100
<u>Non-Residential (sq.ft., in thousands)</u>											
Commercial	750	500	500	250	1,400	675	575	475	400	400	400
Industrial	250	0	0	250	1,200	450	400	100	100	100	100
TOTAL	1,000	500	500	500	2,600	1,125	975	575	500	500	500

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

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

IV. CONSTRUCTION TAXES AND EXEMPTIONS

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

Building and Structure Construction Tax

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

Construction Excise Tax

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

Residential Construction Tax

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

Exemptions

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

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

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

Planning staff estimates that \$100 million in construction valuation will be exempted each year over the forecast period, or approximately 10% to 15% of total valuation during this time (see Table 1 on page 4).

V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. These data focus on recent “major” projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet. This data collection effort has identified approximately 26,000 dwelling units and approximately 22 million square feet of commercial and industrial space submitted for Planning approval since January 1, 2008 that have been constructed or are likely to develop in the near future.

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

**Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/08**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
Projects Completed									
H07-008	2/16/07	Centerra Apts	259-35-007	SW/c N. Almaden & W. St. John	Central	MF	347	MS	12/7/07
PD04-103	5/10/04	San Carlos Senior Apts	274-14-142	NW/c W. San Carlos & N. Willard	Central	MF	95	EM	8/25/04
PD07-025	3/26/07	Race Street	264-09-064	Race Street and Auzerias Avenue	Central	MF	386	RR	8/6/07
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	MF	704	JB	11/30/07
PD07-036	4/13/07	Enzo Apts	097-07-031	W/s Baypointe, 370' nly Tasman	North	MF	183	JB	11/30/07
PD07-088	10/9/07	Morrison Park Apts	261-01-054	SW/c Cinnabar & Stockton	Central	MF	250	LM	8/1/08
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	MF	371	RM	10/10/08
PD08-023	3/11/08	121 Tasman Apts	097-07-072	NE/c Baypointe & Tasman	North	MF	174	JB	8/1/08
PD08-027 / AD12-1006	4/4/08	Berryessa Crossing (Phase 1)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF	242	LX	12/15/10
PD08-056	8/29/08	Epic Apts	097-15-026	SE/c River Oaks & Seely	North	MF	769	ES	1/23/09
PD08-071	12/17/08	Santana Row (Levare)	277-40-011	NW/c Olin & Hatton	West Valley	MF	118	SZ	4/23/10
PD09-001	1/20/09	Brookwood Terrace Apts	472-05-075	S/s E. San Antonio, opp. S. 28th	Central	MF	84	SZ	6/15/09
PD09-006	2/27/09	Meridian Mixed Use	277-20-006	SW/c W. San Carlos & Meridian	Central	MF	218	ES	6/8/09
PD09-030	10/2/09	Westmount Homes	249-09-009	SE/c E. Mission & N. 10th	Central	SF	60	SZ	11/30/09
PD09-033	10/21/09	Ford Apts	678-53-004	N/s Ford, 550' ely Monterey	Edenvale	MF	95	LX	7/16/10
PD10-024	11/2/10	Brookside Homes	575-02-027	W/s Guadalupe Mines, 2000' sly Camden	Almaden	SF	89	LX	9/16/11
PD10-026	11/5/10	Celadon Townhomes (Phase 2)	254-06-037	SW/c N. Capitol & Mabury	Alum Rock	MF	77	JN	6/10/11
PD11-003	1/21/11	Cottages at Mirassou	659-57-010	SW/c Ruby & Aborn	Evergreen	SF/MF	104	LX	7/29/11
PD11-008	3/7/11	Westbury Homes	464-22-030	N/s Blossom Hill, 250' ely Cahalan	Edenvale	SF	86	LX	9/7/11
PD11-009	3/9/11	Vicino Townhomes	277-38-006	W/s S. Monroe, 450' nly Hwy 280	West Valley	SF	104	LX	9/30/11
PD11-023	7/21/11	Centered on Capitol Townhomes	589-19-063	NE/c N. Capitol & Sierra	Berryessa	MF	94	LX	11/18/11
PD11-025	3/11/11	Rosemary Family/Senior Apts	235-05-012	SE/c N. 1st & Rosemary	North	MF	290	LX	8/26/11
PD11-026	7/28/11	The Meridian at Willow Glen	447-05-012	NE/c Hillsdale & Yucca	Willow Glen	SF	51	ME	11/18/11
PD11-031	9/8/11	Domain Apts	097-52-028	W/s N. 1st, both sides Vista Montana	North	MF	444	JH	10/14/11
PD12-031	7/18/12	Berryessa Crossing (Phase 2)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	MF	494	LX	3/8/13
PD12-039 / PD14-010	10/11/12	South Village (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	845	JB	12/20/12
PDA04-071-01	9/29/10	Mayfair Court Apts	481-18-013	W/s McCreery, 230' sly Alum Rock	Alum Rock	MF	93	JN	3/15/11
PDA05-066-01	11/3/11	Santana Row (Misora)	277-46-001	SE/c Winchester & Stevens Creek	West Valley	MF	220	LX	2/3/12
PDA07-006-03	12/12/08	Crescent Village Apts	097-33-113	SE/c Zanker & River Oaks	North	MF	1750	MD	1/15/09
PDA07-013-01	3/26/12	Parc 22 Townhomes	472-01-021	S/s William, 350' wly McLaughlin	Central	SF	67	LX	7/9/12
PDA08-039-01	7/7/09	University Villas Apts	230-14-026	N/s Campbell, 250' ely El Camino Real	West Valley	MF	138	LX	4/26/10
PDA08-036-01	11/4/08	River Oaks Apts (West)	097-33-036	NE/c Zanker & River Oaks	North	MF	293	MD	12/19/08
Total							9,335		

**Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/08**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
<u>Projects Under Construction</u>									
H09-004	2/11/09	Donner Lofts	467-20-018	SE/c E. St. John & N. 4th	Central	MF	156	SZ	10/9/09
H12-022	1/9/13	One South Market Apts	259-40-093	SW/c Market & Santa Clara	Central	MF	312	SD	3/1/13
H13-021	5/28/13	The Pierce Apts	264-32-087	SW/c S. Market & Pierce	Central	MF	234	RB	11/1/13
H13-023	6/7/13	San Jose Student Apts	467-57-080	E/s N. 6th, 100' nly Santa Clara	Central	MF	119	KT	11/22/13
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	MF	256	SM	3/21/08
PD07-090	10/23/07	Brandon Park Apts	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	1,579	JB	4/4/08
PD08-015	2/11/08	Japantown Senior Apts	249-39-011	W/s N. 6th, 200' sly E. Taylor	Central	MF	85	SZ	5/7/10
PD08-029/ PDA08-029-01	9/13/12	Virginia Terrace Apts	472-18-063	E. Virginia, Martha St, S 5th Street and S. 6th	Central	MF	238	RM	1/14/09
PD11-011	3/14/11	Metropolitan Apts	477-23-021	E/s Monterey, 700' nly Tully	South	MF	102	LX	7/15/11
PD11-030 / PD07-091	9/8/11	Tasman Apts	097-52-013	NW/c Vista Montana & W. Tasman	North	MF	554	JH	10/14/11
PD12-002	1/17/12	Anton La Moraga Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	275	JB	5/4/12
PD12-007	2/16/12	River Oaks Apts (East)	097-33-102	N/s River Oaks, 200' ely Research	North	MF	438	LX	5/25/12
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	W/s Monterey, 300' sly Umbarger	South	SF	100	JR	6/7/13
PD12-028	6/26/12	Cottle Station Mixed Use (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	234	JB	11/19/12
PD12-036	8/14/12	North Tenth Street Apts	249-08-004	W/s N. 10th, bet Vestal & E. Mission	Central	MF	166	JR	2/8/13
PD12-040	9/14/12	Orvieto Family/Senior Apts ¹	455-09-064	W/s Monterey, 300' sly Umbarger	South	MF	198	LX	1/11/13
PD13-023	6/25/13	Newbury Park Mixed Use	254-04-076	NW/c King & Dobbin	Alum Rock	MF	230	EL	1/2/13
PDA04-076-02	12/16/11	Ajisai Gardens Apts	249-37-006	SE/c E. Taylor & N. 7th	Central	MF	103	LX	6/1/12
PDA11-007-02	8/8/12	Orchard Park	237-03-070	SW/c E. Brokaw & Oakland	Berryessa	SF	240	LX	11/20/12
PDA12-035-01	3/18/13	Ascent Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	650	JB	5/3/13
Total							6,269		

Approved Projects (Construction Not Yet Commenced)

CP11-034	5/10/11	North San Pedro Apts	259-23-016	NE/c Hwy 87 & Bassett	Central	MF	135	LX	12/14/11
H12-020	1/16/13	San Pedro Square	259-32-044	SE/c Bassett & Terraine	Central	MF	406	BR	2/24/14
H13-041	10/31/13	Silvery Towers Apts	259-32-004	SW/c W. St. James & N. San Pedro	Central	MF	643	KT	2/26/14
H14-023	6/9/14	Post & San Pedro Tower	259-40-088	NW/c San Pedro & Post	Central	MF	182	EL	10/8/14
PD09-039	11/23/09	Edwards Mixed Use	264-37-060	SW/c Edwards & S. 1st	Central	MF	50	SZ	7/2/10
PD12-009	3/1/12	Verona at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	277	SD	11/30/12
PD13-027	7/1/13	Vicenza at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	162	AA	11/22/13
PD13-044	10/25/13	Santa Teresa Transit Village	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	543	PK	3/12/14
PD13-048	12/11/13	Century Center Mixed Use	230-29-022	SW/c N. 1st & Century Center	North	MF	378	RB	6/4/14
PD14-012	2/28/14	Fairfield at West San Carlos	264-15-062	SE/c W San Carlos & Sunol	Central	MF	315	EL	10/28/14

**Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/08**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD14-031	6/27/14	Balbach Condos	264-30-067	S/s Balbach, 100' ely Almaden	Central	MF	101	RB	12/27/14
PD14-022	4/17/14	505 Lincoln	264-09-063	W/s Lincoln 500' sly Auzerais	Central	MF	190	LS	11/5/14
PDC05-101	10/14/05	Vendome Place	259-05-024	NW/c N. 1st & Taylor	Central	MF	433	LX	4/17/12
PDC09-033	12/17/09	Senter Road Family Apts	497-41-098	E/s Senter, 600' sly Tully	South	MF	102	LX	9/21/10
PDC13-009	3/15/13	Communication Hill*	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	SF/MF	2,200	MD	10/21/14
PDC13-037	8/29/13	Race Street Terrace	261-42-072	Bet. Race & Grand, 300' sly Park	Central	MF	80	RB	12/17/13
Total							6,197		

Projects Pending City Approval

H14-009	2/18/14	Parkview Tower	467-01-008	NE/c 1st & St James	Central	MF	216	EL	---
H14-010	2/28/14	Marshall Square	467-21-018	SE/c 1st & E St. John	Central	MF	190	RB	---
H14-034	10/2/14	First and Reed	472-26-030	N/s Reed, 167' ely 1st	Central	MF	105	EL	---
H14-037	11/5/14	NSP3 Tower	259-24-008	Block W/ Terraine Street btwen Basset & Julian	Central	MF	313	ES	---
H15-007	1/23/15	Moderia	259-35-042	W/s N San Pedro, 300' nly Santa Clara	Central	MF	204	ES	---
PD12-013	3/29/12	Ohlone Mixed Use (Phase 1)	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	263	LX	---
PD14-044	9/3/14	King & Dobbin Transit Vilage Lot E	254-04-079	N/s Dobbin, 600' ely N King	Alum Rock	MF	67	ES	---
PD14-051	10/30/14	777 Park	261-36-062	NE/C Laurel Grove & Park	Central	MF	182	LS	---
PD14-054	11/12/14	King & Dobbin Transit Vilage Lot H	254-55-010	N/s Dobbin, 718' ely King	Alum Rock	SF	105	ES	---
PD15-003	1/27/15	785-807 The Alameda	261-01-003	N/s The Alameda, 400' wly Stockton	Central	MF	168	JT	---
PD15-004	2/2/15	Hanover Cannery	249-09-001	NW/c N 10th & E Taylor	Central	MF	403	JP	---
PD14-055	1/13/15	Lee Ave Apartments	284-32-014	SE/c Southwest & Leigh	Willow Glen	MF	64	JP	---
PDA07-094-01	1/13/15	2nd Street Studio	477-01-082	SE/c S 2nd Street & Keyes	Central	MF	135	JP	---
PDA14-035-01	8/21/14	Comm Hill (Phase 1)	455-28-017	Comm Hill & CalTrain Railway	South	SF	314	MD	---
PDC13-004	2/27/13	Ohlone Mixed Use (Balance)*	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	537	LX	---
PDC13-012	4/9/13	Park Family/Senior Apts	261-36-062	N/s Park, 450' ely Sunol	Central	MF	181	KT	---
PDC13-034	8/16/13	Almaden Apts	455-21-050	W/s Almaden, 660' sly Willow Glen	South	MF	124	EL	---
PDC13-050	11/13/13	Santana Row (balance)	277-40-015	SE/c Winchester & Stevens Creek	West Valley	SF/MF	434	KT	---
Total							4,005		

GRAND TOTAL

25,806

Footnote: *Balance, Remaining Development in Approved Zoning

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

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/08**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
<u>Projects Completed</u>									
CP08-057	6/26/08	Brokaw Commons	237-03-074	NW/c Oakland & Brokaw	Berryessa	102,000		ES	10/22/08
CP08-071	8/29/08	Hyatt House	097-03-138	SE/c N. 1st & Hwy 237	North	116,000	160	CB	12/10/08
CP10-059	11/9/10	Courtyard Marriott @ First	097-14-108	SE/c N. 1st & Hwy 237	North	99,000	157	JN	4/20/11
H10-018	9/17/10	First United Methodist Church	467-19-078	NE/c E. Santa Clara & N. 5th	Central	24,000		LX	4/8/11
H13-008	2/20/13	Orchard Supply Hardware	264-15-028	SW/c W. San Carlos & Royal	Central	49,000		RB	5/31/13
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	25,000		JB	11/30/07
PD07-049	12/28/11	Coleman Landings	230-46-068	NW/c Coleman & Newhall	North	245,000		SD	2/3/12
PD07-055	6/6/07	SBIA Evergreen Center/Mosque	652-13-001	E/s Ruby, 250' nly Murillo	Alum Rock	28,000		JB	3/21/08
PD08-054	8/12/08	Samaritan Medical Center	421-37-012	NE/c Samaritan & S. Bascom	Cambrian/Pioneer	75,000		ES	3/24/09
PD09-018	5/7/09	Lincoln Office/Retail	429-06-070	SE/c Lincoln & Willow	Willow Glen	41,000		SZ	5/21/10
PD09-021	6/11/09	Bellarmine (Academic Building)	261-11-005	NE/c Elm & Emory	Central	55,000		SD	11/13/09
PD09-040	12/2/09	Valley Christian Schools	684-05-019	Ely term. Skyway	Edenvale	50,000		JC	8/25/10
PD10-011	6/15/10	Bellarmine (Life Center/Gym)	261-11-005	NE/c Elm & Emory	Central	40,000		JN	1/14/11
PD10-025	11/5/10	M8trix Casino/Hotel (Phase 1)	230-29-065	SE/c Airport & Old Bayshore	North	89,000		JH	3/18/11
PD10-027	11/22/10	Chinmaya Mission	612-53-046	NE/c Clayton & Hickerson	Alum Rock	26,000		JC	3/21/11
PD11-002	1/20/11	Earthquakes Soccer Stadium	230-46-055	SW/c Coleman & Newhall	North	219,000		LX	2/22/12
PD11-013	5/5/11	Foxworthy Retail	451-06-066	NW/c Almaden & Hillsdale	Willow Glen	25,000		JN	7/15/11
PD11-027	9/2/11	Sun Garden Grocery	477-07-018	E/s Monterey, 300' sly E. Alma	Central	51,000		JC	11/2/11
PD12-015	4/13/12	Village Oaks (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	308,000		JB	9/27/12
PD12-017	4/27/12	Whole Foods Market	261-01-098	NW/c The Alameda & Stockton	Central	33,000		JB	2/26/13
Total						1,700,000	317		
<u>Projects Under Construction</u>									
H13-039	10/4/13	San José Airport Terminals	230-03-101	Mineta Airport	North	278,500		PK	1/17/14
HA13-013-01	12/6/13	Hampton Inn	259-39-111	SE/c W. Santa Clara & Hwy 87	Central	128,000	208	RB	5/19/14
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	30,000		SM	3/21/08
PD07-090	10/23/07	Brandon Park Commercial	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	45,000		JB	4/4/08
PD08-062 / PD12-016	6/23/08	Residence Inn/SpringHill Suites	230-29-109	SW/c N. 1st & Skyport	North	216,000	321	JD	2/10/09
PD09-016	4/23/09	Regional Medical Center (Phase 2A)	481-05-021	SW/c McKee & N. Jackson	Alum Rock	161,000		SD	11/4/09
PD11-024	7/20/11	Almaden Ranch / Bass Pro	458-17-018	SE/c Almaden & Chynoweth	Cambrian/Pioneer	377,000		LX	5/19/12
PD12-014	4/4/12	Santana Row (Lot 11)	277-33-004	SE/c Winchester & Olsen	West Valley	230,000		LX	10/26/12
PD12-048	12/20/12	Aloft Hotel	015-45-026	NW/c Hwy 237 & Gold	Alviso	82,000	175	SD	4/12/13

**Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/08**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
PD13-015	4/19/13	Sun Garden Retail Center	477-07-013	E/s Monterey, 300' sly E. Alma	Central	206,000		JB	5/17/13
Total						1,753,500	704		
<u>Approved Projects (Construction Not Yet Commenced)</u>									
CP13-059	08/08/13	Villa Sport	245-05-017	Betwn N Capitol & Hwy 680, 300' nly Berryessa	Berryessa	88,000		KT	05/07/14
CP13-081	11/05/13	Oakmont of San José	282-06-023	W/s Thorton, 260' nly Maywood	Willow Glen	60,000		EL	02/26/14
H14-006	1/22/14	Hyatt House/Hyatt Place	101-05-002	Sly term. Karina	North	206,000	329	EL	5/7/14
H14-011	3/7/14	Homewood Suites	015-39-053	NW/c Hwy 237 & N 1st	Alviso	106,000	145	RB	9/24/14
H14-029	8/14/14	2890 North 1st Street Office	101-30-006	Bound N 1st, Daggett, Zanker & Plumeria	North	42,000		RB	12/10/14
HA06-027-02	6/10/13	Valley Fair Shopping Center	274-43-035	NW/c Hwy 17 & Stevens Creek	West Valley	525,000		RB	10/30/13
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	30,000		RM	10/10/08
PD08-069	11/26/08	Berryessa Crossing Retail (North)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	119,000		PK	11/6/13
PD12-019	7/19/12	Coleman Highline Office	230-46-062	NW/c Coleman & Newhall	North	683,000		JB	6/10/13
PDC10-022	10/26/10	The Plaza at Evergreen	670-29-020	W/s Capitol, 1500' sly Quimby	Evergreen	200,000		JB	12/9/14
PDC13-009	3/15/13	Communications Hill (KB Home)	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	68,000		BR	11/21/14
Total						2,127,000	474		
<u>Projects Pending City Approval</u>									
H13-048	12/16/13	Hampton Inn/Holiday Inn	237-17-067	E/s N. 1st, opp. Karina	North	173,000	284	PK	---
PD13-049	12/13/13	Bay 101 Casino/Hotel	235-01-020	NE/c N 1st & Matrix	North	245,000		RB	---
PD15-002	1/27/15	iStar Costco	706-08-023	W/s Greak Oak 1000' nly Hwy 85	Edenvale	148,000		RB	---
PDC13-041	9/26/13	Skyport Plaza Hotel/Office	230-29-117	SE/c Skyport & Hwy 87	North	350,000	400	RB	---
PDC13-050	11/13/13	Santana Row (balance)	277-40-015	SE/c Winchester & Stevens Creek	West Valley	639,000		KT	---
Total						1,555,000	684		
GRAND TOTAL						7,135,500	2,179		

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

**Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/08**

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
<u>Projects Completed</u>								
H09-002	1/14/09	Brocade (Phase 1)	097-03-139	SE/c N. 1st & Hwy 237	North	580,000	CB	10/9/09
SP08-046	8/14/08	Equinix (Phase 1)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	125,000	SD	10/9/09
SP09-057	9/16/09	Zero Waste Facility	015-38-005	N/s Los Esteros, term Grand	Alviso	283,000	RB	12/22/11
SP11-046	11/29/11	Public Storage	477-22-028	SW/c Tully & Old Tully	South	<u>115,000</u>	JB	3/29/12
Total						1,103,000		
<u>Projects Under Construction</u>								
H13-001	1/3/13	Samsung Semiconductor	097-53-026	NW/c N. 1st & Tasman	North	680,000	SD	3/25/13
H13-024	6/17/13	A-1 Self Storage	477-49-026	SW/c Phelan & Senter	South	107,000	RB	10/30/13
H14-020	5/20/14	SuperMicro	237-05-036	SW/c Ridder Park & Schallenberger	Berryessa	<u>182,000</u>	RB	9/13/2014
Total						969,000		
<u>Approved Projects (Construction Not Yet Commenced)</u>								
H09-002	1/14/09	Brocade (Phase 2)	097-03-139	SE/c N. 1st & Hwy 237	North	420,000	CB	10/9/09
H12-008	5/17/12	101 Tech	101-03-007	Wly term. Atmel, 200' nly Hwy 101	North	666,000	SD	10/22/12
H13-040	10/16/13	Peery Arrillaga	23716071	W/ Bering between E Brokaw & Crane	North	1,949,000	RB	3/19/14
H14-008	2/14/14	Self Storage	235-16-001	SE/c N 10th Street & Horning	Central	84,000	AA	6/25/14
H14-027	7/2/14	Silicon Valley Industrial Center	678-08-051	W/s Piercy, 2070' nly Silicon Valley	Edenvale	243,000	RB	12/17/14
H14-029	8/14/14	2890 North 1st Street Office	101-30-006	Bound N 1st, Daggett, Zanker & Plumeria	North	42,000	RB	12/10/14
PD07-081	9/18/07	Legacy on 101 Office	101-02-015	W/s Orchard, 750' nly Charcot	North	398,000	JB	12/21/07
PD07-081 / AD11-423	9/18/07	Legacy on 101	101-02-015	W/s Orchard Parkway	North	398,000	JB	1/2/08
PD08-030	4/22/08	Kaiser Permanente	230-29-056	W/s N. 1st bet Skyport & Sonora	North	558,000	JB	8/8/08
PD12-024	6/4/12	North First Campus	101-02-011	SW/c N. 1st & Component	North	2,350,000	JB	11/5/12
PD13-007	2/14/13	North First Campus (Phase 1)	101-02-011	SW/c N. 1st & Component	North	450,000	JB	12/4/13
PD13-012	3/20/13	237 At First Street	015-39-006	NW/c N. 1st & Hwy 237	Alviso	615,000	RB	12/4/13
PD13-039	9/16/13	Trammel Crow (R&D and Office Buildings)	015-44-011	NW/c Nortech & Disk	Alviso	415,000	RB	4/23/14
PD14-005	1/31/14	HGST Great Oaks Campus	706-07-020	Bound Cottle, Monterey, Hwy 85 & Manassas	Edenvale	335,000	RB	6/4/14
PD14-007	2/14/14	Trammel Crow (Manufacture Buildings)	015-44-011	NW/c Nortech & Disk	Alviso	<u>563,760</u>	RB	6/17/14
Total						9,486,760		

**Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/08**

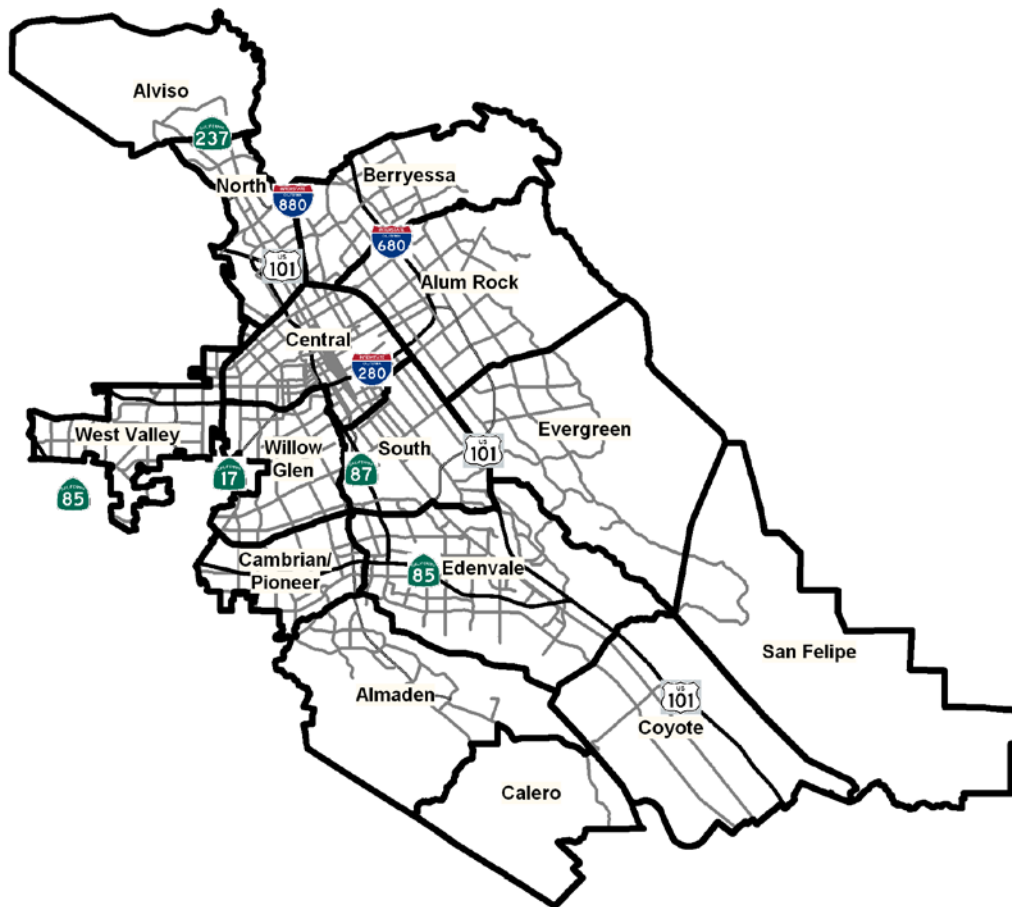
File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
<u>Projects Pending City Approval</u>								
H13-040	10/16/13	First/Brokaw Campus	237-16-073	SE/c N. First & Brokaw	North	2,025,000	RB	---
PD13-039	9/16/13	Midpoint at 237	015-39-006	Both sides N. First bet Hwy 237 & Grand	Alviso	1,120,000	RB	---
PD13-046	10/29/13	Public Storage	462-19-013	N/s Capitol, 200' wly Snell	South	123,000	RA	---
PD14-005	1/31/14	Hitachi Campus (Phase 1)	706-07-020	NE/c Cottle & Hwy 85	Edenvale	335,000	RB	---
PD14-013	3/4/14	Samaritian Court Medical Office	421-38-007	S/s terminum Samaritan	Cambrian/Pioneer	69,000	LS	---
Total						3,672,000		
GRAND TOTAL						15,230,760		

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

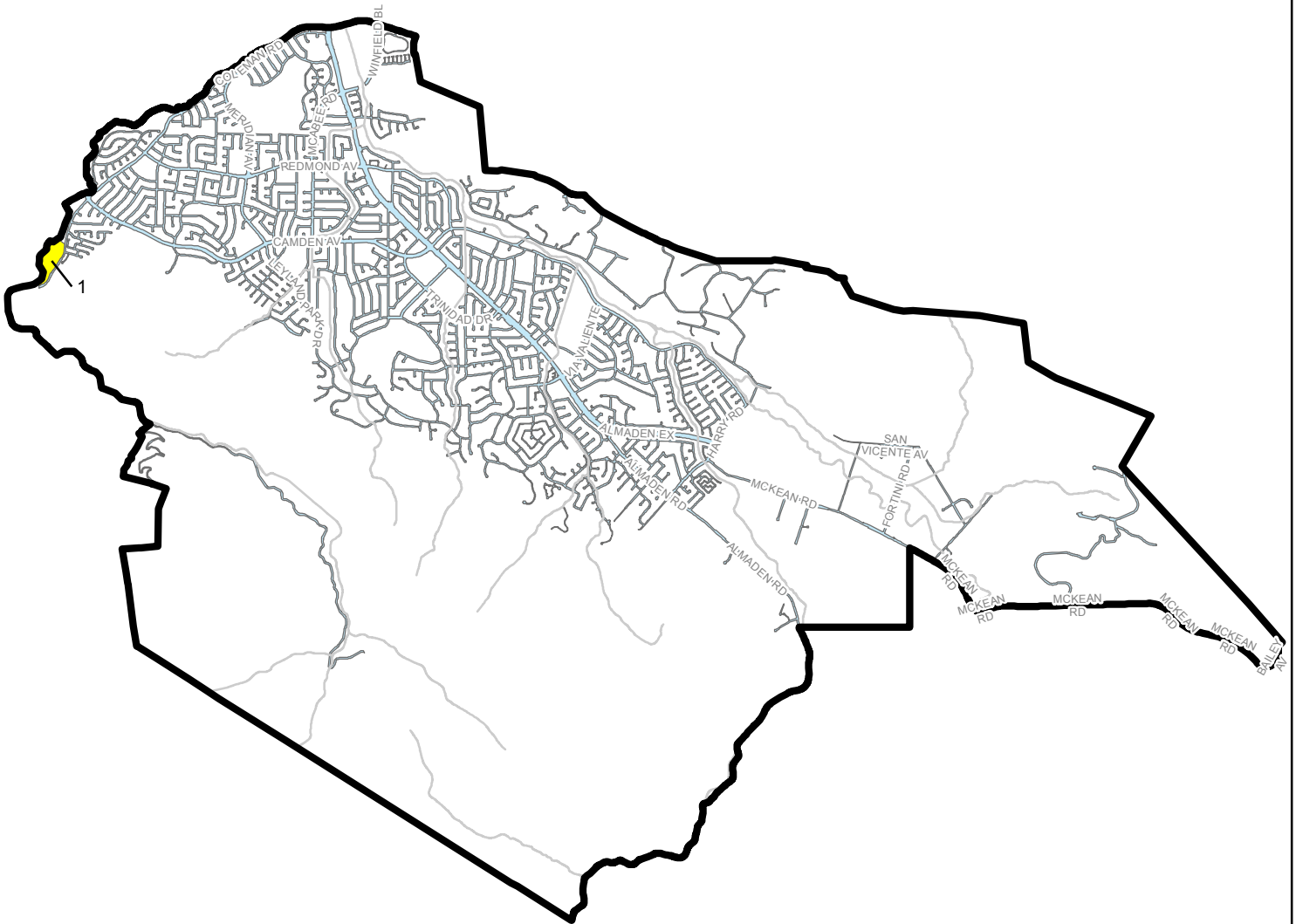
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)


San Jose is divided into a total of fifteen (15) planning areas (see Figure 1, below). The individual planning area maps that follow include projects in all status categories submitted since January 1, 2008. These maps can be used in conjunction with the data contained in Section V of this report to allow closer analysis of the rate, type, and location of major development activity in the City. (Note: map exhibits are not provided for the Calero, Coyote, or San Felipe planning areas, as no major development activity occurred there and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary).

Figure 1: San Jose Planning Areas



Almaden Planning Area Major Development Activity

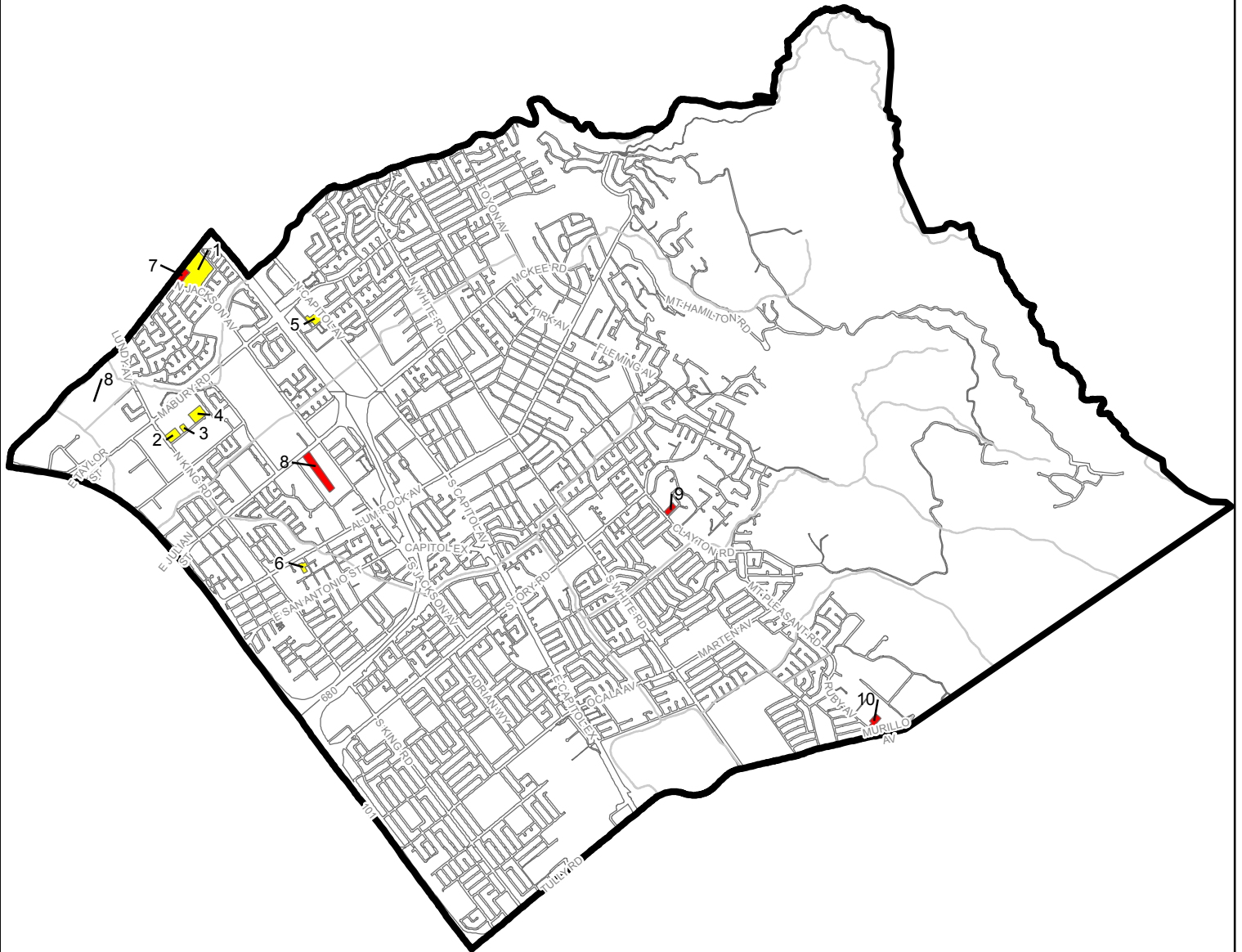


 **Residential Projects**

1 Brookside Home

Total Dwelling Units = 89

Alum Rock Planning Area Major Development Activity



Residential Projects

- 1 Pepper Lane Mixed Use
- 2 Newbury Park Mixed Use
- 3 King & Dobbin Transit village Lot E
- 4 King & Dobbin Transit Village Lot H
- 5 Celadon Townhomes (Phase 2)
- 6 Mayfair Court Apts

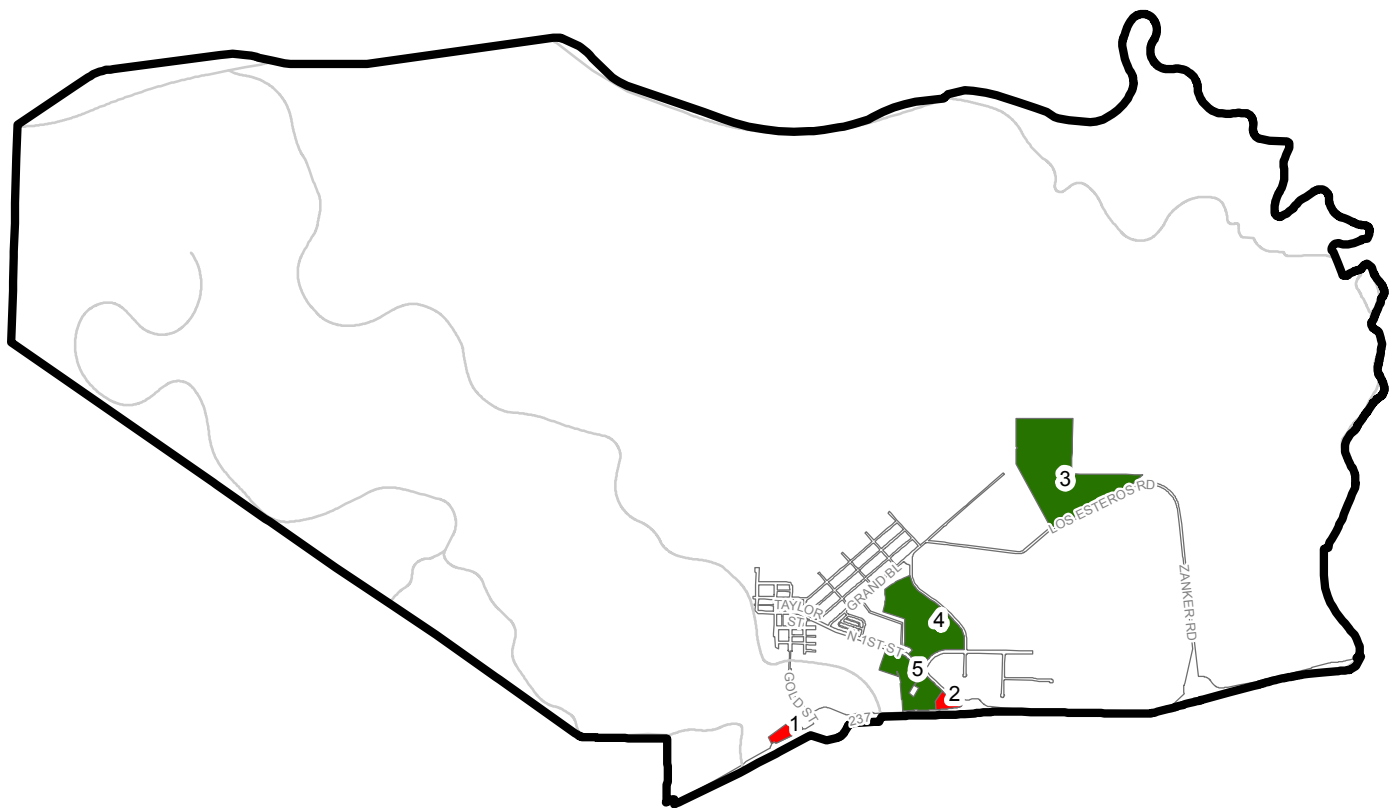
Total Dwelling Units = 943

Commercial Projects

- 7 Pepper Lane Mixed Use
- 8 Regional Medical Center (Phase 2A)
- 9 Chinmaya Mission
- 10 SBIA Evergreen Center/Mosque

Total Commercial Sq. Feet = 245,000

Alviso Planning Area Major Development Activity



Commercial Projects

- 1 Aloft Hotel
- 2 Homewood Suites Hotel

Total Commercial Sq. Feet = 188,000

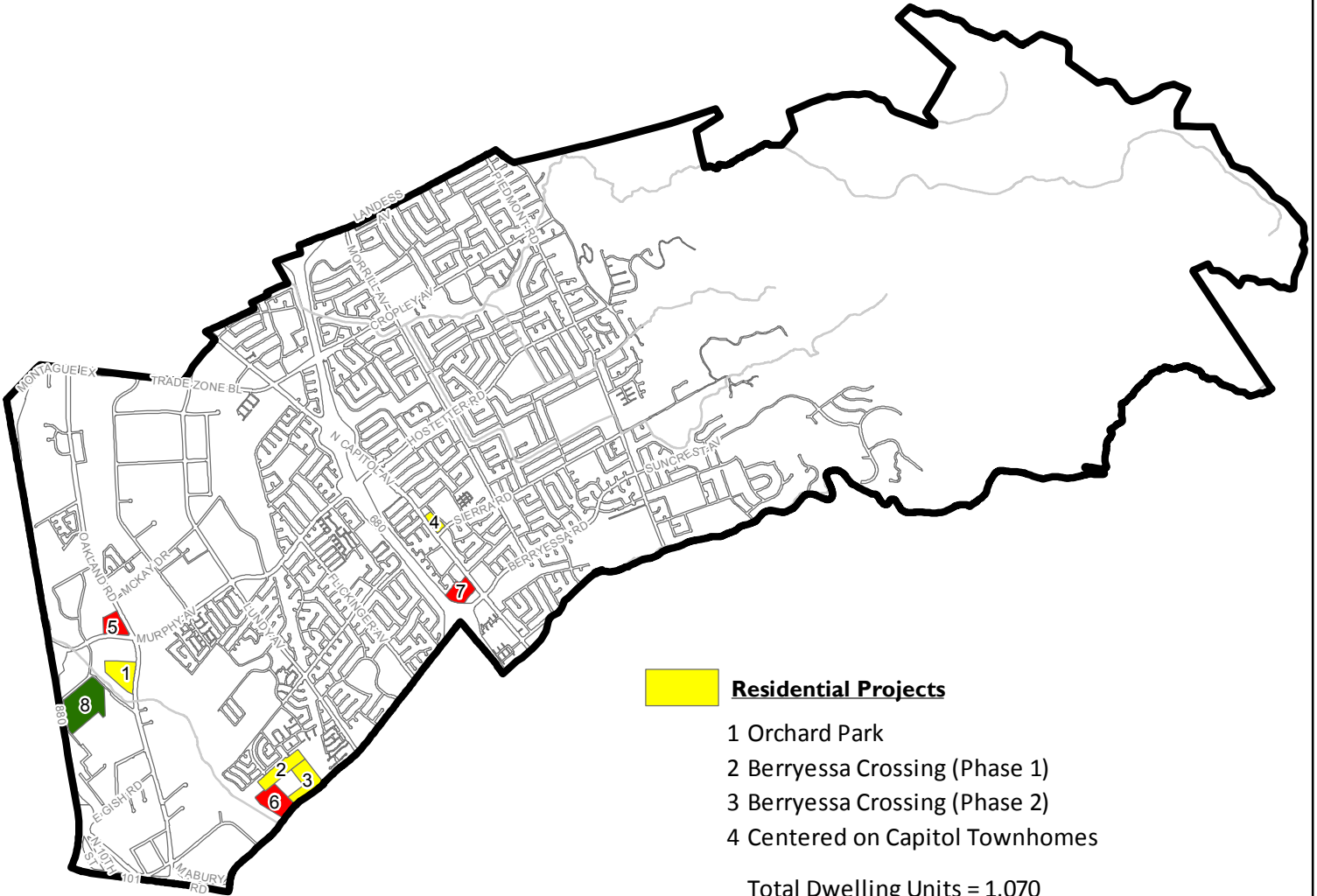


Industrial Projects

- 3 Zero Waste Facility
- 4 Trammel Crow (R&D/Office/Manufacture)
- 5 237 At First Street

Total Industrial Sq. Feet = 1,313,000

Berryessa Planning Area Major Development Activity



Residential Projects

- 1 Orchard Park
- 2 Berryessa Crossing (Phase 1)
- 3 Berryessa Crossing (Phase 2)
- 4 Centered on Capitol Townhomes

Total Dwelling Units = 1,070

Commercial Projects

- 5 Brokaw Commons
- 6 Berryessa Crossing Retail (North)
- 7 Villa Sport

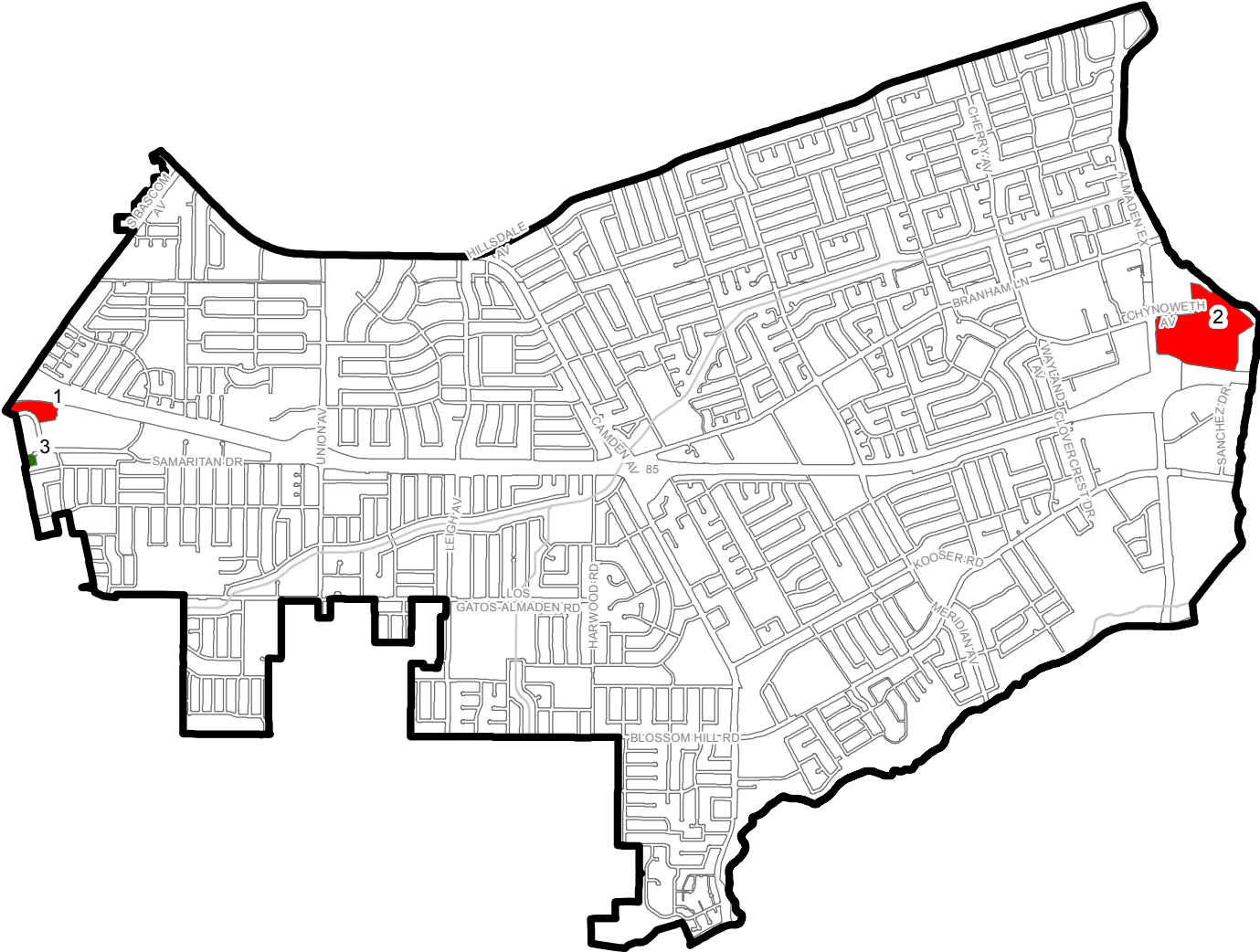
Total Commercial Sq. Feet = 309,000

Industrial Projects

- 8 SuperMicro

Total Industrial Sq. Feet = 182,000

Cambrian/Pioneer Planning Area Major Development Activity



Commercial Projects

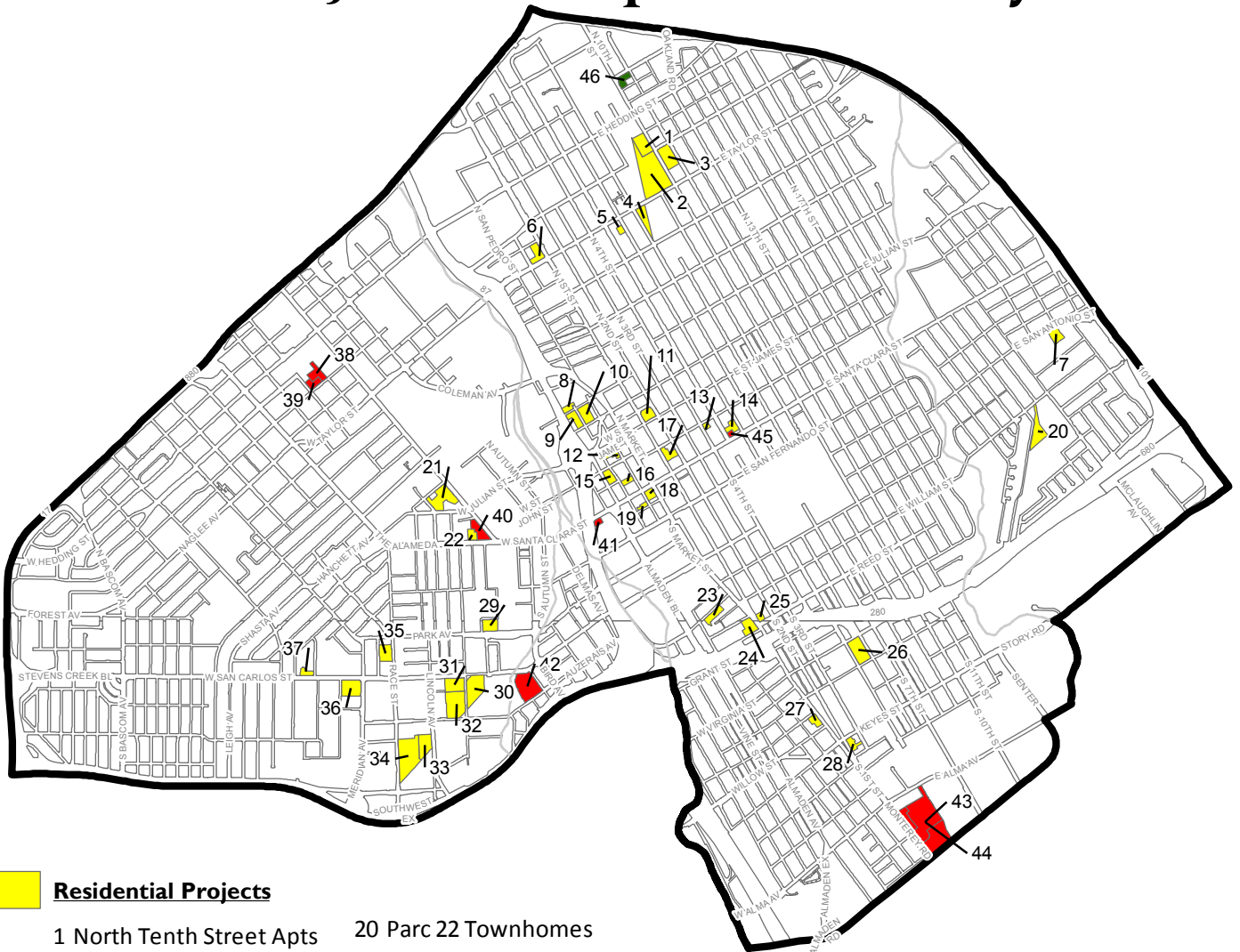
- 1 Samaritan Medical Center
 - 2 Almaden Ranch / Bass Pro
- Total Commercial Sq. Feet = 452,000



Industrial Projects

- 3 Samaritan Court Medical Office
- Total Industrial Sq. Feet = 69,000

Central Planning Area Major Development Activity



Residential Projects

- | | |
|---------------------------|---------------------------------|
| 1 North Tenth Street Apts | 20 Parc 22 Townhomes |
| 2 Hanover Cannery | 21 Morrison Park Apts |
| 3 Westmount Homes | 22 The Alameda Mixed Use |
| 4 Ajisai Gardens Apts | 23 Balbach Condos |
| 5 Japantown Senior Apts | 24 The Pierce Apts |
| 6 Vendome Place | 25 First and Reed |
| 7 Brookwood Terrace Apts | 26 Virginia Terrace Apts |
| 8 North San Pedro Apts | 27 Edwards Mixed Use |
| 9 NSP3 Tower | 28 2nd Street Studio |
| 10 San Pedro Square | 29 777 Park |
| 11 Park View Towers | 30 Fairfield at West San Carlos |
| 12 Silvery Towers Apts | 31 Ohlone Mixed Use (Phase 1) |
| 13 Donner Lofts | 32 Ohlone Mixed Use (Balance) |
| 14 San Jose Student Apts | 33 505 Lincoln Apts |
| 15 Centerra Apts | 34 Race Street |
| 16 Modera | 35 Race Street Terrace |
| 17 Marshall Squares | 36 Meridan Mixed Use |
| 18 One South Market Apts | 37 San Carlos Senior Apts |
| 19 Post & San Pedro Tower | |
- Total Dwelling Units = 8,167



Commercial Projects

- 38 Bellarmine (Life Center/Gym)
- 39 Bellarmine (Academic Building)
- 40 Whole Foods Market
- 41 Hampton Inn
- 42 Orchard Supply Hardware
- 43 Sun Garden Retail Center
- 44 Sun Garden Grocery
- 45 First United Methodist Church

Total Commercial Sq. Feet = 586,000

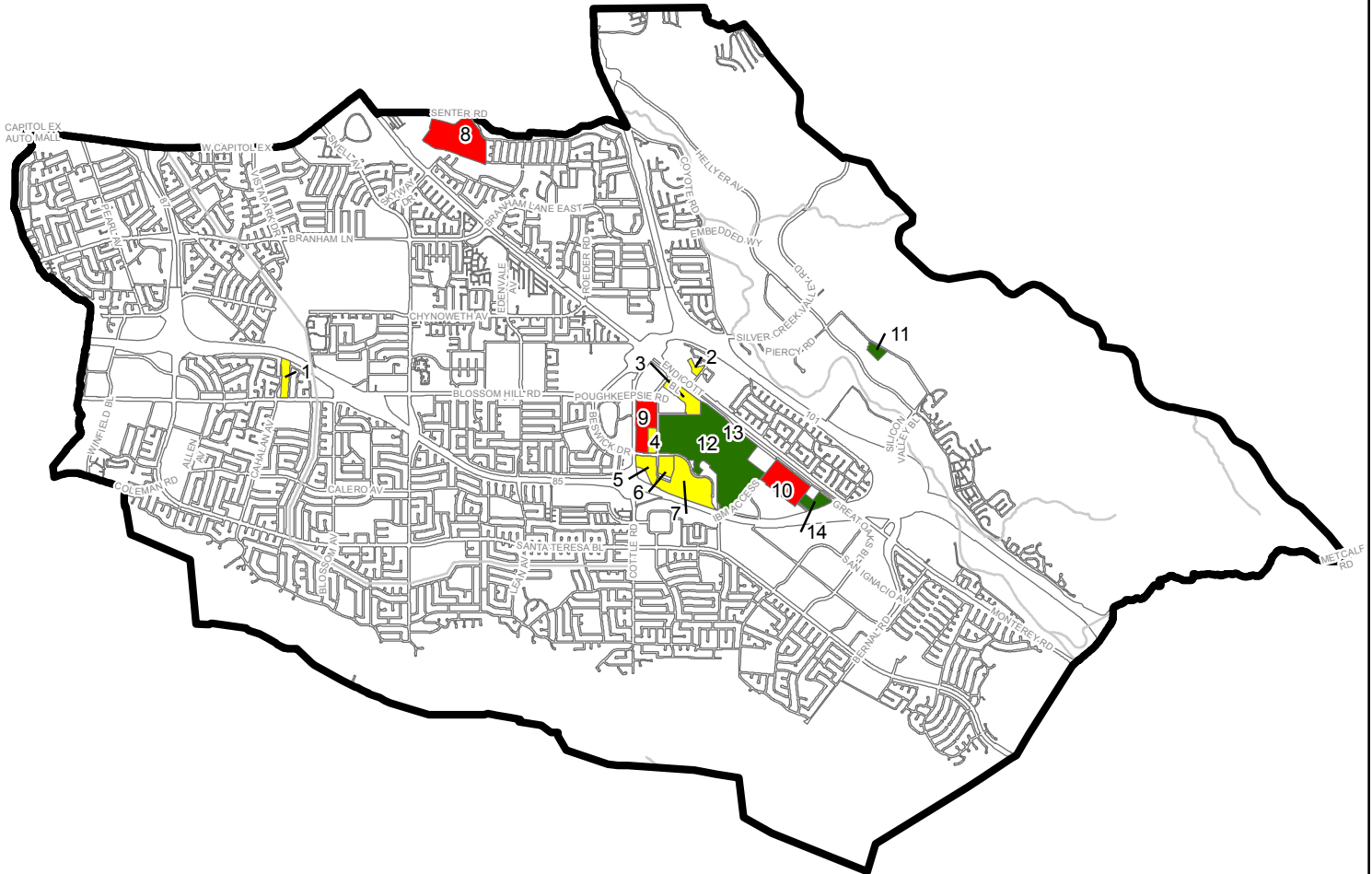


Industrial Projects

- 46 A-1 Self Storage

Total Industrial Sq. Feet = 84,000

Edenvale Planning Area Major Development Activity



Residential Projects

- 1 Westbury Homes
- 2 Ford Apts
- 3 Santa Teresa Transit Village
- 4 Cottle Station Mixed Use (Hitachi)
- 5 Ascent Apts (Hitachi)
- 6 Anton La Moraga Apts (Hitachi)
- 7 South Village (Hitachi)

Total Dwelling Units = 2,849

Commercial Projects

- 8 Valley Christian Schools
- 9 Village Oaks (Hitachi)
- 10 iStar Costco

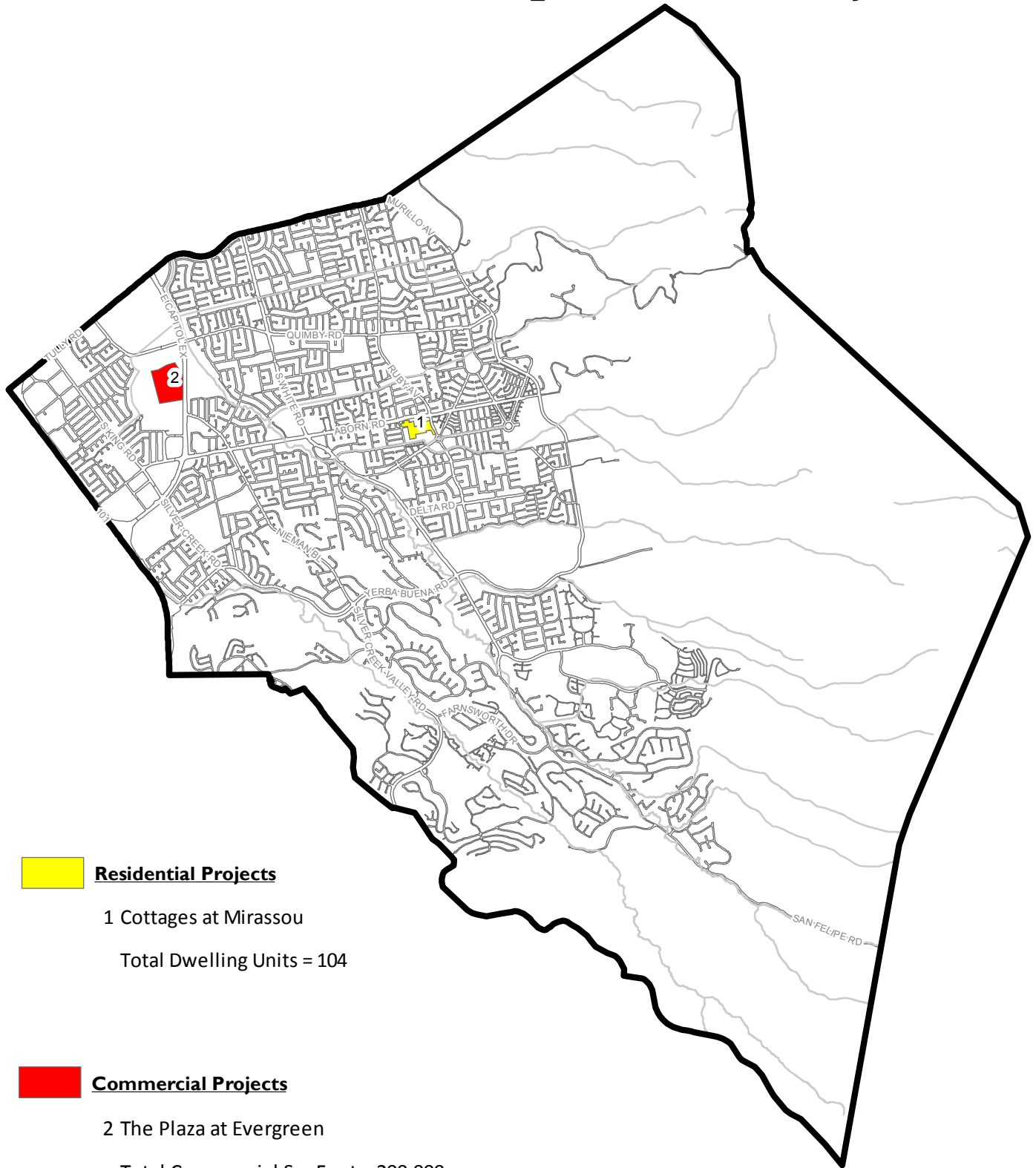
Total Commercial Sq. Feet = 506,000

Industrial Projects

- 11 Silicon Valley Industrial Center
- 12 HGST Greak Oaks Campus
- 13 Hitachi Campus (Phase 1)
- 14 Equinix (Phase 1)

Total Industrial Sq. Feet = 84,000

Evergreen Planning Area Major Development Activity



North Planning Area Major Development Activity



Residential Projects

- 1 Domain Apts
- 2 Tasman Apts
- 3 Enzo Apts
- 4 121 Tasman Apts
- 5 The Verdant/Latitude Apts
- 6 Brandon Park Apts
- 7 River Oaks Apts (West)
- 8 Crescent Village Apts
- 9 River Oaks Apts (East)
- 10 Epic Apts
- 11 Century Center Mixed Use
- 12 Rosemary Family/Senior Apts

Total Dwelling Units = 7,556



Commercial Projects

- 13 Courtyard Marriott @ First
- 14 Hyatt House
- 15 The Verdant/Latitude Apts
- 16 Brandon Park Commercial
- 17 2890 N. 1st Street Office
- 18 Hampton Inn/Holiday Inn
- 19 Hyatt House/Hyatt Place
- 20 M8trix Casino/Hotel (Phase 1)
- 21 Bay 101 Casino / Hotel
- 22 Residence Inn/SpringHill Suites
- 23 Skyport Plaza Hotel/Office
- 24 San Jose Airport Terminals
- 25 Coleman Highline Office
- 26 Earthquakes Soccer Stadium
- 27 Coleman Landings

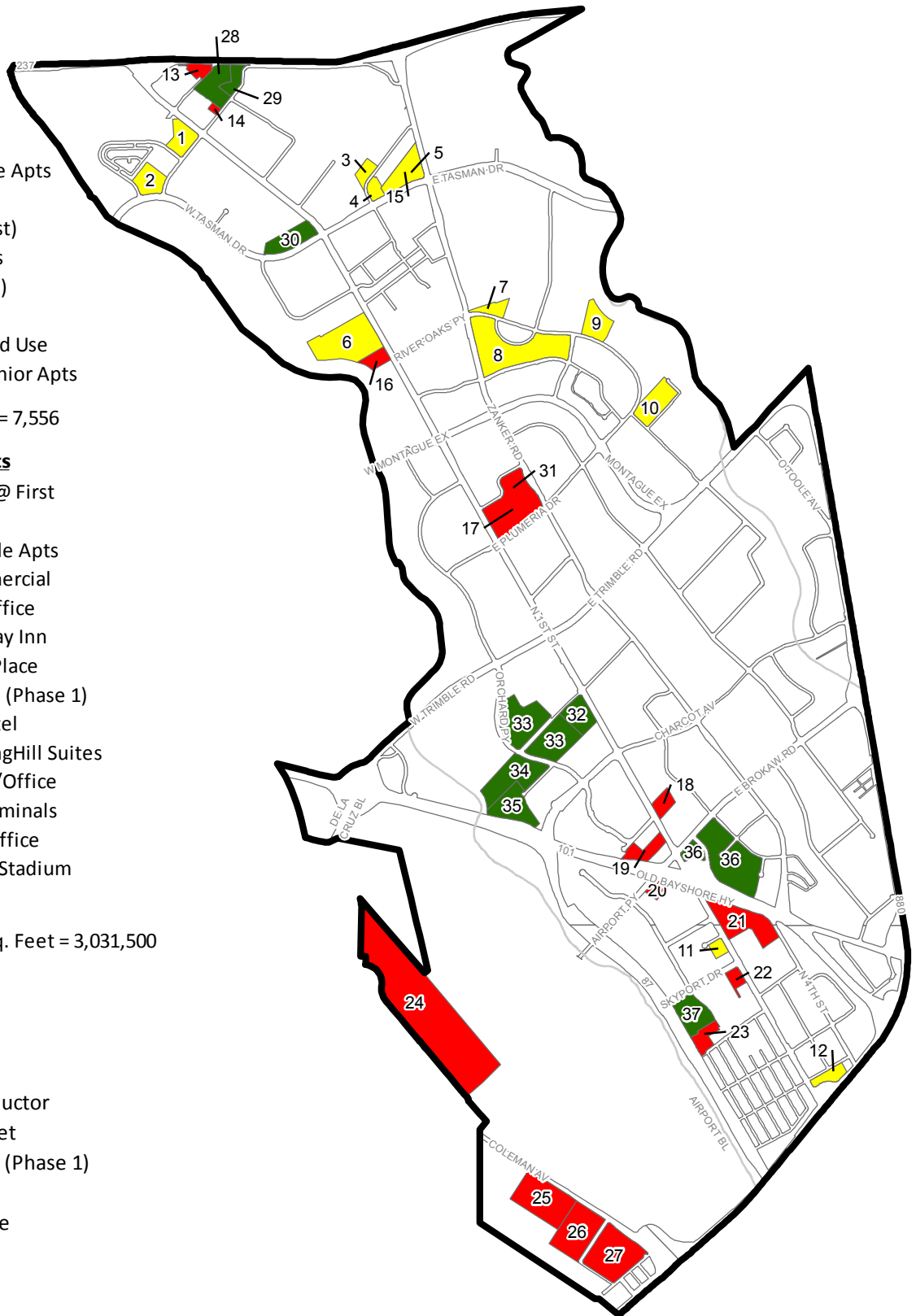
Total Commercial Sq. Feet = 3,031,500



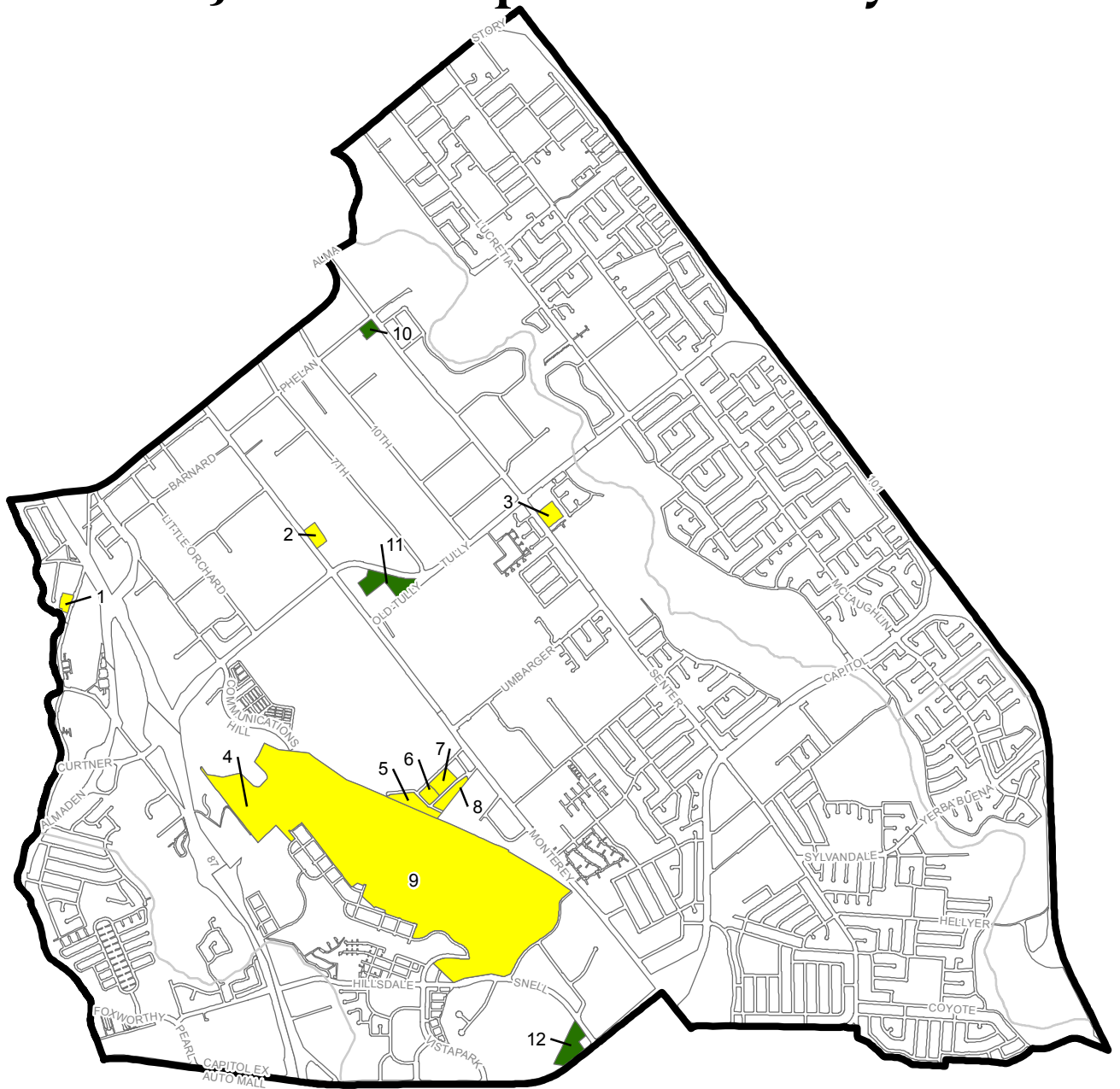
Industrial Projects

- 28 Brocade (Phase 1)
- 29 Brocade (Phase 2)
- 30 Samsung Semiconductor
- 31 2890 North 1st Street
- 32 North First Campus (Phase 1)
- 33 North First Campus
- 34 Legacy on 101 Office
- 35 101 Tech
- 36 Peery Arrillaga
- 37 Kaiser Permanente

Total Industrial Sq. Feet = 8,169,000



South Planning Area Major Development Activity



Residential Projects

- 1 Almaden Apts
- 2 Metropolitan Apts
- 3 Senter Road Family Apts
- 4 Communications Hill (Balance)
- 5 Murano at Montecito Vista
- 6 Vicenza at Montecito Vista
- 7 Verona at Montecito Vista
- 8 Orvieto Family/Senior Apts

Total Dwelling Units = 2,951



Commercial Projects

- 9 Communications Hill

Total Commercial Sq. Feet = 67,500

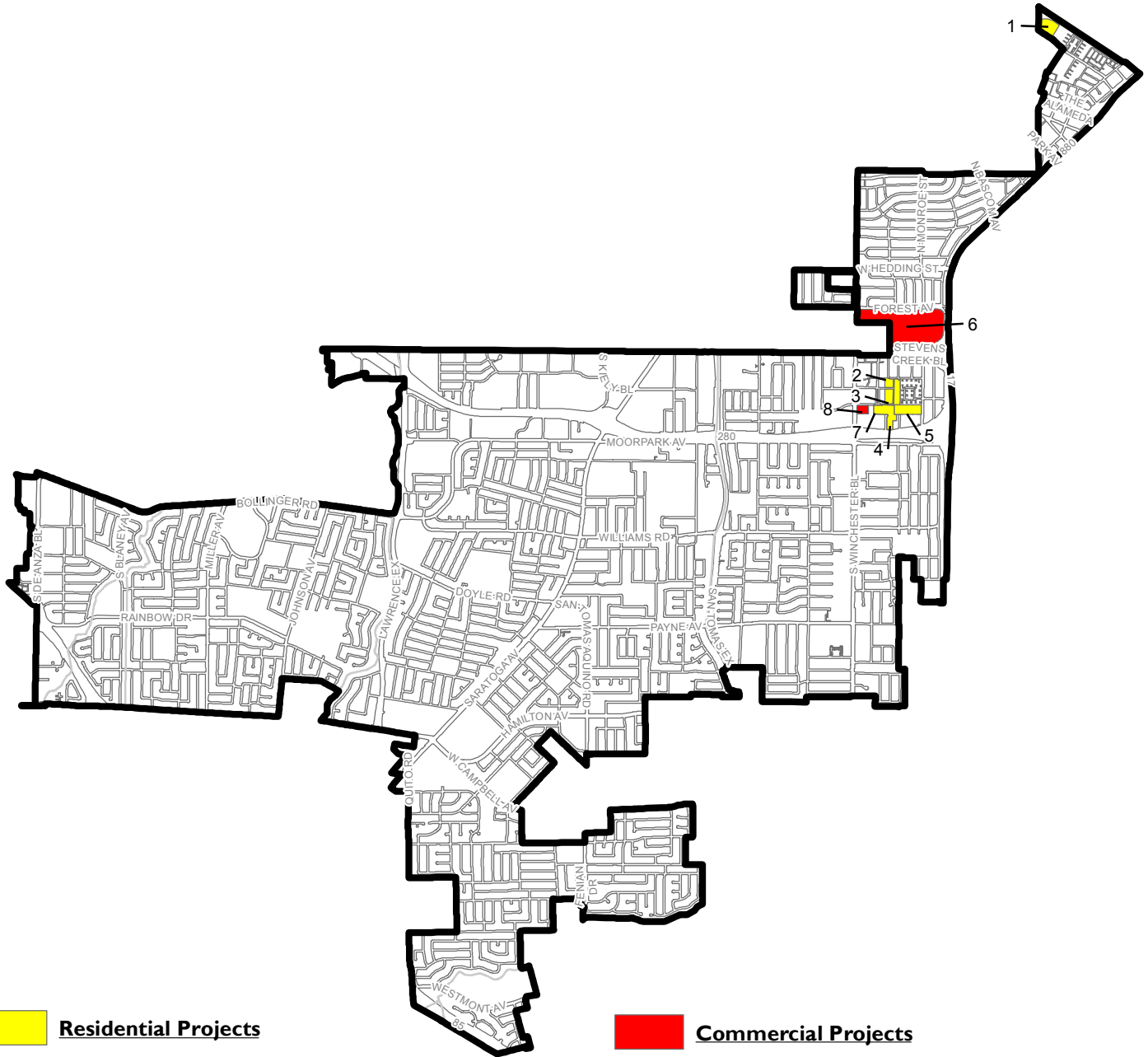


Industrial Projects

- 10 A-1 Self Storage
- 11 Public Storage
- 12 Public Storage

Total Industrial Sq. Feet = 345,000

West Valley Planning Area Major Development Activity



Residential Projects

- 1 University Villas Apts
- 2 Santana Row (Levare)
- 3 Santana Row (Misora)
- 4 Santana Row (balance)
- 5 Vicino Townhomes

Total Dwelling Units = 1,014



Commercial Projects

- 6 Valley Fair Shopping Center
- 7 Santana Row (balance)
- 8 Santana Row (Lot 11)

Total Commercial Sq. Feet = 1,394,000

Willow Glen Planning Area Major Development Activity



Residential Projects

- 1 Fruitdale Station (Phase 2)
- 2 Lee Ave Apartments
- 3 The Meridian at Willow Glen

Total Dwelling Units = 371



Commercial Projects

- 4 Oakmont of San Jose
- 5 Fruitdale Station (Phase 2)
- 6 Lincoln Office/Retail
- 7 Foxworthy Retail

Total Commercial Sq. Feet = 156,000

VII. APPENDIX: SOURCES

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

Data Collection and Analysis

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

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

Review of Publications

Planning staff consulted several publications that made an important contribution to the preparation of this report, including: the Silicon Valley Business Journal, The Registry Real Estate Journal, the San Jose Mercury News, Joint Venture Silicon Valley Network's *2015 Index of Silicon Valley*, the Association of Bay Area Government's *Regional Housing Need Plan (2014-2022)*, the U.S. Census Bureau's *Census 2010* and *American Community Survey*, Marcus & Millichap's *Market Research Reports*, and Urban Land Institute's *2015 Emerging Trends in Real Estate*.