

2014-2015

OPERATING BUDGET

**GENERAL FUND
REVENUE
ESTIMATES**

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REVENUE ESTIMATES**

GENERAL FUND REVENUE ESTIMATES

OVERVIEW

For 2014-2015, Adopted General Fund revenue estimates (excluding fund balance) total \$860.0 million, representing a 4.2% increase from the 2013-2014 Adopted Budget level. When Fund Balance-Carryover is included, General Fund resources total \$1.1 billion, which is 7.2% above the prior year.

Estimates for the 2014-2015 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2015-2019 Five-Year Forecast prepared in February 2014. These estimates have been reviewed continually since the Forecast document was released and have been revised again, as appropriate, in this Adopted Budget based on more recent information. Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2013-2014 and an estimate for the increase or decrease in activity and receipts anticipated for 2014-2015. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2014-2015 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2012-2013 Actuals	2 2013-2014 Adopted	3 2014-2015 Forecast	4 2014-2015 Adopted	2 to 4 % Change	% of Total
Property Tax	205,016,137	220,850,000	228,573,240	233,973,240	5.9%	21.0%
Sales Tax	163,751,105	167,710,000	180,024,000	180,024,000	7.3%	16.2%
Transient Occupancy Tax	10,103,383	10,600,000	11,750,000	11,750,000	10.8%	1.1%
Franchise Fees	43,741,122	43,923,000	45,185,755	45,346,879	3.2%	4.1%
Utility Taxes	91,108,958	91,895,000	94,825,000	94,825,000	3.2%	8.5%
Telephone Tax	20,640,471	20,600,000	20,700,000	20,700,000	0.5%	1.9%
Business Taxes	45,140,285	42,435,000	43,700,000	43,700,000	3.0%	3.9%
Licenses and Permits	46,605,784	40,278,246	45,749,281	46,375,293	15.1%	4.2%
Fines, Forfeitures and Penalties	14,554,960	15,862,200	14,174,600	14,205,334	(10.4%)	1.3%
Rev. from Money and Property	3,890,457	2,673,000	2,799,000	2,847,000	6.5%	0.3%
Rev. from Local Agencies	34,765,946	24,835,589	22,144,803	22,612,276	(9.0%)	2.0%
Rev. from State Government	16,856,606	11,377,531	10,734,000	11,194,473	(1.6%)	1.0%
Rev. from State Govt-Recovery Act	15,061	-	-	-	N/A	0.0%
Rev. from Federal Government	15,993,061	11,042,469	1,473,380	4,170,953	(62.2%)	0.4%
Rev. from Fed Govt-Recovery Act	3,518,445	10,000	-	-	(100.0%)	0.0%
Departmental Charges	38,798,389	35,449,213	39,211,726	39,163,435	10.5%	3.5%
Other Revenue	121,891,450	17,646,265	14,325,938	15,161,073	(14.1%)	1.4%
Transfers and Reimbursements	67,446,942	68,400,692	72,042,531	73,914,067	8.1%	6.6%
Subtotal	943,838,562	825,588,205	847,413,254	859,963,023	4.2%	77.4%
Fund Balance-Carryover (1)	-	213,005,681	57,412,989	253,067,514	18.8%	22.6%
Total General Fund Sources	943,838,562	1,038,593,886	904,826,243	1,113,030,537	7.2%	100.0%

(1) The Fund Balance figure does not include the Reserve for Encumbrances.

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Economic Performance

The 2014-2015 revenue estimates were built on the assumption that the economy would continue to experience growth, which will positively impact the City's economic performance.

The following is a discussion of both the national and local economic outlooks used to develop the 2014-2015 revenue estimates. 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 the University of California – Los Angeles (UCLA), California's Legislative Analysts Office, and Beacon Economics. The City also uses various consultants to assist in the development of these revenue estimates.

National Outlook

Moderate economic growth appears likely for the next several years, driven by the housing market, auto sales and energy production, combined with increased business spending and an end to the decline in federal, State and local government spending, according to the UCLA Anderson Business School Forecast. Weighing on the economy, however, is economic weakness abroad, including Europe's slow emergence from its very long recession, and a lower than desired rate of inflation.

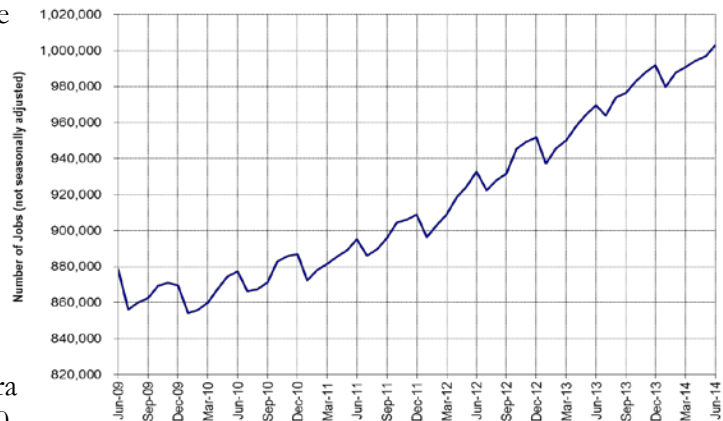
A modest rate of inflation is a key driver for business and consumer demand, and for future property and sales taxes. The Federal Reserve Board targets a core annual inflation rate of 2%. The Consumer Price Index (CPI) increased 2.1% from June 2013 to June 2014¹. This low rate is especially notable given the extraordinary efforts the Federal Reserve has undertaken to inject money into the economy. Factors holding inflation down include strong downward pressure on prices coming from the U.S. energy sector as discussed above, the second is wages, which have either remained flat or decreased across most income classifications.

Forces that would work to push prices up include the Federal Reserve itself, which is determined – and has the ability – not to let prices fall, increases in the minimum wage that may be undertaken nationally or across multiple states, and California's drought that will likely impact agricultural prices across the nation. The UCLA Anderson Business School Forecast anticipates that inflation will modestly increase in future years, and thereby contribute to economic growth; therefore, this key economic indicator will continue to be closely followed.

City of San José Outlook

The majority of economic indicators show significant improvement from the same period a year ago. Employment indicators, construction activity, median single-family home prices and days on market have all improved. The June 2014 employment level in the San José – Sunnyvale – Santa Clara Metropolitan Statistical Area (MSA) of 1.0

Monthly Employment Level - San Jose MSA



¹ U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index News Release, July 23, 2014

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Economic Performance

City of San José Outlook (Cont'd.)

million was 3.5% above the June 2013 level of 969,600. The number of jobs in the San José – Sunnyvale – Santa Clara MSA exceeds the most recent peak of 991,900 in December 2013.

Unemployment Rate (Unadjusted)

	June 2013	May 2014	June 2014**
San José Metropolitan Statistical Area*	7.3%	5.3%	5.5%
State of California	9.2%	7.1%	7.3%
United States	7.8%	6.1%	6.3%

* San Benito and Santa Clara Counties

** June 2014 estimates are preliminary and may be updated

Source: California Employment Development Department

The unemployment rate in the San José metropolitan area continued to improve in 2013-2014, dropping from 7.3% in June 2013 to 5.5% in June 2014. These rates remain well below the double digit levels that had been experienced in recent years. The June 2014 unemployment rate in this region is less than the unadjusted rate for the State (7.3%) and the nation (6.3%).

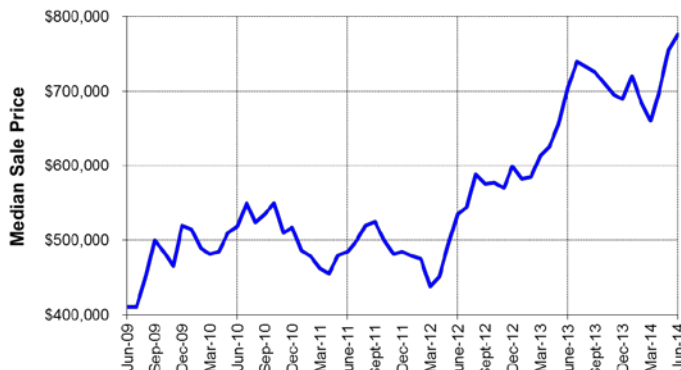
Construction activity was strong in 2013-2014, with total fiscal year-end valuation of \$1.7 billion, a 77% increase from the prior year of nearly \$1.0 billion and a decade-plus high. The strongest performance was in the commercial permit activity, with construction valuation of \$398.5 million, which was up 89% from the prior year valuation level of \$211.2 million as of June 2013. This growth was due primarily to the issuance of building permits for Samsung Semiconductor in August and October 2013.

The number of new residential dwelling units permits issued through June 2014 (4,724) was above the prior year level of 2,702 by 75%, due largely to a high number of permits issued in December 2013 for two downtown high rises and two developments at the Hitachi Site. Overall, this activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

Private Sector Construction Activity (Valuation in \$ Millions)

	YTD June 2013	YTD June 2014	% Increase
Residential	\$ 497.5	\$ 835.6	67.9%
Commercial	\$ 211.2	\$ 398.5	88.7%
Industrial	\$ 247.1	\$ 457.4	85.1%

Median Price - Single Family Homes



The housing market also continued to improve in 2013-2014. The median price for single family homes increased in value, with a median home price in June 2014 of \$795,400, up 8.6% from the June 2013 price of \$732,500. In addition, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has decreased in the past year from 22 days in June 2013 to 20 days in June 2014, a 9.1% decrease. The June 2014 figure reflects a new low compared to the

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Economic Performance

City of San José Outlook (Cont'd.)

prior low in June 2013. The number of home sales (single-family and multi-family dwelling units), however, has decreased over the past year (-3.3%) from 8,091 sales in 2012-2013 to 7,824 sales in 2013-2014.

In summary, the recovery from the economic recession is expected to continue to positively impact the City's economic performance in 2014-2015 and beyond. Due to this outlook, the economically sensitive revenues, such as Sales Tax and Property Tax receipts, are expected to experience moderate growth over the forecast period.

Non-Economically Sensitive Revenue Drivers

The economic conditions discussed above are the primary drivers for the economically sensitive revenues, with the most significant impacts in the Sales Tax and Property Tax categories. However, performance in other areas is primarily driven by other factors. For example, the Utility Tax and Franchise Fees categories are more heavily impacted by utility rate changes, energy prices, and consumption levels. 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.

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Revised General Fund Forecast

Between the issuance of the February Forecast and the release of the Proposed Budget in May 2014, staff continued to review and update the estimated revenue collections for 2014-2015. Based on this analysis, a number of the revenue estimates presented in the February Forecast were revised in this budget to reflect more recent information. The net result of these revisions is an upward adjustment of \$5.6 million to the Forecast from \$899.2 million to \$904.8 million.

Following is a summary table and descriptions of the changes incorporated into the Revised Forecast that was used as the starting point in preparing the 2014-2015 Adopted Budget.

2014-2015 Revised Forecast Changes

<u>Category</u>	<u>\$ Change</u>
Sales Tax	\$ 2,300,000
Departmental Charges	1,768,480
Transfers and Reimbursements	862,054
Licenses and Permits	694,508
Other Revenue	246,731
Business Taxes	200,000
Beginning Fund Balance	(338,614)
Utility Tax	(125,000)
Total	\$ 5,608,159

A brief discussion of these changes follows.

Sales Tax

- An increase of \$2.3 million to the General Sales Tax revenue estimate to reflect higher than anticipated collections for the second quarter of 2013-2014 (7.9% growth compared to estimated 3.5% growth).

Departmental Charges

- An increase of \$1.05 million to the Public Works Development Fee Program revenue estimate to reflect the anticipated 2014-2015 collection and activity levels.
- An increase of \$446,000 to the Parks, Recreation and Neighborhood Services Departmental Charges aligns revenues with estimated activity levels. The following adjustments are included: a \$244,000 increase in fees and charges activities of which \$64,000 is attributed to senior memberships; a \$219,000 increase in facility rental activities; an \$118,500 increase in Happy Hollow Park and Zoo revenues; a \$15,000 increase in Lake Cunningham Skate Park revenues; and a \$10,000 increase in park permits. These increases are partially offset by the following decreases: a \$100,000 decrease in Family Camp reservations revenue; \$21,000 net decrease in sports fields revenues to adjust for surcharges associated with artificial turf maintenance (-\$200,000), partially offset by increased activity due to the opening of the Coleman Soccer Facility

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Revised General Fund Forecast

Departmental Charges (Cont'd.)

(\$139,000), and increase in sports fields reservations (\$40,000); a decrease in the Summer Swim Program (-\$25,000); and a decrease in gym and fitness memberships (-\$15,000). These actions were partially offset by increases in base costs to administer these services.

- An increase of \$142,000 in Sidewalk Program Administrative charges to align with activity levels. This action was offset by increases in base costs to administer this service.
- An increase of \$122,000 in Solid Waste Fees revenue estimate to align with 2014-2015 base expenditures.
- An increase of \$50,000 in General Plan Update revenue estimate to reflect the anticipated 2014-2015 collection and activity levels. This action was offset by an increase in the General Plan Update Earmarked Reserve.
- A net increase of \$7,000 to reflect the realignment of revenues for various fees and charges revenue estimates with base activity levels. Adjustments include: an increase in the Finance Department Collection Fee revenues (\$12,000) and Administrative Remedies Lien (\$3,000), slightly offset by a decrease in the Clerk's Office Lobbyist Registration Fees (\$8,000).
- A decrease of \$48,000 reflects the restatement of Enterprise Zone Fee revenue to eliminate revenues associated with the payment of 0.20 position and overhead costs from fee activities as this program was expected to be eliminated.

Transfers and Reimbursements

- A net increase of \$735,000 to reflect updated overhead reimbursements from operating funds (\$1.1 million), slightly offset by a reduction in capital (\$377,000) funds based on final 2014-2015 base expenditures and final 2014-2015 overhead rates as provided by the Finance Department.
- An increase of \$150,000 to the estimate for Highway Users Tax Funds (Gas Tax) based on the collection trend experienced in 2013-2014.
- A net reduction of \$23,000 to align transfers with the 2015-2019 Adopted Capital Improvement Program, including a decrease in the Construction Excise Tax Fund (-\$25,000) slightly offset by an increase in the Construction and Conveyance Tax Fund (\$2,000).

Licenses and Permits

- An increase of \$713,000 to the Fire Permits revenue estimate (development related revenues up \$613,000 to \$7.0 million and non-development related revenues up \$100,000 to \$4.0 million) to reflect the anticipated 2014-2015 collection and activity levels.
- An increase of \$4,000 reflects the realignment of revenues for the Finance Department Handbill Permits with base activity levels.
- A decrease of \$23,000 reflects the reallocation of revenues for Office of Economic Development Special Events permit revenues for private and paseo property permits from the General Fund to

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Revised General Fund Forecast

Licenses and Permits (Cont'd.)

the Transient Occupancy Tax Fund. This is consistent with the reallocation of staff costs associated with these services which occurred in the 2014-2015 base budget and ensures the fees reimburse the appropriate funding source.

Other Revenue

- An increase of \$250,000 to reflect the revenue sharing agreement with the City's banking services provider due to a change in the vendor payment process. The new vendor payment process will allow vendors to receive electronic payments in lieu of manual checks, as approved in the 2013-2014 Adopted Budget, which was erroneously excluded. Upon completion of the transition of vendors to the new system, ongoing revenue is estimated at \$500,000 starting in 2015-2016.
- A decrease of \$3,000 to reflect the realignment of Finance Department revenue estimates for the Return Check Fee with base activity levels.

Business Taxes

- An increase of \$200,000 to the estimate for Disposal Facility Tax based on the current collection trend experienced in 2013-2014 which has seen increased activity from neighboring agencies dumping in San José landfills.

Beginning Fund Balance

- A decrease of \$339,000 to the Beginning Fund Balance to reverse the assumed liquidation of the Public Works Development Fee Program Reserve. With the \$1.05 million increase in the Public Works Development Fee Program revenue estimate, the liquidation of the reserve is no longer necessary to ensure the program remains balanced.

Utility Tax

- A net decrease of \$125,000 reflecting a decrease to the estimate for Gas Utility Taxes (\$225,000, from \$9.3 million to \$9.1 million), partially offset by an increase to the estimate for Telephone Utility Taxes (\$100,000 to \$33.0 million from \$33.1 million) based on 2013-2014 collection trends.

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Changes from Forecast to Adopted Budget

From the Revised Forecast of \$904.8 million, a net increase of \$208.2 million to the General Fund revenue estimates were approved, bringing the 2014-2015 Adopted Budget revenue estimate to \$1.1 billion. The components of this increase include an increase to the estimate for 2013-2014 Ending Fund Balance/2014-2015 Beginning Fund Balance (\$195.7 million), and an increase to various revenue categories (\$12.5 million). These changes are summarized in the following table:

2014-2015 Adopted Budget Changes

<u>Category</u>	<u>\$ Millions</u>
Beginning Fund Balance	\$ 195.65
Property Tax	5.40
Revenue from the Federal Government	2.70
Transfers and Reimbursements	1.87
Other Revenue	0.84
Licenses and Permits	0.63
Revenue from Local Agencies	0.47
Revenue from the State of California	0.46
Franchise Fees	0.16
Revenue from the Use of Money/Property	0.05
Fines, Forfeitures and Penalties	0.03
Departmental Charges	(0.05)
Total	\$ 208.21

A brief discussion of these changes follows.

Beginning Fund Balance

- An increase of \$195.65 million from the Revised Forecast is included bringing the estimated 2014-2015 Beginning Fund Balance from \$57.4 million to \$253.1 million. This increase primarily reflects the rebudget of funds for expenditure-related items and unexpended reserves in the amount of \$143.8 million which were brought to City Council at the end of the budget process. The remaining change of \$51.8 million:
 - Liquidation of various reserves including the: \$18.1 million 2014-2015 Future Deficit Reserve, \$8.0 million Successor Agency City Legal Obligations Reserve to repay a portion of the Supplemental Educational Revenue Augmentation Fund (SERAF) Loan, \$4.2 million in Development Fee Program Reserves, \$4.0 million Police Department Overtime Reserve, \$2.0 million 2014-2015 Homeless Rapid Rehousing Reserve, \$1.5 million 2014-2015 Homeless Response Team Reserve, \$1.5 million 2014-2015 San José BEST and Safe Summer Initiative Programs Reserve, \$620,000 Fire Station #37 (Willow Glen) Reserve, \$550,000 2014-2015 Children's Health Initiative Reserve, \$508,000 Aircraft Rescue and Firefighting Services Reserve, \$300,000 Wellness Program Reserve, and \$100,000 2014-2015 Community and Action Pride Grants Reserve.

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Changes from Forecast to Adopted Budget

Beginning Fund Balance (Cont'd.)

- Additional anticipated fund balance of \$8.9 million primarily from increased expectations for expenditure savings and additional revenue in 2013-2014 that will be available for use in 2014-2015. Additional funds are primarily due to additional Sales Tax receipts (\$1.8 million) in the second quarter of 2013-2014 (up 7.9% compared to budgeted growth of 3.5%), additional Property Tax revenues, and additional Solid Waste Fees (\$600,000) above budgeted estimates. The remainder reflects anticipated expenditure savings as a result of higher than budgeted vacancy rates throughout the City, expenditure savings in Council General (\$1.9 million), and City-Wide Expenditures such as workers' compensation claims costs.
- Expenditure savings of \$1.5 million is attributed to anticipated savings in the City's 2013-2014 General Fund Successor Agency City Legal Obligations Subsidy. As a result of the most current projected cash flow, it is anticipated that the current budgeted subsidy of \$3.1 million for 2013-2014 will not be necessary and \$1.5 million in savings can be used to assist in the payment of the May 2010 SERAF Loan due in June 2015.

Property Tax

- An increase of \$5.4 million to the Secured Property Tax estimate reflects information released by the County of Santa Clara Assessor's Office on May 22, 2014 regarding the 2014-2015 secured real property growth for the City of San José as of that date. Based on that information, secured property tax receipts were projected to increase 6.2% in 2014-2015, which was up from the 3.5% growth assumed in the 2014-2015 Proposed Budget. This increase reflects, in large part, the full or partial restoration of property values that had previously been temporarily reassessed downwards under Proposition 8 due to declining market values.

Revenue from the Federal Government

- An increase of \$2.1 reflects the rebudget of grants from 2013-2014 to 2014-2015 (\$1.4 million) as well as the recognition of new grant funding for 2014-2015 (\$677,000):
 - Rebudgeted funds consist of the following: Urban Area Security Initiative Grant – Fire 2013 (\$394,000); Clean Creeks Healthy Communities (\$232,000); 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program Grant (\$215,000); Internet Crimes Against Children Task Force Grant 2011-2012 (\$215,000); Urban Area Security Initiative Grant – Police 2013 (\$105,797); Human Trafficking Prevention Grant 2011 (\$102,000); OJJDP Community-Based Violence Prevention Demonstration Program Grant (\$67,950); National Forum Capacity-Building OJJDP 2012-2015 (\$55,900); and Protecting Children from Commercial Sexual Exploitation Grant 2011 (\$32,120).
 - New grants and reimbursements for the following: 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program Grant (290,000); Northern California Regional Intelligence Center (NCRIC) SUASI – Police (\$242,308); and Urban Area Security Initiative Grant – Fire 2013 (\$145,000).

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Changes from Forecast to Adopted Budget

Revenue from the Federal Government (Cont'd.)

- One-time increase of \$600,000 in additional revenue from the approved extension of the 2010 COPS grant through August 31, 2015.

Transfers and Reimbursements

- A net increase of \$1.2 million (\$1.0 million ongoing) in anticipated overhead reimbursements to reflect the impact of various budget actions in the Adopted Budget that change the staffing levels funded by special and capital funds.
- A one-time transfer of \$750,000 in revenue from expired special assessment districts. In 2008-2009, Finance staff completed an analysis of 50 expired special assessment districts with remaining cash balances. Based on that review, in accordance with State law, the availability of surplus funds was announced to be claimed by current and former property owners. With the statute of limitations, any unclaimed funds may be transferred to the General Fund. The initial deadline to claim a portion of the surplus funds was in March 2012, after which time unclaimed funds in the amount of \$1.2 million were transferred to the General Fund. The next and final deadline to claim the remaining portion of the surplus funds is in May 2014. It is expected that approximately \$750,000 will remain unclaimed and be available for transfer to the City in 2014-2015.
- An ongoing transfer of \$250,000 from the General Purpose Parking Fund (\$210,000) and the Transient Occupancy Tax Fund (\$40,000) to provide a total 2014-2015 subsidy of \$420,000 to the San José Downtown Association (SJDA). Funding will allow for the continued partnership with the City in activating and promoting downtown.
- A one-time transfer of \$234,000 from various special and capital funds to offset a portion of the \$1.0 million reserve for an alternative solution to the City's current Human Resources/Payroll System.
- A decrease of \$508,000 to the transfer from the Airport Maintenance and Operation Fund to reimburse the General Fund for aircraft rescue and firefighting services provided by the Fire Department. This action is offset by the liquidation of the Aircraft Rescue and Firefighting Services Reserve that was set aside in 2013-2014 from the extension of the Fire SAFER 2011 Grant. This action will maintain sworn firefighter staffing levels in the Fire Department and avoid layoffs.
- A decrease of \$12,000 as a result of staffing adjustments to the Deferred Compensation Program which are reimbursed, as discussed in the Human Resources Department under the City Departments section of this document.

Other Revenue

- An increase of \$1.0 million reflects the rebudget of grants and reimbursements from 2013-2014 to 2014-2015:
 - Rebudgeted funds consist of the following: Sidewalk Repairs (\$600,000); 2013 Silicon Valley Energy Watch Program (\$265,000); Emergency Street Tree Services (\$146,000);

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Changes from Forecast to Adopted Budget

Other Revenue (Cont'd.)

PG&E Summer Cooling Shelter Program Grant (\$7,000); and 1st Act Silicon Valley Digital Media Grant (\$6,000).

- An increase of \$89,000 to the estimate for Sidewalk Repairs to reflect the anticipated increase in reimbursements from property owners for contractual sidewalk repairs performed by the City on behalf of the property owners as a result of the expanded Sidewalk Repair Program. This increase in revenue is offset by a corresponding expenditure increase (1.0 position) in the City-Wide Expenses allocation for this purpose.
- Increase the estimated reimbursement from Christmas in the Park Foundation by \$17,000. Part-time City staff hours are needed to transport props to and from the City warehouse. Incurred costs are fully reimbursed by the Christmas in the Park Foundation.
- An increase of \$10,000 for Department of Transportation new subdivision traffic control signs and pavement markings revenues to reflect fee adjustments to maintain cost recovery levels.
- A \$300,000 ongoing decrease in wellness program revenues, historically provided by the City's health providers, as negotiated, necessitating a service evaluation to ensure remaining revenues align with the highest program needs. A review of medical services and wellness programs will ensure that current service levels are provided in the most efficient and cost-effective manner.
- A decrease of \$6,000 to the Finance Department Return Check Fee revenue reflects a fee adjustment to maintain 100% cost recovery levels.

Licenses and Permits

- An increase of \$885,000 reflects the implementation of a new three-tier program for Multiple Housing Occupancy Permits offset by additional staffing (5.0 positions).
- An increase of \$125,000 in Fire non-development permits reflecting a 3% increase in fees to offset cost increases and maintain a 100% cost recovery level.
- An increase of \$22,000 in Animal Care and Services Category I miscellaneous permits to reflect increases in various permits.
- An increase of \$13,000 to adjust various Code Fees to bring them to 100% cost recovery.
- A decrease of \$400,000 in Building Permits to reflect two changes in the Building Development Fee Structure: 1) revise the business process to small residential alterations, and 2) reduce the base hours charged for permit issuance by 50%.
- A decrease of \$18,000 to adjust various Police Department permits to reflect various fee revisions and maintain cost recovery levels.
- A decrease of \$1,000 to adjust various Finance Department fees to bring them to 100% cost recovery.

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Changes from Forecast to Adopted Budget

Revenue from Local Agencies

- An increase of \$297,000 reflects the rebudget of grants from 2013-2014 to 2014-2015:
 - Rebudgeted funds consist of the following: EMS Patient Care Data System (\$225,800); Envision San José 2040 General Plan Implementation (\$68,000); and Childcare Portable Debt Service Payments (\$3,673).
- An increase of \$170,000 reflects a payment from the Santa Clara Valley Water District (SCVWD) to partially offset the costs of Park Ranger positions that were added to support the Homeless Response Team. These positions will help ensure public safety and prevent the destruction of natural resources along local waterways. Efforts will be targeted along the Coyote Creek and Guadalupe River watersheds, which are mutually owned and operated by the City and the SCVWD.

Revenue from the State of California

- An increase of \$460,500 reflects the rebudget of grants from 2013-2014 to 2014-2015 (\$334,800) as well as the recognition of new grant funding for 2014-2015 (\$125,700):
 - Rebudgeted funds consist of the following: Anti-Drug Abuse Grant 2013-2014 (\$98,182); Selective Traffic Enforcement Grant Program 2013-2014 (\$90,665); Mobile ID Phase IV (\$74,569); Sobriety Checkpoint Grant Program 2013-2014 (\$39,545); 2013-2014 Northern California High Intensity Drug Trafficking Area (\$31,203); and Avoid the 13 Grant 2013-2014 (\$654).
 - New grants and reimbursements for the following: Selective Traffic Enforcement Program 2013-2014 (\$61,305); 2013-2014 Northern California High Intensity Drug Trafficking Area (\$33,600); and Sobriety Checkpoint Grant Program 2013-2014 (\$30,750).

Franchise Fees

- An increase of \$161,000 reflects an increase in the Commercial Solid Waste (CSW) fees by 1.46% based on the change in the consumer price index (CPI). In October 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure is \$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 South District. The revised structure is subject to an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years. It should be noted that the City did not increase this fee in 2013-2014.

Revenue from the Use of Money/Property

- A one-time increase of \$48,000 reflects the lease of the City's suite at SAP Center (formerly HP Pavilion) at San José for eight San José Sharks home games in 2014-2015. This increase is offset by a corresponding increase to the City-Wide Expenses Arena Authority budget in the 2014-2015 Operating Budget.

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Changes from Forecast to Adopted Budget

Fines, Forfeitures and Penalties

- An increase of \$31,000 in parking citations revenue is offset by a corresponding addition of 1.0 Parking Traffic Control Officer to enforce 40 curb miles of prohibitive parking signs on residential streets that experience high parking impacts. This action is expected to reduce the City's trash load and produce cleaner streets.

Departmental Charges

- An increase of \$429,000 (\$220,000 ongoing) to the Parks, Recreation and Neighborhood Services Department Charges estimate reflects the following: increase in sports fields reservations to be set aside in a reserve for artificial turf field replacements (\$200,000 one-time); continues the Get Fit Summer Camps for Kids program that was piloted in 2013-2014 and associated increased fee activity (\$198,000 ongoing); increased picnic reservations (\$20,000 ongoing); and revenue associated with new facilities that are scheduled to come on-line in 2014-2015 (\$11,000).
- An increase of \$99,000 to the Transportation Department fees and charges to reflect various fee revisions and maintain cost recovery levels.
- An increase of \$32,000 to the Police Department fees and charges to reflect various fee revisions.
- An increase of \$26,000 reflects approved changes to the Abandoned Cart Program Fee, increasing the fee from \$200 per year to \$345 per year.
- An increase of \$10,000 reflects additional revenues from Animal Care Services to reflect increases in various fees and charges.
- An increase of \$9,000 in City Clerk's Lobbyist registration fees to maintain 100% cost recovery levels.
- A decrease of \$310,000 adjusts the Solid Waste Enforcement Fee down to maintain 100% cost recovery levels; an 11.5% reduction from \$1.31 per ton to \$1.16 per ton.
- A decrease in the Public Works Development Program revenue estimate of \$146,000 by adjusting targeted fees in the following categories: Common Interest Development Engineering and Inspection; Erosion and Sediment Control; Grading Permit/Plan Checking; and the Private Utility Permits (targeted to residential customers/streamlined service opportunities).
- A decrease of \$135,000 eliminates revenues associated with the Enterprise Zone Incentive program that was designed to encourage business investment and promote job creation. However, this program was terminated on December 31, 2013 by the passage of AB93 and SB90. A corresponding elimination of 1.0 position and contractual services offsets this loss for a net zero impact.
- A net decrease of \$61,000 reflects a decrease in the Finance Department Collection Fee (\$62,000) offset by other miscellaneous departmental fee increases (\$1,000) to maintain 100% cost recovery levels.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

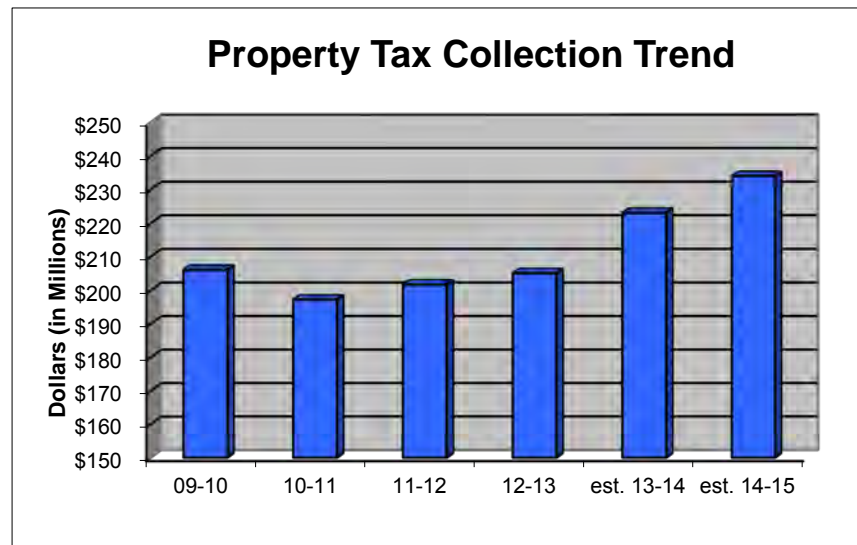
2012-2013 Actual	\$ 205,016,137
2013-2014 Adopted	\$ 220,850,000
2014-2015 Forecast	\$ 228,573,240
2014-2015 Adopted	\$ 233,973,240
% of General Fund	21.0 %
% Change from 2013-2014 Adopted	5.9 %

Major Categories:

- Current Secured Property Tax
- Current and Prior Unsecured Property Tax
- Current SB 813 Property Tax (retroactive collections for reassessments of value due to property resale)
- Aircraft Property Tax
- Homeowner's Property Tax Relief Exemption

Revenue Estimates:

Property Tax receipts of \$223.0 million are projected for 2013-2014, which represents 8.8% growth from the prior year and is in-line with the modified budget estimate of \$223.0 million. This projected increase is much stronger than the modest



growth seen in 2011-2012 and 2012-2013 respectively, where actual Property Tax receipts were up 2.3% and 1.6% year-over-year for the first time since 2008-2009. Growth is reflected primarily in the SB 813, Secured, and Airplane Property Tax categories with a minor decline in Homeowners Property Tax Relief and in Unsecured Property Tax.

Overall, in 2014-2015, collections are expected to continue to increase but at a slightly more moderate pace of 4.9% to \$234.0 million due, in part, to only a 0.45% California Consumer Price Index (CCPI) increase, which will be assessed in the Secured Property Tax category.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

Revenue Estimates

Secured Property Tax

Secured Property Taxes account for over 90% of the revenues in this category. In 2013-2014, Secured Property Tax receipts are expected to total \$203.1 million, reflecting an increase of 9.1% from the 2012-2013 collection level. This projected increase can be attributed to three primary factors: 1) the net increase in residential and commercial valuation resulting from the full or partial restoration of property values that were previously temporarily reassessed downwards under Proposition 8 due to the declining market values; 2) the change in the California Consumer Price Index (CCPI) of 2.0% for the 2013-2014 tax roll; and 3) a one-time adjustment reflecting excess 2012-2013 Educational Revenue Augmentation Fund (ERAF). This is the first year that estimated receipts are anticipated to exceed the peak of \$192.3 million in 2008-2009.

In 2014-2015, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2014, are expected to increase by approximately 6% to \$215.2 million (once adjusted for the one-time payment of excess 2012-2013 ERAF received in 2013-2014) based on an analysis of the information provided by the Santa Clara County Assessor's Office on May 22, 2014. Throughout the County of Santa Clara, the majority of the 2014-2015 roll growth can be attributed to changes in ownership (42.9%) and Proposition 8 (33.4%) adjustments. The remainder of the growth in assessed value reflects the impact of new construction, corrections and other adjustments, business personal property, and the CCPI inflation factor. With the continued recovery in the real estate market, approximately 21,000 of the properties in San José that were valued at less than their purchase price in 2013-2014 were adjusted upwards in 2014-2015, restoring \$1.6 billion in assessed value. There are approximately 24,000 properties that continue to receive Proposition 8 adjustments in 2014-2015 as these properties are valued at less than their purchase price.

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 2014-2015 tax roll is an increase of 0.45%, significantly below the prior year level of 2.0%. 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.

Unsecured Property Tax

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 current year tracking, Unsecured Property Tax receipts are estimated at \$12.5 million in 2013-2014, which is slightly below the prior year level and most recent peak of \$12.6 million. Collections are expected to increase 3.0% in 2014-2015 to \$12.9 million based on improving business conditions and increasing employment. In 2014-2015 estimates exceed the recent peak of \$12.6 million in 2012-2013, however, remain below the peak of \$14.1 million in 2002-2003.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

Revenue Estimates

SB 813 Property Tax (Property Resales)

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 2013-2014, receipts are estimated at \$3.4 million, which is above the collection levels in both 2012-2013 (\$3.0 million) and 2011-2012 (\$3.3 million). However, collections 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).

In 2014-2015, collections in this category are projected to decrease approximately 17.6% to \$2.8 million due to an anticipated change in methodology for the SB 813 distribution. In 2004-2005, the 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 that are 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, it is anticipated that 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. This decrease is anticipated to be partially offset by the growth in property assessed value as discussed in the Secured Property Tax section.

Aircraft Property Tax

The Aircraft Property Tax payment is estimated at \$2.15 million in 2013-2014, a 3.2% increase from the 2012-2013 receipts of \$2.08 million. In 2014-2015, collections are expected to remain flat at \$2.15 million based on information from the County of Santa Clara Assessor's Office.

Homeowners Property Tax

The Homeowners Property Tax Relief category is projected at \$1.03 million for 2014-2015, which is consistent with the 2013-2014 revenue estimate and 2012-2013 actual collections.

GENERAL FUND REVENUE ESTIMATES

SALES TAX

2012-2013 Actual	\$ 163,751,105
2013-2014 Adopted	\$ 167,710,000
2014-2015 Forecast*	\$ 180,024,000
2014-2015 Adopted	\$ 180,024,000
% of General Fund	16.2 %
% Change from 2013-2014 Adopted	7.3 %

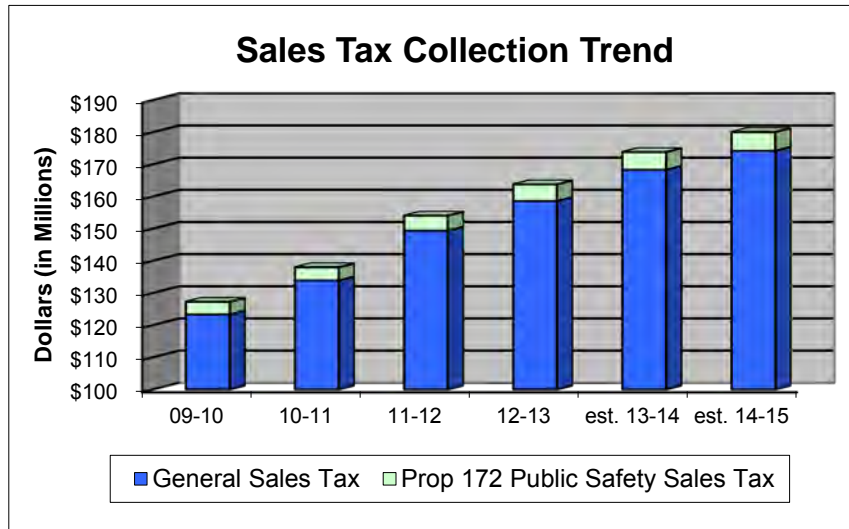
* The 2014-2015 Forecast was increased \$2.3 million from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Major Categories:

- General Sales Tax
- Public Safety (Proposition 172) Sales Tax

Distribution of Sales Tax:

As shown in the following table, the City receives 1.0% of the 8.75% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected State-wide.



Agency	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)	0.500%
Total Sales Tax Rate	8.750%

Starting in 2004-2005, the City was impacted by the State action known as the “Triple Flip,” which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 0.25% of the City’s one percent Bradley Burns sales tax has been temporarily suspended and replaced dollar-for-

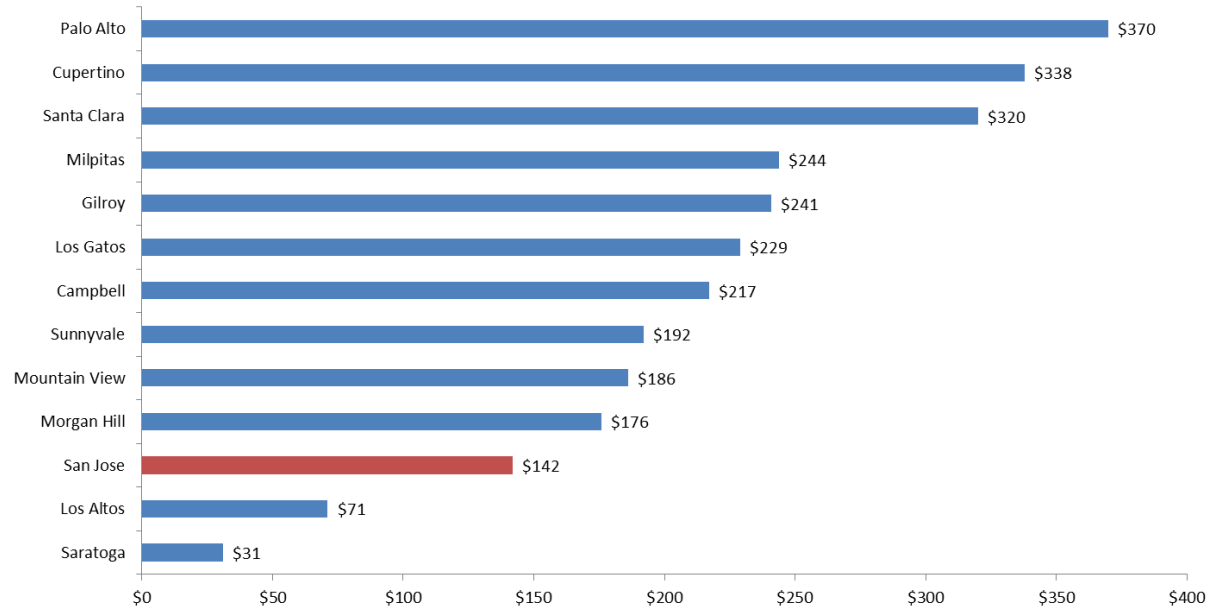
dollar with property tax revenue. This action, which went into effect on July 1, 2004, will remain in effect until the State’s bond obligations have been satisfied. However, the City will continue to record the replacement property tax revenues as sales tax because the growth formula for these receipts is tied to sales tax and this action is considered a temporary property tax in lieu of sales tax.

GENERAL FUND REVENUE ESTIMATES

SALES TAX

Collection Trend:

As shown in the chart below, the per capita Sales Tax in San José is significantly lower than in neighboring cities, up to 61.6% below the highest level of \$370 per capita in Palo Alto.



Source: MuniServices, Cash Receipts 1st Quarter 2014

Revenue Estimates:

Overall, Sales Tax receipts are estimated to generate \$173.8 million in 2013-2014, which is up 6.1% from the 2012-2013 collection level. In 2014-2015, Sales Tax receipts are projected at \$180.0 million, a 3.6% increase from the 2013-2014 estimated collection level.

General Sales Tax

The forecast for the General Sales Tax revenue estimate is built on estimated collections of \$168.3 million in 2013-2014 which reflects a 6.1% increase from the 2012-2013 collection level. This increase is based on actual performance for the first quarter (up 8.5%) and second quarter (up 7.9%), one-time prior year adjustments and true-up payments, and the assumed growth of 3.5% for the remaining two quarters. In 2014-2015, the General Sales Tax revenue estimate is \$174.2 million, reflecting an increase of 3.5% from the estimated 2013-2014 collection level and a 9.8% increase from actual 2012-2013 collections. As shown in the chart above, a number of economic sectors contributed to the total Sales Tax receipts though nearly 75% was generated from General Retail, Transportation, and Business to Business categories.

Sales Tax by Economic Sector

Economic Sector	% of Total Revenue
General Retail	26.1%
Transportation	24.2%
Business to Business	22.1%
Food Products	15.9%
Construction	11.1%
Miscellaneous	0.6%
Total	100.0%

Source: MuniServices, benchmark year ending 1Q 2014

GENERAL FUND REVENUE ESTIMATES

SALES TAX

Revenue Estimates

General Sales Tax (Cont'd.)

For 2014-2015, the General Sales Tax revenue projection of \$174.2 million assumes moderate growth of 4.0% in taxable sales from 2013-2014 levels. Because there are one-time accounting adjustments to reflect prior-year collections, changes in the County pool of tax receipts allocated to the City formulaically, and the “Triple Flip” true-up payment from the State in 2013-2014 that are not reflected in 2014-2015, the year-over-year growth in 2014-2015 is estimated to be approximately 3.5%. To put the 2014-2015 estimate into perspective, the projected revenue of \$174.2 million exceeds the historic peak collection of \$164.3 million in 2000-2001, bringing revenues above pre-recession levels and above levels seen during the dot-com boom (not adjusted for inflation).

Public Safety (Proposition 172) Sales Tax

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 \$5.5 million in 2013-2014, which represents a 6.8% increase from the prior year collections of \$5.2 million based on actual collection trends. In 2014-2015, collections are projected to increase 5.9%, to \$5.8 million.

GENERAL FUND REVENUE ESTIMATES

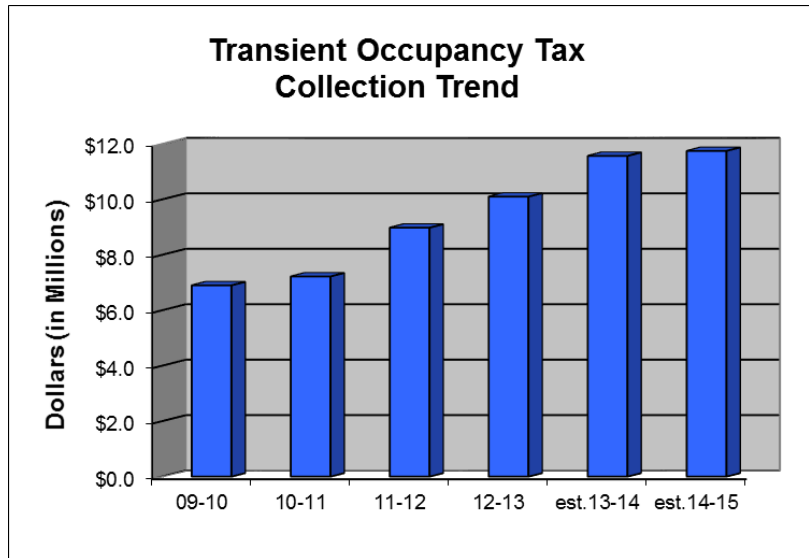
TRANSIENT OCCUPANCY TAX

2012-2013 Actual	\$ 10,103,383
2013-2014 Adopted	\$ 10,600,000
2014-2015 Forecast	\$ 11,750,000
2014-2015 Adopted	\$ 11,750,000
% of General Fund	1.1 %
% Change from 2013-2014 Adopted	10.8 %

Distribution of Transient Occupancy Tax:

The City of San José assesses a ten percent Transient Occupancy Tax (TOI) on the rental price for transient lodging. Of this ten percent, six percent is placed in the Transient Occupancy Tax Fund and four percent is deposited in the General Fund. This discussion addresses the portion of the Transient Occupancy Tax that is allocated to the General Fund.

The allocation of the six percent portion is described in the Selected Special Funds Summary section of this document.



Revenue Estimates:

Transient Occupancy Tax (TOT) receipts in 2013-2014 are projected to reach \$11.6 million, reflecting an increase of 14.8% from the 2012-2013 collection level. Current year receipts mark the fourth year of growth and the third 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, respectively. The completion of the Convention Center renovation and expansion project, which added 125,000 square feet of new flexible space, as well as improvements to the existing space, in September 2013, is expected to continue to support the room night activity in the market. Overall, the hotel industry continues to experience a period of growth with increases in occupancy levels (approximately 4% year-over-year growth) and average daily room rates (approximately 11% growth) with an average revenue-per-available room reflecting an increase of approximately 17% from prior year levels. Projected 2013-2014 receipts exceed the pre-recession level of \$9.6 million collected in 2007-2008 by approximately 21% and are approximately 6% above the historic peak of \$10.9 million in 2000-2001.

GENERAL FUND REVENUE ESTIMATES

TRANSIENT OCCUPANCY TAX

Revenue Estimates

In 2014-2015, growth of 1.7% from the 2013-2014 estimate is anticipated which allows for the stabilization of the current high level of growth. Once adjusted for compliance revenue in 2013-2014, TOT receipts are estimated to grow 4.0% from 2013-2014 levels.

As directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the estimated revenue growth between 2013-2014 collection and 2014-2015 collections (after excluding compliance revenue) of \$450,000 is allocated to support City-owned cultural and arts facilities' needs. In 2014-2015, these funds were allocated to address capital needs at the Children's Discovery Museum, including replacing two chillers and reroofing the portico. Ongoing, the incremental growth will be set aside in an Cultural and Arts Facilities Capital Replacement and Maintenance Reserve.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

2012-2013 Actual	\$ 43,741,122
2013-2014 Adopted	\$ 43,923,000
2014-2015 Forecast	\$ 45,185,755
2014-2015 Adopted	\$ 45,346,879
% of General Fund	4.1 %
% Change from 2013-2014 Adopted	3.2 %

Major Categories:

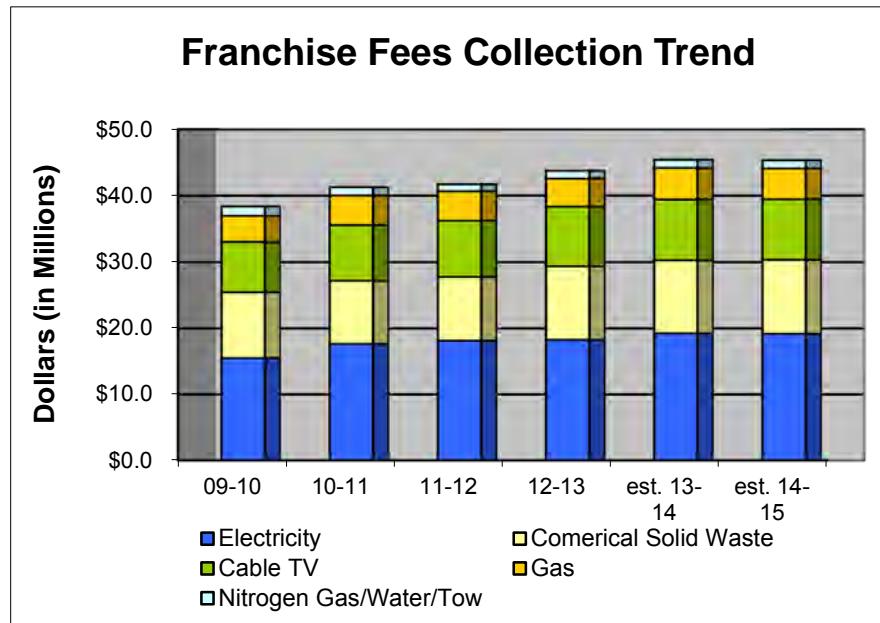
- Electricity, Gas, and Water Utility Services
- Commercial Solid Waste
- Cable Television
- City-Generated Towing
- Nitrogen Pipelines

Revenue Estimates:

Franchise Fees are collected in the Electricity, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. Overall,

collections are projected at \$44.5 million in 2013-2014, an increase of 1.7% from prior year receipts of \$43.7

million. The projected increase in 2013-2014 is primarily due to higher collections in Gas and Electric services. In 2014-2015, Franchise Fees are expected to increase 1.9% to \$45.3 million due to growth in the Gas (5.1%), Cable (2.5%), Commercial Solid Waste (1.5%), and Electric (1.0%) categories, including a \$161,000 increase in Commercial Solid Waste rates approved in 2014-2015.



Electricity, Gas, and Water Utility Services

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 2013-2014 are based on the calendar year 2013). 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 2012 and 2013 calendar year Utility Tax receipts, Gas receipts showed a significant increase of 6.8% and Electric receipts showed an increase of 4.5%.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

Revenue Estimates

Electricity, Gas, and Water Utility Services (Cont'd.)

In the Electric Franchise Fee category, collections in 2013-2014 are expected to reach \$19.0 million, reflecting growth of 3.8% compared to actual receipts in 2012-2013 and slightly below the actual growth in Electric Utility Tax receipts in calendar year 2012 compared to 2013. In 2014-2015, growth of 1.0% from 2013-2014 estimates is anticipated reflecting a rate increase of 0.6% in January 2014 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.

In the Gas Franchise Fee Category, the 2013-2014 estimated collections of \$4.4 million reflect a 5.0% increase from the \$4.2 million received in the prior year. This is compared to actual Gas Utility Tax receipts in calendar year 2012 compared to 2013 which reflected growth of 6.8%. In 2014-2015, Gas Franchise Fee collections are projected to increase further by 5.1% based on the assumption that costs will continue to rise due to a rate increase of approximately 7.3% in 2014 primarily as the result of rising commodity and transportation costs. 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.

Water Franchise Fees are expected to total \$290,000 in 2013-2014, a 16.0% increase from the 2012-2013 collection level. This increase is primarily due to an increase in the wholesale price of water. In 2014-2015, estimated collections of \$305,000 reflect the anticipated continued increase in the wholesale price and an anticipated increase in rates.

Commercial Solid Waste

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of \$11.0 million in 2013-2014, consistent with the prior year collections reflecting the recently 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 \$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. This revised structure is subject to an annual increase based on the percentage change in the annual 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. Included in this document is a \$161,000 increase in the revenue estimate, bringing the budgeted estimate to \$11.2 million in 2014-2015. This increase reflects an approved 1.46% increase in the franchise fees based on the consumer price index (CPI) and is based on the percentage change in the annual CPI rate during the prior two calendar years.

Cable Television

The 2013-2014 Cable Television Franchise Fee estimate is \$8.9 million, which is 1.4% below the 2012-2013 actual collection level of \$9.0 million. In 2014-2015, estimated collections of \$9.1 million reflect a year-over-year increase of 2.5%.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

Revenue Estimates

City-Generated Towing and Nitrogen Pipelines

In the City Generated Tow category, projected revenues of \$850,000 to \$875,000 in 2013-2014 are consistent with prior year levels. Collections are anticipated to remain flat at \$875,000 in 2014-2015 and continue to reflect the change in procedures by the Police Department, which reduced the number of tow and impounds for persons with violations that are not related to serious driving offenses in January 2011. The Nitrogen Pipeline Franchise Fees are anticipated to generate \$66,000 in both 2013-2014 and 2014-2015.

GENERAL FUND REVENUE ESTIMATES

UTILITY TAX

2012-2013 Actual	\$ 91,108,958
2013-2014 Adopted	\$ 91,895,000
2014-2015 Forecast*	\$ 94,825,000
2014-2015 Adopted	\$ 94,825,000
% of General Fund	8.5 %
% Change from 2013-2014 Adopted	3.2 %

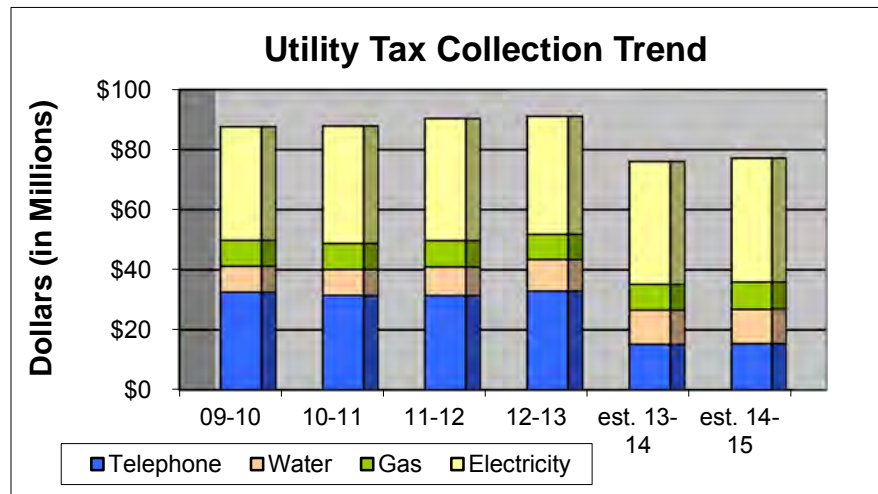
* The 2014-2015 Forecast was decreased \$125,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Major Categories:

- Electricity Utility Tax
- Gas Utility Tax
- Water Utility Tax
- Telephone Utility Tax

Revenue Estimates:

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2013-2014 are anticipated to total \$94.6 million, representing an increase of 3.8% from the



2012-2013 collection level. The majority of this growth is projected in Electricity, Gas, and Water receipts as a result of rate increases, changes in consumption levels, and one-time adjustments.

In 2014-2015, Utility Tax collections are projected to increase 0.2% to \$94.8 million. Overall, there continues to be proposed rate cases that have been filed that would affect electricity, gas, and water rates and consequently revenues. Due to the uncertainty regarding the outcome of rate cases, the Adopted Budget generally does not assume revenue increases associated with pending rate cases. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

Electricity Utility Tax

The Electricity Utility Tax is anticipated to generate \$41.4 million in 2013-2014, a 5.3% increase from prior year levels. Estimated current year collections reflect a timing difference in payments, an increase of 1% beginning January 2014, as well as actual collection trends. The significant growth in 2013-2014 from prior year levels is partially due to a refund that was processed by Pacific Gas and Electric (PG&E) in 2012-2013 for energy usage from April 2011 through June 2012. In 2014-2015, revenues are estimated to decrease 0.2% to \$41.3 million based on the annualization of the timing difference in

GENERAL FUND REVENUE ESTIMATES

UTILITY TAXES

Revenue Estimates

Electricity Utility Tax (Cont'd.)

payments reflected in 2013-2014, partially offset by the January 2014 rate increase of 0.7% as outlined by PG&E, with minimal changes in anticipated consumption levels.

Gas Utility Tax

Gas Utility Taxes are anticipated to increase to \$8.8 million in 2013-2014, a 4.9% increase from 2012-2013 levels, based on current collection trends. This increase reflects current collection levels as well as the anticipated increase in the commodity and transportation costs and is consistent with information from PG&E on the assumed 7.3% increase in prices in 2014. In 2014-2015, revenues are anticipated to increase by approximately 3.4% to \$9.1 million. Actual collections continue to be subject to significant fluctuations from the impact of weather conditions and/or rate changes, as such no assumptions for changes due to rate cases are included and revenues will be monitored closely for projected performance.

Water Utility Tax

Water Utility Tax receipts of \$11.2 million are anticipated to be received in 2013-2014, a 6.6% increase from 2012-2013, primarily reflecting the rising wholesale price of water and consistent with growth seen over the first half of 2013-2014. In 2014-2015, receipts are expected to increase 1.8% to \$11.4 million based on the continued rising wholesale price of water as well as some growth due to anticipated increases in retail rates. It should be noted that a significant rate case continues to be under review by the Public Utilities Commission and an increase in rates is anticipated; however, only a minimal increase of annualizing an estimated 5% increase January 2014 is included in 2014-2015 projections. The current estimates do not factor in additional rate increases nor a drop in consumption as a result of the current drought.

Telephone Utility Tax

In the Telephone Utility category, revenues are collected on landlines, wireless, and VoIP. Based on current tracking, receipts in 2013-2014 are anticipated to reach \$33.2 million, an approximately 1% increase from 2012-2013 (\$32.9 million) due to one-time accounting adjustments that increased 2013-2014 receipts. In 2014-2015, revenues are estimated to decline slightly to \$33.0 million due to elimination of the one-time accounting adjustments in 2013-2014. Without that adjustment, slight growth of less than 1% is anticipated in 2014-2015.

GENERAL FUND REVENUE ESTIMATES

TELEPHONE LINE TAX

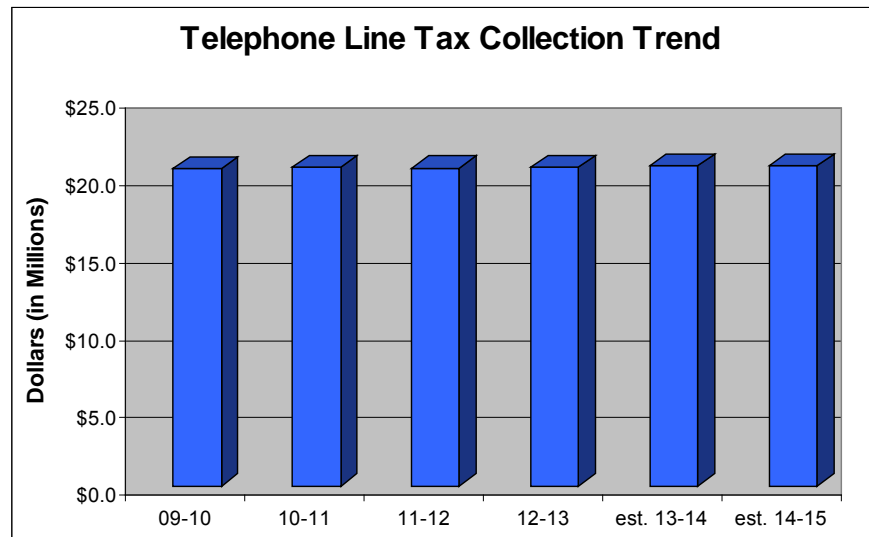
2012-2013 Actual	\$ 20,640,471
2013-2014 Adopted	\$ 20,600,000
2014-2015 Forecast	\$ 20,700,000
2014-2015 Adopted	\$ 20,700,000
% of General Fund	1.9 %
% Change from 2013-2014 Adopted	0.5 %

Major Categories:

- Telephone Line Tax

Revenue Estimates:

Based on the current collection trend, receipts in both 2013-2014 and 2014-2015 are anticipated to total \$20.7 million, which is very close to the collection levels seen since 2009-2010.



GENERAL FUND REVENUE ESTIMATES

BUSINESS TAXES

2012-2013 Actual	\$ 45,140,285
2013-2014 Adopted	\$ 42,435,000
2014-2015 Forecast*	\$ 43,700,000
2014-2015 Adopted	\$ 43,700,000
% of General Fund	3.9 %
% Change from 2013-2014 Adopted	3.0 %

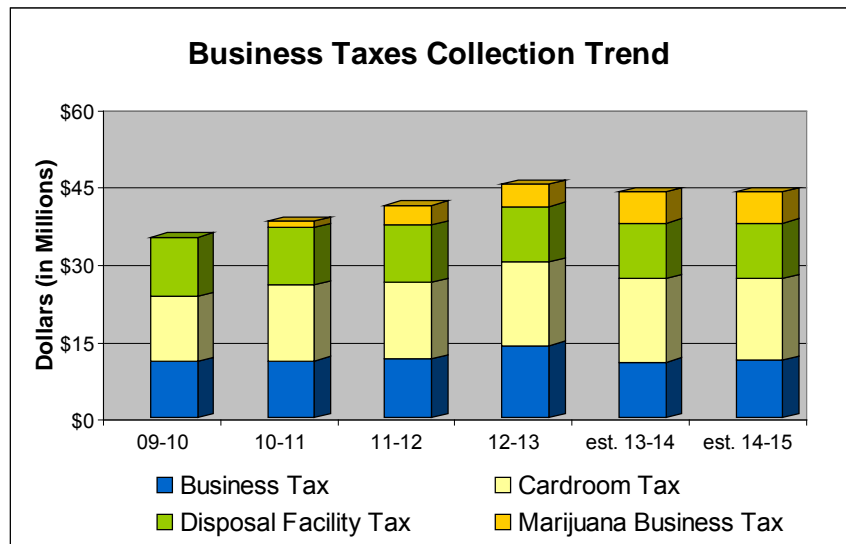
* The 2014-2015 Forecast was increased \$200,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Major Categories:

- Business Tax
- Cardroom Tax
- Disposal Facility Tax
- Marijuana Business Tax

Revenue Estimates:

In 2013-2014, Business Taxes are estimated to reach \$43.7 million, a 3.2% decrease from prior year levels. Collections were higher in 2012-2013 primarily as a result of the Business Tax Amnesty Program. In 2014-2015, revenues are estimated to remain flat at \$43.7 million.



Business Tax

In 2013-2014, General Business Tax proceeds are expected to reach \$10.7 million, a 22.9% decrease from the prior year level of \$13.9 million. In the development of the 2013-2014 Adopted Budget, it was assumed that receipts would decline to \$11.5 million, 16.9% below the 2012-2013 level, as unusually high activity was experienced in 2012-2013 because of the Business Tax Amnesty Program. However, growth above 2011-2012 levels of \$11.3 million was expected as a result of both the gradual economic recovery, and the ongoing implications of the City Council approved Business Tax Amnesty Program. As part of the Amnesty program, the Finance Department completed a reconciliation of the outstanding accounts, which resulted in a write-off of approximately \$1.0 million. Insufficient reserves were available to offset the majority of this impact, therefore, the write-off did impact current year collections and restates the starting point for 2014-2015. In 2014-2015, receipts are anticipated to increase 2.8% to \$11.0 million, returning to historically normal levels once adjusted for the ongoing impacts of the Amnesty Program, including the reconciliation of all open accounts.

GENERAL FUND REVENUE ESTIMATES

BUSINESS TAXES

Revenue Estimates

Cardroom Tax

Based on current performance, collections in the Cardroom Tax category are estimated at \$16.0 million to \$16.2 million in 2013-2014, a slight decline from the prior year collection level (\$16.3 million). In 2012-2013, there was a baseline rise in activity resulting from the opening of Casino M8trix in August 2012. Receipts are anticipated to remain at 2013-2014 levels in 2014-2015 with estimated collections of \$16.0 million.

Disposal Facility Tax

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 declined due, in large part, to increased waste diversion and the overall slowdown in the economy. However, in 2013-2014, collections are estimated at \$10.8 million based on current activity levels, which assumes a slight increase (0.8%) from prior year collection levels of \$10.7 million. This increase primarily reflects increased activity from neighboring agencies dumping in San José landfills. In 2014-2015, revenues are projected to decline slightly from current year estimates (0.9%) to \$10.7 million, consistent with 2012-2013 actual collections assuming a slight decline due to increased waste diversion.

Marijuana Business Tax

On November 2, 2010, San José voters approved Ballot Measure U, which allows the City to tax all marijuana businesses at a rate of up to 10% of gross receipts. The City Council approved an increase from 7% to 10% effective July 2013. In 2013-2014, collections are anticipated to reach up to \$6.0 million, reflecting growth of 41.7% from the prior year collection level, primarily reflecting the change in the tax rate as well as increased activity. As a result of the continued uncertainty surrounding this tax and the July 2014 start-up of the Marijuana Regulatory Program, 2014-2015 estimates are anticipated to remain flat at \$6.0 million until more information is known.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

2012-2013 Actual	\$ 46,605,784
2013-2014 Adopted	\$ 40,278,246
2014-2015 Forecast*	\$ 45,749,281
2014-2015 Adopted	\$ 46,375,293
% of General Fund	4.2 %
% Change from 2013-2014 Adopted	15.1 %

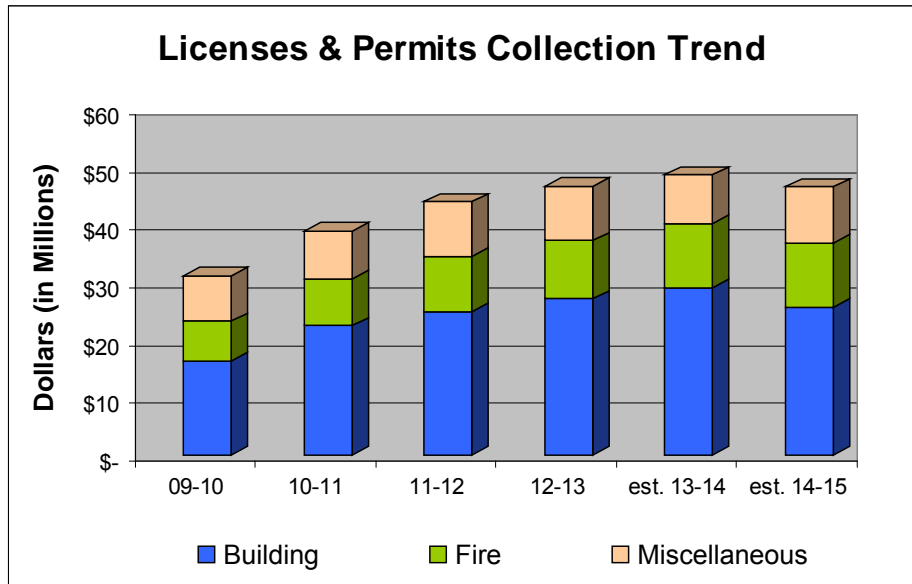
* The 2014-2015 Forecast was increased \$695,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Major Categories:

- Building Permits
- Fire Permits
- Miscellaneous Other Licenses and Permits

Revenue Estimates:

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



Building Permits

In 2014-2015, Building Permit revenue is projected to total \$25.6 million, which is below the estimated 2013-2014 collection level of \$29.0 million. The 2014-2015 revenue estimate assumes the continuation of strong development performance, but allows for some drop-off from the high levels experienced in 2013-2014. This collection level, along with the use of a portion of the Building Development Fee Program Reserve, is sufficient to support program additions in 2014-2015. Two fee adjustments are included in this budget: 1) reduce the base hours charged by 50% for any permits purchased online and 2) revise the business process for small residential plan review fees. These two changes to the Building Development Fees will result in an estimated reduction of \$400,000 in revenues.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

Revenue Estimates

Building Permits (Cont'd.)

A number of expenditure actions totaling \$1.8 million are included resulting in the addition of 8.91 positions in order to improve target cycle times and customer service levels. In addition to the \$2.0 million assumed as part of the development of the 2015-2019 February Forecast, the use of an additional \$2.1 million from the Building Development Fee Program Reserve is included to balance this fee program. With these actions, the Building Development Fee Program is expected to remain at 100% cost recovery. After accounting for these adjustments, a remaining Building Development Fee Program Reserve of \$18.8 million at the beginning of 2014-2015, primarily for works-in-progress projects, is estimated.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement, Finance, and Information Technology Departments under the City Departments section of this document. A more detailed description of the various fees is provided in the 2014-2015 Fees and Charges document that is released under separate cover.

Fire Permits

In 2014-2015, the Fire Permit revenue estimate of \$11.1 million is slightly below the estimated 2013-2014 collection level of \$11.2 million. This fee program includes both the Development and Non-Development fee areas. To maintain cost recovery in these areas and ensure that service delivery needs are met for 2014-2015, a number of budget actions are included in this Adopted Budget.

In the Development fee area, the 2014-2015 revenue estimate of \$7.0 million is slightly less than the 2013-2014 year-end estimate of \$7.1 million. Strong development activity is expected to continue in 2014-2015 and the projected revenues are sufficient to fund a number of program additions without a general fee increase. In response to the expected development activity, additional resources in the Fire Department's Development Fee Program will improve current cycle time performance in plan check and inspection activities and raise performance levels to meet customer needs. These actions, among others, will result in an estimated remaining Fire Development Fee Program Reserve of \$6.4 million at the beginning of 2014-2015 primarily for works-in-progress projects.

In the Non-Development fee area, the 2014-2015 revenue estimate of \$4.15 million is slightly above the current 2013-2014 estimate of \$4.08 million. Funding for a fee study was approved to analyze current fee levels, compare fees to other jurisdictions, review business processes, and provide recommendations to adjust fees accordingly. In addition, the elimination of a Hazardous Materials Inspector position and a modest fee increase of 3% were approved to align revenues and costs to bring the program to 100% cost recovery.

Additional detail on these budget actions is provided in the Fire Department under the City Departments section of this document. A more detailed description of the various fees is provided in the 2014-2015 Fees and Charges document that is released under separate cover.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

Revenue Estimates

Miscellaneous Other Licenses and Permits

The 2014-2015 Adopted Budget includes \$9.6 million for a variety of other Licenses and Permits; a net increase of \$902,000 from the 2014-2015 Forecast level of \$8.7 million. This increase primarily reflects an additional \$885,000 for the implementation of a new three tier program for Multiple Housing Occupancy Permits offset by additional staffing (5.0 positions). A Residential Occupancy Permit is required annually for each unit of apartments, hotels, motels, fraternities, sororities, emergency shelters, residential care facilities, and residential service facilities. This new three tier program addresses a recommendation from a Code Enforcement Audit issued on November 21, 2013 that recommends the adoption of a risk-based, proactive inspection process with a self-certification component. The pilot tier program will have three tiers: Tier 1 is identified as no substantiated complaints and is the self-certification component where an audit of 10% of the units and complaint response will be implemented; Tier 2 is identified as medium score on the risk assessment profile and is driven by complaint response and proactive inspection (managers/owners have more than one violation per unit and repairs are completed by due date to maintain this status); and Tier 3 is identified as the highest score on risk assessment profile and is driven by complaint response and proactive inspection (managers/owners are repeat violators and have violations that are health and safety related). The current permit is \$43.81 per unit and all units are inspected on a six-year cycle. With the new pilot tier program, the permits will be \$28.47 per unit for Tier 1 (the self-certification program) with a six-year inspection cycle, \$59.20 per unit for Tier 2 with a five-year inspection cycle, and \$102.67 per unit for Tier 3 with a three-year inspection cycle.

Additional adjustments resulting in a net increase of \$16,000 reflect fee adjustments to maintain 100% cost-recovery and anticipated changes in activity levels. These adjustments include an increase of \$22,000 in Animal Care and Services Category I miscellaneous permits and an increase of \$13,000 to adjust various Code Fees, partially offset by a decrease of \$18,000 in Police Department permits to reflect various fee revisions and a decrease of \$1,000 to adjust various Finance Department fees.

GENERAL FUND REVENUE ESTIMATES

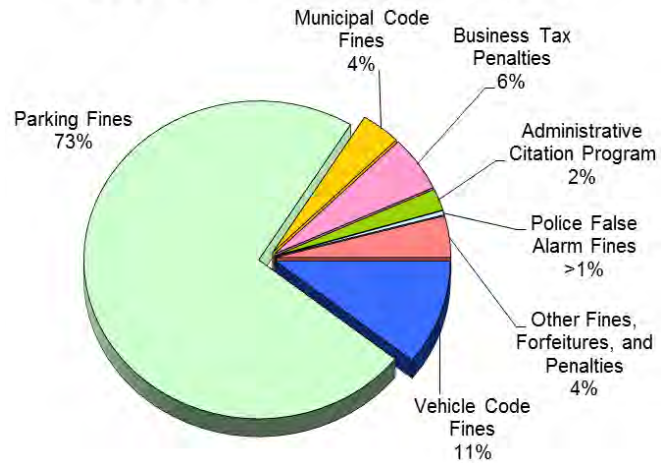
FINES, FORFEITURES, AND PENALTIES
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2012-2013 Actual	\$ 14,554,960
2013-2014 Adopted	\$ 15,862,200
2014-2015 Forecast	\$ 14,174,600
2014-2015 Adopted	\$ 14,205,334
% of General Fund	1.3 %
% Change from 2013-2014 Adopted	(10.4 %)

Major Categories:

- Vehicle Code Fines
- Parking Fines
- Municipal Code Fines
- Business Tax Penalties
- Administrative Citation Program
- Police False Alarm Fines
- Other Fines and Penalties

2014-2015 Major Categories

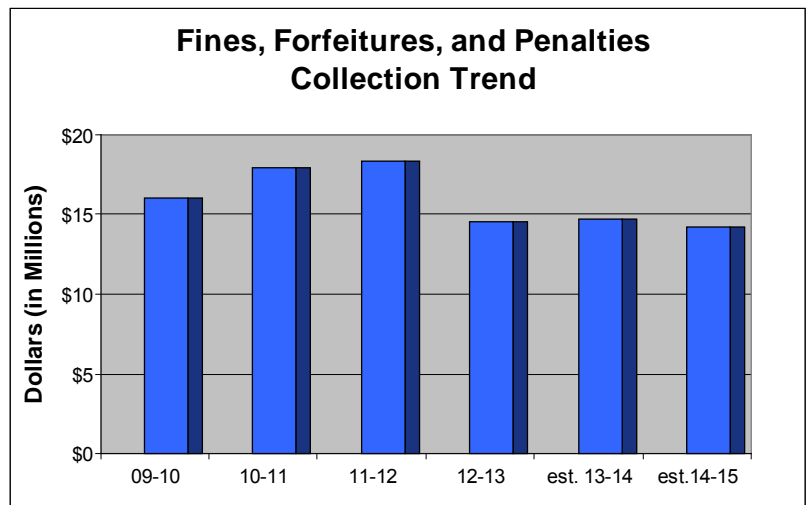


Revenue Estimates:

In 2014-2015, overall collections of \$14.2 million are projected in the Fines, Forfeitures, and Penalties category, which is slightly below the 2013-2014 estimate. Following is a discussion of major components of this category.

Parking Fines

Parking Fines are expected to generate approximately \$10.0 million in 2013-2014, an increase of 6.0% from the 2012-2013 receipts of \$9.4 million. It was assumed that Parking Fines would experience a decline in 2012-2013 as a result of the transition of parking compliance officers that were transferred from the Airport Department to the Department of Transportation and improve in 2013-2014. However, in 2013-2014, revenue continued to track below 2011-2012 collection levels prior to the change in service delivery of \$11.8 million, due to a higher level of staff absences as a result of injuries and non-work related injuries/illnesses.



GENERAL FUND REVENUE ESTIMATES

FINES, FORFEITURES, AND PENALTIES

Revenue Estimates

Parking Fines (Cont'd.)

In 2014-2015, Parking Fines revenues are expected to remain flat; however, a slight increase of \$31,000 is anticipated due to the addition of 1.0 Parking Traffic Control Officer that will enforce 40 curb miles of prohibitive parking signs on residential streets that experience high parking impacts. This change is expected to reduce the City's trash load and produce cleaner streets. In addition to parking fines, collections of \$350,000 are anticipated in 2014-2015 from the City's participation in a program under which the State of California Franchise Tax Board collects past-due parking fines on behalf of the City.

Vehicle Code and Municipal Court Fines

In 2014-2015, Vehicle Code Fines are estimated at \$1.5 million and the Municipal Court Fines are expected to reach \$525,000, consistent with current tracking for these categories.

Business Tax Penalties

Business Tax penalties are projected at \$800,000 for 2014-2015, a slight decline from the historic levels of \$1.0 million reflecting the updating of accounts as part of the Business Tax Amnesty Program.

Administrative Citation Program

The 2014-2015 Administrative Citation Program is projected to generate \$315,000 in total collections, including \$200,000 in fines and an additional \$115,000 in penalties. This collection level is consistent with the 2013-2014 year-end estimates.

Police False Alarm Fines

In 2014-2015, Police False Alarm Fines and Penalties are estimated at \$61,000. This figure is consistent with the 2013-2014 year-end estimates.

Other Fines and Penalties

Other Fines and Penalties of \$599,000 are estimated to be received in 2014-2015 and reflect a variety of sources, including \$100,000 for Animal Services citations, \$100,000 from blight fees, and \$260,000 from code enforcement administrative penalties.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM USE OF MONEY AND PROPERTY

2012-2013 Actual	\$ 3,890,457
2013-2014 Adopted	\$ 2,673,000
2014-2015 Forecast	\$ 2,799,000
2014-2015 Adopted	\$ 2,847,000
% of General Fund	0.3 %
% Change from 2013-2014 Adopted	6.5 %

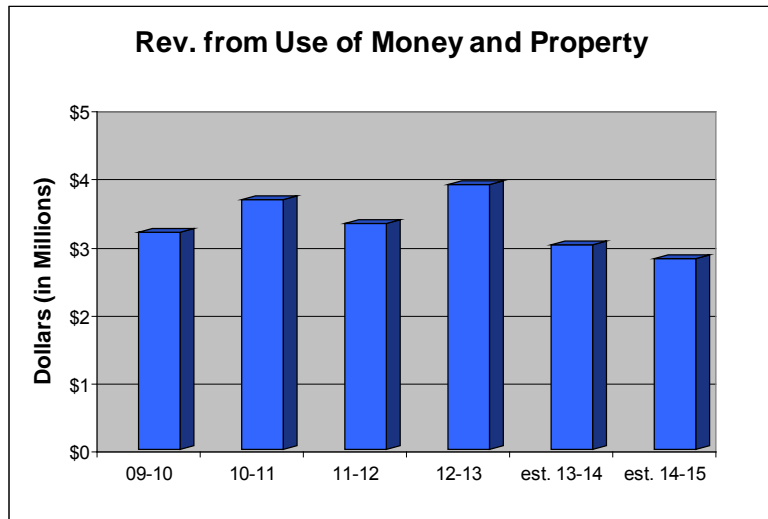
Major Categories:

- Rental of City-Owned Property
- General Fund Interest Earnings
- Miscellaneous Collections

Revenue Estimates:

Rental of City-Owned Property

In 2014-2015, it is anticipated that approximately \$1.8 million will be generated from the rental of City-owned property compared to estimated collections of \$2.1 million in 2013-2014. This decline reflects the loss of the lease from Park N Travel revenue on the Airport West/FMC property as well as the expiration of three telecommunication leases in 2014-2015.



In addition, a one-time increase of \$48,000 reflects the lease of the City's suite at SAP Center (formerly HP Pavilion) at San Jose for eight San Jose Sharks home games in 2014-2015. This additional revenue offsets a corresponding increase to the City-Wide Expenses Arena Authority budget in the 2014-2015 Operating Budget.

General Fund Interest Earnings

The 2014-2015 estimate for interest earnings in the General Fund assumes an average interest rate of only 0.37% applied to an average cash balance of approximately \$115 million for a total collection level of \$425,000. This anticipated collection level is close to the 2013-2014 projected interest earnings of \$475,000.

Miscellaneous Collections

An additional \$537,000 in miscellaneous sources is estimated to be generated in 2014-2015 primarily from Subrogation Recovery (\$350,000) and Property Tax Interest (\$100,000) revenues.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

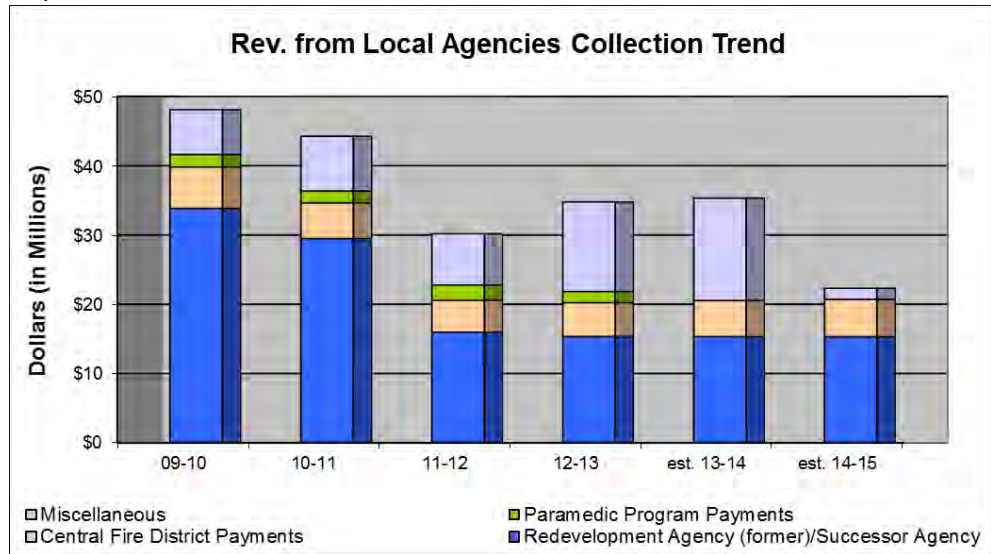
2012-2013 Actual	\$ 34,765,946
2013-2014 Adopted	\$ 24,835,589
2014-2015 Forecast	\$ 22,144,803
2014-2015 Adopted	\$ 22,612,276
% of General Fund	2.0 %
% Change from 2013-2014 Adopted	(9.0 %)

Major Categories:

- Reimbursement from the Successor Agency to the Redevelopment Agency
- Central Fire District Payments
- Paramedic Program
- CAL-ID/SB 720 Payments
- Other Miscellaneous Payments

Revenue Estimates:

In 2014-2015, revenue of \$22.6 million is projected from other local agencies, such as the Successor Agency to the Redevelopment



Agency and Central Fire District, to reimburse the City for services provided.

Successor Agency to the Redevelopment Agency

A reimbursement from the Successor Agency to the Redevelopment Agency of \$15.3 million is budgeted to reimburse the General Fund annually for the Convention Center Lease payments. A corresponding expenditure is assumed in the City-Wide Expenses category for this debt service payment.

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; however, it is currently anticipated sufficient funds will be available for reimbursement.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

Revenue Estimates

Central Fire District and Paramedic Program

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 an estimate provided by Central Fire District staff, the 2013-2014 payment is expected to total \$5.2 million, reflecting an increase of 6.6% from 2012-2013 levels. In 2014-2015, collections are expected to increase approximately 3.8% to \$5.4 million based on estimated Property Tax growth as well as the assumption that there will be no major annexations during 2014-2015 that would impact collections.

In both 2013-2014 and 2014-2015, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) have been eliminated. In 2013-2014, \$2.2 million in 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 has not met the response time performance standards set forth in the agreement with the County, the County has withheld payment for this service. Despite the withholding of payment, the direct incremental cost to the City to provide the advanced life support-level of service totaling over \$5 million annually remains in the budget. The City and County continue to work to address this issue and estimates will be adjusted as appropriate once additional information is known.

Other Miscellaneous Payments

In 2014-2015, other projected payments from local agencies total \$1.6 million, the largest of which are reimbursements for services provided by the Animal Care and Services Program (\$1.1 million) and payments associated with the annexation of the Cambrian area to the City of Campbell (\$199,000). This Adopted Budget includes an increase of \$170,000 to reflect a payment from the Santa Clara Valley Water District (SCVWD) to partially offset the addition of Park Ranger positions that support the Homeless Response Team. These positions will help ensure public safety and prevent the destruction of natural resources along local waterways. Efforts will be targeted along the Coyote Creek and Guadalupe River Park watersheds, which are mutually owned and operated by the City and the SCVWD.

The Adopted Budget includes rebudgets from 2013-2014 to 2014-2015 totaling \$297,000, including:

- EMS Patient Care Data System (\$225,800);
- Envision San José 2040 General Plan Implementation (\$68,000); and
- Child Portable Debt Service Payments (\$3,673).

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

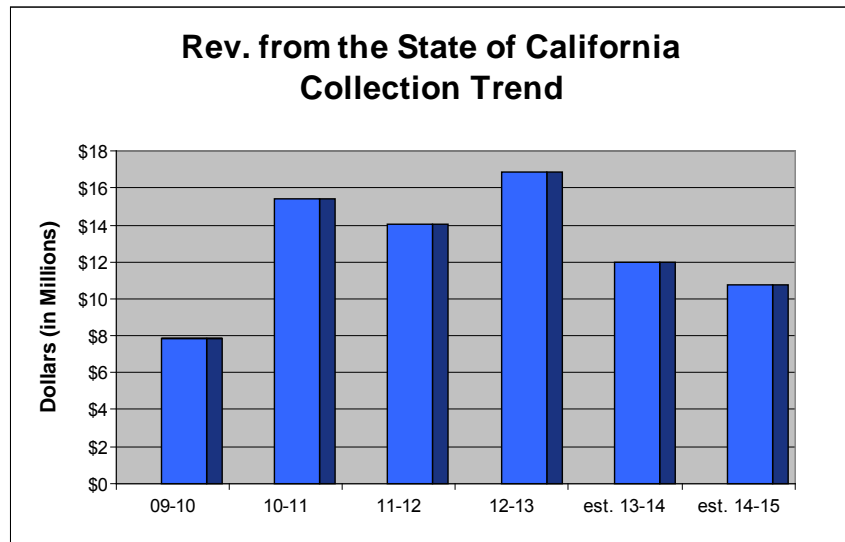
2012-2013 Actual	\$ 16,856,606
2013-2014 Adopted	\$ 11,377,531
2014-2015 Forecast	\$ 10,734,000
2014-2015 Adopted	\$ 11,194,473
% of General Fund	1.0 %
% Change from 2013-2014 Adopted	(1.6 %)

Major Categories:

- Tobacco Settlement Revenue
- State Grants/Reimbursements

Revenue Estimates:

Collections in this category are estimated to reach \$12.0 million in 2013-2014 and decrease to \$11.2 million in 2014-2015. This decrease reflects the elimination of one-time grants and reimbursements.



Tobacco Settlement Revenue

Beginning in 2010-2011, Tobacco Settlement revenue from the State is deposited in the General Fund. Based on the most recent information from the State, the 2013-2014 Tobacco Settlement payments total \$9.0 million, reflecting a significant decrease from the \$13.9 million (-35.1%) received in 2012-2013. This significant decline reflects the one-time settlement of a multi-year dispute related to the Non-Participating Manufacturers Adjustment (a provision in the tobacco Master Settlement Agreement) for claims of sales between 2003 and 2012. The 2013-2014 collections return collection to normal levels, and in 2014-2015, revenues are anticipated to remain flat at \$9.0 million.

State Grants/Reimbursements

On an annual basis, the City receives a number of grants and reimbursements. The following State grants and reimbursements are expected in 2014-2015: Abandoned Vehicles Abatement (\$600,000); Vehicle License Collections in excess (\$435,000); Auto Theft reimbursement (\$370,000); California Gang Reduction, Intervention and Prevention (CALGRIP) Grant (\$224,000); Highway Maintenance Charges reimbursement (\$105,000); Selective Traffic Enforcement Program 2013-2014 (\$61,000); 2013-2014 Northern California High Intensity Drug Trafficking Area (\$33,600); and Sobriety Checkpoint Grant Program 2013-2014 (\$30,750).

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

Revenue Estimates

State Grants/Reimbursements (Cont'd.)

The 2014-2015 Adopted Budget also incorporates the rebudget of grant funding from 2013-2014 to 2014-2015 (\$335,000) for the following:

- Anti-Drug Abuse Grant 2013-2014 (\$98,182);
- Selective Traffic Enforcement Grant Program 2013-2014 (\$90,665);
- Mobile ID Phase IV (\$74,569);
- Sobriety Checkpoint Grant Program 2013-2014 (\$39,545);
- 2013-2014 Northern California High Intensity Drug Trafficking Area (\$31,203);
- Avoid the 13 Grant 2013-2014 (\$654).

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA AMERICAN RECOVERY & REINVESTMENT ACT
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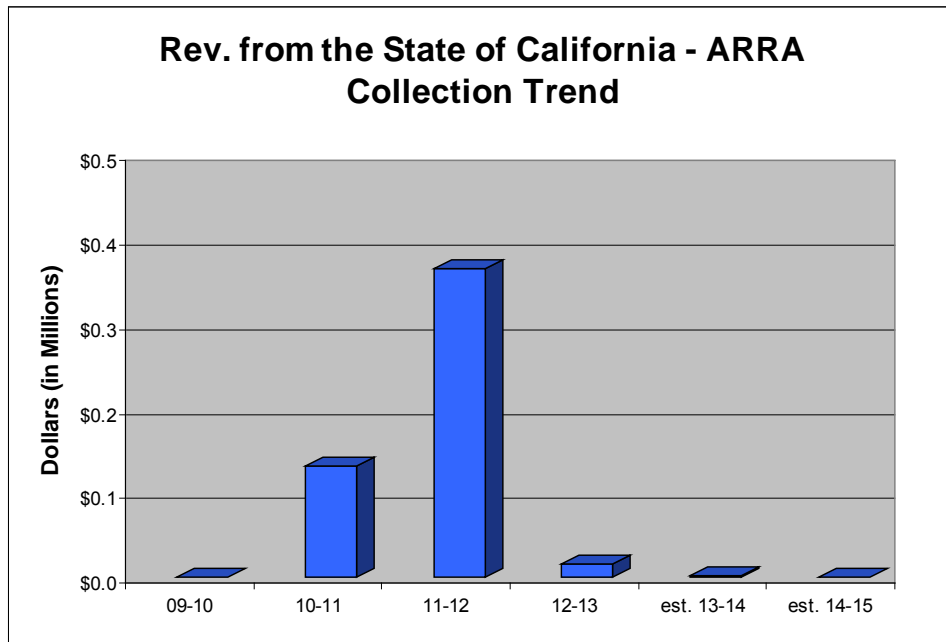
2012-2013 Actual	\$ 15,061
2013-2014 Adopted	\$ 0
2014-2015 Forecast	\$ 0
2014-2015 Adopted	\$ 0
% of General Fund	0.0 %
% Change from 2013-2014 Adopted	N/A

Major Categories:

- American Recovery and Reinvestment Act of 2009

Revenue Estimates:

This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 allocated to the City by the State of California that is recorded in the General Fund. No new grant funds are anticipated as this program has sunset.



GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE FEDERAL GOVERNMENT

2012-2013 Actual	\$ 15,993,061
2013-2014 Adopted	\$ 11,042,469
2014-2015 Forecast	\$ 1,473,380
2014-2015 Adopted	\$ 4,170,953
% of General Fund	0.4 %
% Change from 2013-2014 Adopted	(62.2 %)

Major Categories:

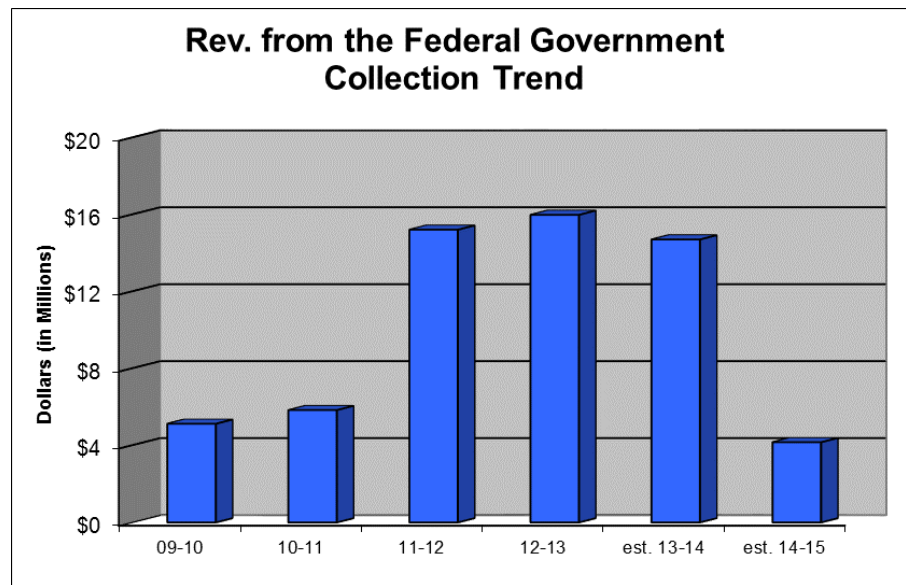
- Police and Fire Related Federal Grants
- Other Federal Grants

Revenue Estimates:

The revenue in this category is received from various grant programs.

The following grants are anticipated in 2014-2015: Fire Staffing for Adequate Fire and Emergency Response Grant (SAFER)

(\$1.0 million); Community Oriented Policing Services (COPS) Hiring Grants (\$668,000); 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program Grant (290,000); Office of Juvenile Justice and Delinquency Prevention Community Based Violence Prevention (\$264,000); Northern California Regional Intelligence Center (NCRIC) SUASI – Police (\$242,000); Urban Area Security Initiative Grant – Fire 2013 (\$145,000); and Office of Juvenile Justice and Delinquency Prevention National Forum Grant (\$142,000).



The figures above incorporate a one-time increase of \$600,000 from the approved extension of the 2010 COPS grant through August 31, 2015. Due to an initial delay in staffing 16 of the police officer positions associated with this grant, excess proceeds remained after the initial grant term. As a result, approximately \$1.2 million of the original grant award remains and has been approved for extension. However, this action only recognizes a portion of this funding as a provision in the initial grant terms only allows costs associated with the first 36 months of filled staffing of a given position. A portion of the reimbursement would be outside this 36-month period. The Police Department is working with the Federal Government to see if there is an exception to this provision. Should an exception be found, additional grant funding of \$646,000 will be brought forward to account for the full original award amount of \$7.2 million.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE FEDERAL GOVERNMENT

Revenue Estimates

The 2014-2015 Adopted Budget also incorporates the rebudget of grant funding from 2013-2014 to 2014-2015 (\$1.4 million) for the following:

- Urban Area Security Initiative Grant – Fire 2013 (\$394,000);
- Clean Creeks Healthy Communities (\$232,000);
- 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program Grant (\$215,000);
- Internet Crimes Against Children Task Force Grant 2011-2012 (\$215,000);
- Urban Area Security Initiative Grant – Police 2013 (\$106,000);
- Human Trafficking Prevention Grant 2011 (\$102,000);
- OJJDP Community-Based Violence Prevention Demonstration Program Grant (\$68,000);
- National Forum Capacity-Building OJJDP 2012-2015 (\$56,000); and
- Protecting Children from Commercial Sexual Exploitation Grant 2011 (\$32,000).

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE FEDERAL GOVERNMENT AMERICAN RECOVERY & REINVESTMENT ACT

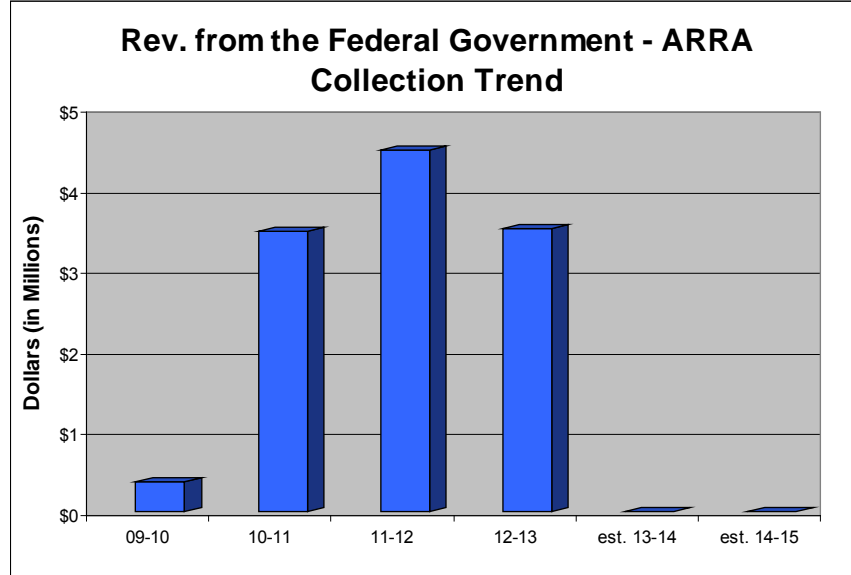
2012-2013 Actual	\$ 3,518,445
2013-2014 Adopted	\$ 10,000
2014-2015 Forecast	\$ 0
2014-2015 Adopted	\$ 0
% of General Fund	0.0 %
% Change from 2013-2014 Adopted	(100.0 %)

Major Categories:

- American Recovery and Reinvestment Act of 2009

Revenue Estimates:

This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 allocated to the City by the federal government that is recorded in the General Fund. No new grant funds are anticipated as this program has sunset.



GENERAL FUND REVENUE ESTIMATES

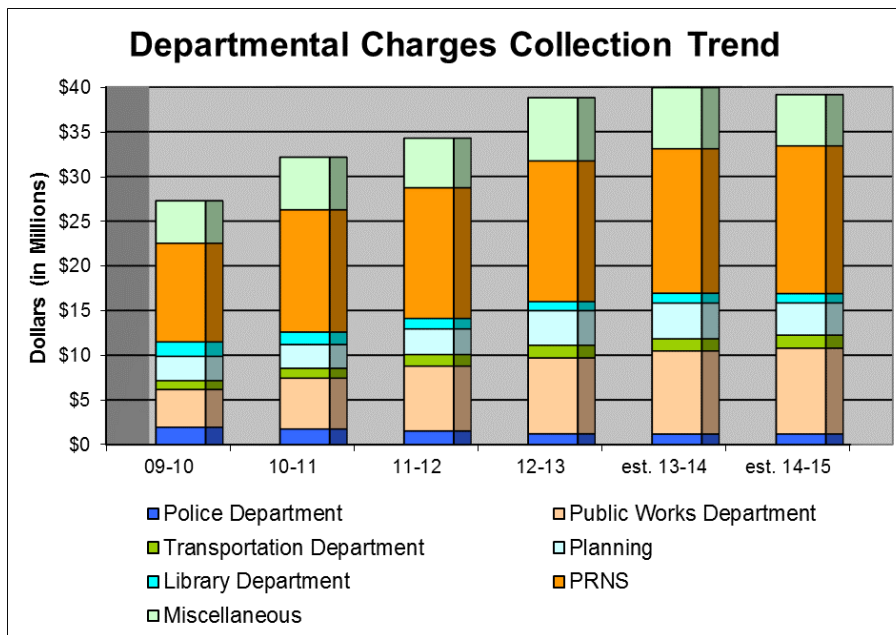
DEPARTMENTAL CHARGES

2012-2013 Actual	\$ 38,798,389
2013-2014 Adopted	\$ 35,449,213
2014-2015 Forecast*	\$ 39,211,726
2014-2015 Adopted	\$ 39,163,435
% of General Fund	3.5 %
% Change from 2013-2014 Adopted	10.5 %

* The 2014-2015 Forecast was increased \$1.8 million from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Major Categories:

- Library Fees and Fines
- Parks, Recreation and Neighborhood Services Fees
- Planning Fees
- Police Fees
- Public Works Fees
- Transportation Fees
- Miscellaneous Departmental Fees



Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2014-2015 Adopted Budget, estimated Departmental Charges of \$39.2 million are slightly below (approximately \$300,000) 2013-2014 estimated levels.

The Adopted Budget estimate of \$39.2 million

is very close to the 2014-2015 Forecast with some adjustments to the individual categories. Downward adjustments in Miscellaneous Department Fees and Public Works Development Fees categories were almost entirely offset by increases in the Parks, Recreation and Neighborhood Services Fees, Department of Transportation Fees, and Police Department Fees. These adjustments are brought forward to recognize revenues from new fees, maintain cost recovery levels of existing programs, and account for anticipated activity changes in 2014-2015.

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

Revenue Estimates

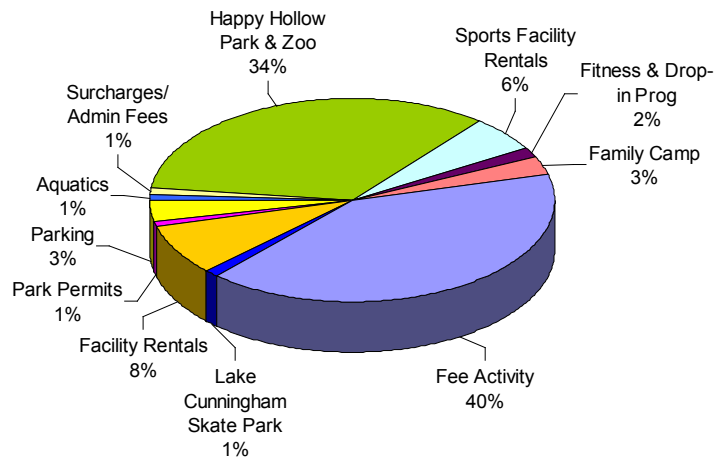
This section highlights the major fee programs in this category. A more detailed description of the changes to various fee programs is available in the Adopted 2014-2015 Fees and Charges document that is released under separate cover.

Library Fees and Fines

Library Department fees and fines for 2014-2015 are estimated at \$1.0 million, consistent with the 2013-2014 estimate. Library fines comprise almost 95% of the Library Fees and Fines and are estimated to remain at prior year levels.

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are estimated at \$16.5 million in 2014-2015 based on projected activity levels and fees. The 2014-2015 Adopted Operating Budget includes a few upward revenue adjustments totaling \$429,000 reflecting the following: increase in sports fields reservations revenue to be set aside in a reserve for artificial turf field replacements (\$200,000, one-time); continue the Get Fit Summer Camp for Kids program that was piloted in 2013-2014 and associated increased fee activity (\$198,000); increased picnic reservations (\$20,000); and revenue associated with new facilities that are scheduled to come on-line in 2014-2015 (\$11,000).



Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications.

In 2014-2015, Planning Fees are anticipated to generate approximately \$3.6 million, a slight decrease from the 2013-2014 estimated collection level of \$4.0 million. The 2014-2015 revenue estimate assumes the continuation of strong development performance, but allows for some drop-off from the high levels experienced in 2013-2014. This collection level, along with the use of a portion of the Planning Development Fee Program Reserve, is sufficient to support program additions in 2014-2015 without any fee increases.

To improve target cycle times and customer service levels, several actions are included in this budget with a net addition of 9.06 positions and one-time non-personal/equipment funding for the implementation of the Geographic Information System, customer service training, and workspace

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

Revenue Estimates

Planning Fees (Cont'd.)

improvements. Although there are no adjustments to the fees in the Planning Development Fee Program, one-time non-personal/equipment funding is included in this budget to conduct a study to analyze the program's current fee levels, compare fees to other jurisdictions, review business processes, and provide recommendations to adjust fees accordingly.

The 2014-2015 estimated collection level is below the projected cost to deliver this program. In order to balance this program and remain at 100% cost recovery, the use of \$1.6 million from the Planning Development Fee Program Reserve is included as part of this budget. This includes \$417,000 that was incorporated into the Forecast and an additional \$1.2 million to provide funding for budget actions in 2014-2015. These actions, among others, will result in an estimated remaining Planning Development Fee Program Reserve of \$710,000 at the beginning of 2014-2015 to be used for works-in-progress projects.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement, Finance, and Information Technology Departments under the City Departments section of this document. A more detailed description of the various fees is provided in the 2014-2015 Fees and Charges document that is released under separate cover.

Police Fees

The 2014-2015 revenue estimate totals \$1.2 million, consistent with the 2013-2014 anticipated collection levels. Fee adjustments resulting in a net increase of \$32,000 to various Police fees and charges are included based on an analysis of the cost to deliver various services.

Public Works Fees

In 2014-2015, Public Works fee revenues are projected to total \$9.6 million (\$7.1 million from the Development Fee Program and \$2.5 million from the Utility Fee Program), which is below the 2013-2014 estimated collection level of \$11.0 million. This collection level, along with the use of a portion of the Public Works Development Fee Program Reserve, is sufficient to support the program additions in 2014-2015. No fee increases are included in this budget; however, a number of targeted fee reductions are approved in the following categories resulting in a decrease of \$146,000 in revenues: Common Interest Development Engineering and Inspection; Erosion and Sediment Control; Grading Permit/Plan Checking; and Private Utility Permits. These fee reductions target residential customers and focus on streamlining service opportunities.

A number of expenditure actions totaling \$811,000 are included, resulting in the addition of 6.5 positions in order to improve target cycle times and customer service levels. Use of \$520,000 from the Public Works Development Fee Program Reserve is included to balance these fee programs. These actions, among others, will result in an estimated remaining Public Works Development Fee Program Reserve of \$7.7 million at the beginning of 2014-2015 primarily for works-in-progress projects.

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

Revenue Estimates

Public Works Fees (Cont'd.)

Additional detail on these budget actions is provided in the Public Works, Planning, Building, and Code Enforcement, Finance, and Information Technology Departments under the City Departments section of this document. A more detailed description of the various fees is provided in the Adopted 2014-2015 Fees and Charges document that is released under separate cover.

Transportation Fees

Transportation Departmental Charges are expected to generate \$1.5 million in 2014-2015, which is 10.7% above 2013-2014 revenue estimates. Fee adjustments resulting in a net increase of \$99,000 to various Transportation fees and charges are included based on an analysis of the cost to deliver various services.

Miscellaneous Departmental Fees

Collections of \$5.7 million are anticipated in 2014-2015 from a variety of fees and charges. This collection level reflects a net decrease of \$463,000 from the Revised Forecast estimate based on approved fee changes.

The majority of the revenue in this category is generated from the Solid Waste Enforcement Fee (SWEF) Program with a 2014-2015 revenue estimate of \$4.3 million. This revenue estimate reflects a decrease of \$310,000 from the Forecast Base as the fee for this was reduced by 11.5% from \$1.31 per ton to \$1.16 per ton. With the use of \$600,000 of estimated 2014-2015 Beginning Fund Balance to support the program combined with the approved fee decrease, this program is projected to be 100% cost recovery in 2014-2015.

This category includes the Enterprise Zone Incentive Program which was eliminated in the 2014-2015 Adopted Budget, resulting in a revenue reduction of \$135,000. This program was designed to encourage business investment and promote job creation; however, it was terminated on December 31, 2013 by the passage of AB93 and SB90. A corresponding elimination of 1.0 position and contractual services in the Office of Economic Development offsets this loss in revenues.

The remaining portion of the decrease reflects the net impact of a decrease in the Finance Department Collection Fee and other miscellaneous departmental fees to maintain 100% cost recovery levels (\$61,000), partially offset by an increase of \$26,000 to the Abandoned Cart Program Fee to reflect the fee increase from \$200 per year to \$345 per year, a \$10,000 increase in Animal Care Services to reflect increases in various fees and charges, and an increase of \$9,000 in City Clerk's Lobbyist registration fees to maintain 100% cost recovery level.

Animal Control Service Fees included in the category are estimated to total \$651,000 in 2014-2015 including the approved changes.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

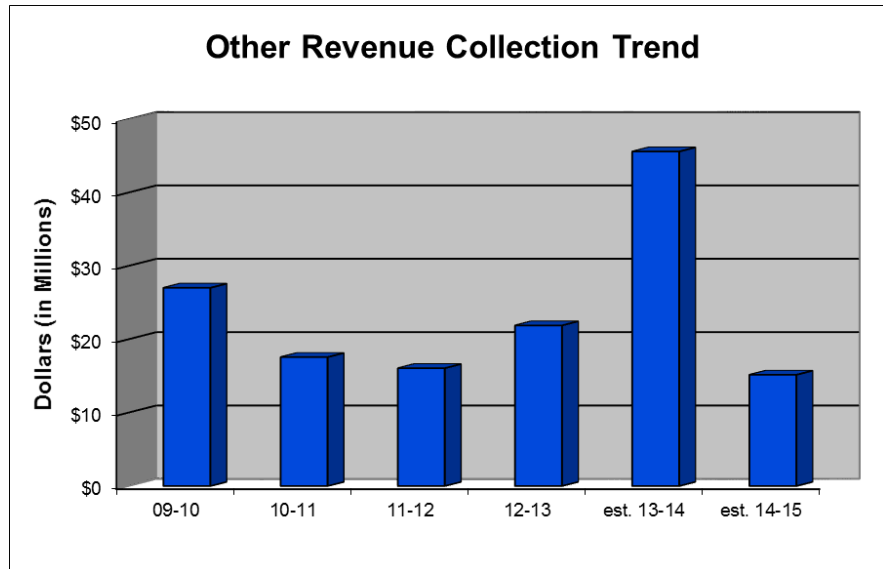
2012-2013 Actual*	\$ 121,891,450
2013-2014 Adopted	\$ 17,646,265
2014-2015 Forecast**	\$ 14,325,938
2014-2015 Adopted	\$ 15,161,073
% of General Fund	1.4 %
% Change from 2013-2014 Adopted	(14.1 %)

* The 2012-2013 Actual includes revenues associated with the issuance of a \$100 million TRANs based on cash flow needs.

** The 2014-2015 Forecast was increased \$247,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Major Categories:

- Litigation Settlements
- SAP Center at San José Revenues
- Investment Program Reimbursement
- Public, Education, and Government (PEG) Access Facilities
- Sale of Surplus Property
- Sidewalk Repair and Tree Maintenance Activities
- Miscellaneous Other Revenue



* The 2010-2011, 2011-2012, and 2012-2013 revenues have been adjusted to exclude the issuance of the TRANs.

Revenue Estimates:

In 2014-2015 the revenue estimate of \$15.2 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2014-2015 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 2014-2015 with an offsetting expenditure based on estimated cash flow needs.

Litigation Settlements

In 2013-2014, Litigation Settlements revenue of \$175,000 is estimated based on actual collections, this is compared to the \$403,000 received in 2012-2013. For 2014-2015, Litigation Settlements revenue of \$275,000 is included in the Adopted Budget.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

Revenue Estimates

SAP Center at San José Revenues

The City receives payments from Arena Management associated with the use of SAP Center at San José. In 2014-2015, \$5.5 million is projected from Arena Rental, Suite, Parking, and Naming revenues, this is slightly above the 2013-2014 estimate of \$5.2 million.

Investment Program Reimbursement

The 2014-2015 revenue estimate for this category is \$2.4 million based on the estimated costs of this program that will be reimbursed from investment earnings.

Public, Education, and Government (PEG) Access Facilities

In 2014-2015, payments from Comcast and AT&T required under the Franchise Agreement are estimated at \$1.8 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.

Sale of Surplus Property

In 2014-2015, the proceeds from the Sale of Surplus Property category is estimated at \$1.2 million based on the anticipated assets that will be sold next fiscal year. This figure is down from the 2013-2014 year-end estimate of \$2.25 million.

Sidewalk Repair and Tree Maintenance Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2014-2015 revenue estimate for this category is \$689,000, which includes an increase of \$89,000 reflecting the anticipated increase in reimbursements from property owners for contractual sidewalk repairs performed by the City on behalf of the property owners as a result of the expansion of the Sidewalk Repair Program. This increase is offset by a corresponding expenditure increase in the City-Wide Expenses allocation, as described in the City-Wide Expenses section of this document.

Property owners are also assessed for the costs of tree services provided by the City. If the City performs emergency tree services, such as removing a tree that has fallen in the street during a storm, the property owner is assessed a fee to cover the cost of this service. This fee is expected to generate \$200,000 in 2014-2015 and there is a corresponding City-Wide Expenses allocation to provide this service.

Miscellaneous Other Revenue

Various other revenue sources are included in this revenue category including: SB90 reimbursements from the State of California (\$300,000), Banking Services vendor payment pilot program (\$250,000);

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

Revenue Estimates

Miscellaneous Other Revenue (Cont'd.)

Silicon Valley Energy Watch Grant (\$234,000); Wellness Program payments from the City's healthcare providers (\$200,000), wrecked vehicle sales (\$150,000); Miscellaneous City-Wide Revenues (\$100,000), City Hall parking revenues (\$100,000), Secondary Employer Insurance reimbursement from Police Officers (\$93,000), San José Rep Theater loan repayment (\$77,000 principal and interest); P-Card Incentive Payments (\$75,000), and several smaller revenue categories.

Included in the 2014-2015 Adopted Budget are the following adjustments:

- An increase of \$1.0 million reflects the rebudget of grants and reimbursements from 2013-2014 to 2014-2015. Rebudgeted funds consist of the following: Sidewalk Repairs (\$600,000); 2013 Silicon Valley Energy Watch Program (\$265,000); Emergency Street Tree Services (\$146,000); PG&E Summer Cooling Shelter Program Grant (\$7,000); and 1st Act Silicon Valley Digital Media Grant (\$6,000).
- An ongoing decrease of \$300,000 in Wellness Program revenues from the City's health insurance providers (from \$500,000 to \$200,000), as negotiated, has necessitated a service evaluation to ensure remaining revenues align with the highest program needs. Additional fund balance of \$300,000 reflects the liquidation of a portion of the Wellness Reserve (from \$420,000 to \$120,000) to offset this ongoing reduction in 2014-2015 as discussed in this document. Wellness revenues have reimbursed for 2.8 positions and \$125,000 of non-personal/equipment in the Employee Health Services division in Human Resources. A review of medical services and wellness programs is being completed to ensure that current service levels are provided in the most efficient and cost-effective manner.
- An increase to recognize the anticipated reimbursement from the Christmas in the Park Foundation (\$17,000) for part-time City staff support.
- An increase of \$10,000 for Department of Transportation new subdivision traffic control signs and pavement markings revenues to maintain cost recovery levels.
- A decrease to maintain 100% cost recovery levels for the Return Check Fee (\$6,000).

GENERAL FUND REVENUE ESTIMATES

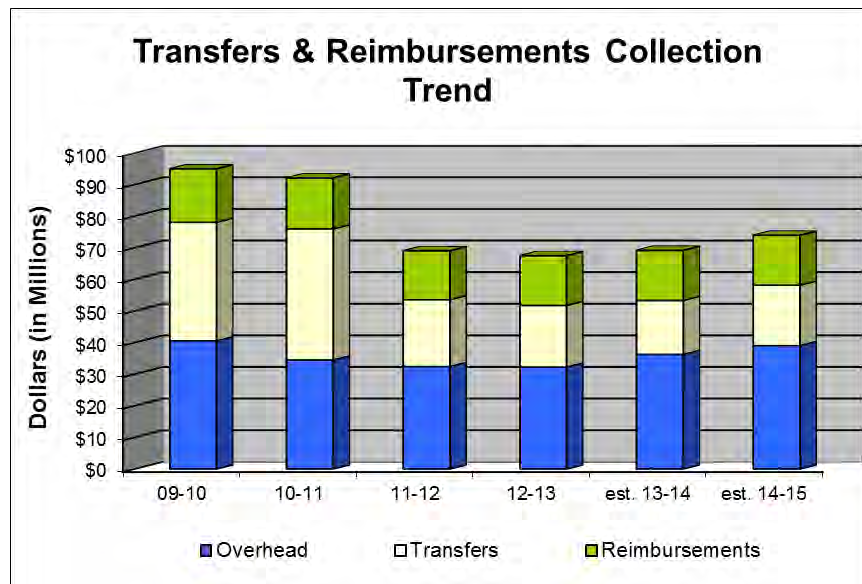
TRANSFERS AND REIMBURSEMENTS

2012-2013 Actual	\$ 67,446,942
2013-2014 Adopted	\$ 68,400,692
2014-2015 Forecast*	\$ 72,042,531
2014-2015 Adopted	\$ 73,914,067
% of General Fund	6.6 %
% Change from 2013-2014 Adopted	8.1 %

* The 2014-2015 Forecast was increased \$862,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services



Revenue Estimates:

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 overhead charges, reimbursements for services rendered, or simple transfers. In total, Transfers and Reimbursements are anticipated to generate approximately \$73.9 million in 2014-2015. This amount is above the current 2013-2014 estimate of \$69.2 million primarily due to increased overhead reimbursements and budgeted transfers. The following is a discussion of the three major subcategories, including detail regarding the net increase approved for 2014-2015 of \$1.9 million.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

Revenue Estimates

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2014-2015, a total of \$39.0 million in reimbursements are projected based on 2014-2015 overhead rates prepared by the Finance Department applied against the projected 2014-2015 applicable salaries. This figure reflects the following: an increase of \$735,000 incorporated into the Revised Forecast based on final overhead rates and updated allocations of staff across funds; and an increase of \$1.2 million incorporated into the 2014-2015 Adopted Budget (\$1.0 million ongoing) generated from various budget actions that changed the staffing levels funded by capital and special funds. Descriptions of the budget actions that generate these overhead reimbursement changes can be found in the City Departments Section of this document. Following is a summary of the overhead reimbursement changes from the Revised Forecast by fund.

Fund	Adopted Adjustment
Capital Funds	\$ 939,672
San José/Santa Clara Treatment Plant Operating Fund (513)	119,829
Public Works Program Support Fund (150)	53,741
Low and Moderate Income Housing Asset Fund (346)	50,404
Storm Sewer Operating Fund (446)	30,988
Water Utility Fund (515)	29,191
Housing Trust Fund (440)	28,944
Maintenance District Funds (various)	21,230
Sewer Service and Use Charge Fund (541)	16,349
General Purpose Parking Fund (533)	11,230
Benefit Funds - Benefit Fund (160)	2,933
Airport Maintenance and Operating Fund (523)	208
Integrated Waste Management Fund (423)	(71,835)
Multi-Source Housing Fund (448)	(66,849)
Community Development Block Grant Fund (441)	(7,329)
Vehicle Maintenance and Operations Fund (552)	(1,008)
Total Adjustments	\$ 1,157,698

Transfers

The Transfers category is projected at \$19.1 million in 2014-2015. The largest component of this category (\$9.1 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for police and aircraft rescue and firefighting services provided by the Police and Fire Departments. In 2014-2015, these reimbursements have been set to cover the 2014-2015 costs, with revenue from Fire SAFER Grant extension offsetting a portion of the cost for aircraft rescue and firefighting services as discussed in more detail below. Additional large transfers programmed for 2014-2015 include the following: Construction and Conveyance Tax Fund transfer (\$3.9 million) associated with park maintenance costs and methane monitoring; Construction Excise Tax Fund transfer (\$1.8 million); General Purpose Parking Fund (\$707,000); Workforce Investment Act Fund for the reuse of City facilities (\$528,000); Convention and Cultural Facilities Revenue Fund

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

Revenue Estimates

Transfers (Cont'd.)

(\$343,000); and Integrated Waste Management Fund transfer (\$300,000) primarily reflecting unclaimed Construction and Demolition Diversion Deposits.

The 2014-2015 Adopted Budget incorporates the following changes from the Revised Forecast that result in a net increase \$726,000:

- A one-time increase of \$750,000 in revenue to be transferred from expired special assessment districts. In 2008-2009, Finance staff completed an analysis of 50 expired special assessment districts with remaining cash balances. Based on that review, in accordance with State law, the availability of surplus funds was announced to be claimed by current and former property owners. With the statute of limitations, any unclaimed funds may be transferred to the General Fund. The initial deadline to claim a portion of the surplus funds was in March 2012, after which time unclaimed funds in the amount of \$1.2 million were transferred to the General Fund. The next and final deadline to claim the remaining portion of the surplus funds is in May 2014. It is expected that approximately \$750,000 will remain unclaimed and be available for transfer to the City in 2014-2015.
- An increase of \$250,000 to the transfer from the General Purpose Parking Fund (\$210,000) and the Transient Occupancy Tax Fund (\$40,000) to provide a total 2014-2015 subsidy of \$420,000 to the San José Downtown Association (SJDA) in 2014-2015. Funding will allow for the continued partnership with the City in activating and promoting downtown.
- A one-time transfer of \$234,000 from various special and capital funds for funding to support an alternative solution to the City's Human Resources/Payroll System.
- A decrease of \$508,000 to the transfer from the Airport Maintenance and Operation Fund to reimburse the General Fund for aircraft rescue and firefighting services provided by the Fire Department. This action is offset by the liquidation of the Aircraft Rescue and Firefighting Services Reserve that was set aside in 2013-2014 from the extension of the Fire SAFER 2011 Grant. This action will maintain sworn firefighter staffing levels in the Fire Department and avoid layoffs.

Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds. For 2014-2015, the revenue estimate for this category is \$15.8 million.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. In 2014-2015, Gas Tax receipts are projected to reach \$15.0 million, a slight decline of 0.7% from the 2012-2013 actual and 2013-2014 estimate of \$15.1 million. This figure is up from the \$14.85 million assumed in the Forecast based on the actual collection trends.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

Revenue Estimates

Reimbursements for Services (Cont'd.)

The Reimbursements for Services category also includes reimbursement for actual City costs associated with administering the Deferred Compensation Program (\$615,000) and the Maintenance Assessment District Funds (\$160,000). The Deferred Compensation reimbursement reflects a decrease of \$12,000 as a result of staffing adjustments to the Deferred Compensation Program, as discussed in the Human Resources Department under the City Departments section of this document.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Rebudget: Contingency Reserve	\$ 31,000,000
Rebudgets: Expenditure/Earmarked Reserves	\$ 143,823,317
Unexpended Earmarked Reserves*	\$ 43,784,980
2013-2014 Ending Fund Balance Reserve*	\$ 22,000,000
Expenditure Savings/Additional Revenue*	\$ 10,459,217
Liquidation of Prior Year Encumbrances*	\$ 2,000,000
Fund Balance Subtotal:	\$ 253,067,514
Reserve for Encumbrances	\$19,650,300
Fund Balance Total:	\$ 272,717,814
% of General Fund**	22.6%

* Used for 2014-2015 Adopted Budget balancing purposes.

** Excludes Reserve for Encumbrances.

Estimates for both the unrestricted and restricted (reserve for encumbrances) portions of the 2013-2014 Ending Fund Balance/2014-2015 Beginning Fund Balance, totaling \$272.7 million, are included as part of the 2014-2015 Adopted Budget. The estimate for the encumbrance reserve is set at the 2012-2013 actual level (\$19.7 million). The Adopted Budget included a matching expenditure amount intended to reflect the corresponding encumbrances that are estimated for 2014-2015.

The estimate for unrestricted fund balance was set at \$253.1 million, representing a \$195.7 million increase from the revised 2014-2015 Forecast level of \$57.4 million. When the initial Forecast was developed, the fund balance projection totaled \$57.8 million and included the following: an unexpended (rebudgeted) Contingency Reserve estimate of \$31.0 million; a combination of excess revenues, expenditure savings, and the liquidation of prior year carryover encumbrances totaling \$24.0 million; and additional funding of approximately \$2.8 million from various reserves to support specific costs programmed in 2014-2015 (\$1.98 million from the Building Development Fee Program Reserve, \$417,000 from the Planning Development Fee Program Reserve, \$339,000 from the Public Works Development Fee Program Reserve, and \$17,000 from the Wellness Program Reserve were included in the fund balance estimate to cover costs associated with these programs in 2014-2015). The Revised Forecast adjusted the unrestricted fund balance down by \$339,000 to reflect a reduction in the use of the Public Works Development Fee Program Reserve to cover necessary 2014-2015 base program costs. Additional Public Works Fee revenue is available to cover these costs.

The \$195.7 million increase in the fund balance projection from the Revised Forecast (from \$57.4 million to \$253.1 million) primarily reflects the rebudget of \$143.8 million for expenditure-related line items and reserves and the additional use of \$41.4 million in unexpended reserves (from \$2.4 million to \$43.8 million). The higher fund balance also includes an increase in expectations for excess revenues and expenditure savings of \$10.5 million (\$22.0 million to \$32.5 million). The majority of the projected excess revenues and expenditure savings was set aside in the 2013-2014 Ending Fund Balance Reserve, which totaled \$22.0 million as shown in the chart above.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Following is a discussion of the fund balance components:

- The Beginning Fund Balance estimate assumed the carryover of the 2013-2014 Contingency Reserve of \$31.0 million, with the assumption that this amount would not be used in 2013-2014 and would be available in 2014-2015. This reserve level complied with the City Council policy to maintain a minimum 3% Contingency Reserve during the development of the 2014-2015 General Fund Forecast. In the 2014-2015 Adopted Budget, the Contingency Reserve was increased by \$1.5 million to \$32.5 million in order to remain in compliance with the City Council policy for the 2014-2015 Adopted Operating Budget. On October 7, 2014, the City Council also approved an additional increase of \$200,000 to the Contingency Reserve based on the final reconciliation of the 2014-2015 Adopted Budget. The Contingency Reserve is approximately enough to cover General Fund payroll costs for less than two and one-half weeks in an emergency.
- Rebudgeted Earmarked Reserves and expenditures totaled \$143.8 million. Details of the Earmarked Reserves of \$95.86 million that are rebudgeted from 2013-2014 to 2014-2015 can be found in the *City-Wide Expenses, Capital, Transfers, and Reserves* section of this document. Major Earmarked Reserve rebudgets include: Development Fee Program Reserves (\$41.3 million – Building \$21.7 million, Fire \$6.4 million, Public Works \$6.0 million, Technology \$5.4 million, Planning \$2.4 million); Workers' Compensation/General Liability Reserve (\$15.0 million); Budget Stabilization Reserve (\$10.0 million); Sick Leave Payments Upon Retirement Reserve (\$6.0 million reallocation from City-Wide Expenses); and Salaries and Benefits Reserve (\$5.0 million).

Expenditure rebudgets totaled \$47.96 million, the majority of which represent City-Wide Expenses that were not complete in 2013-2014 for which funding was carried over to 2014-2015. A large portion of these rebudgets reflect the carry-over of unexpended grant funding.

- The use of various Unexpended Earmarked Reserves of \$43.8 million: 2014-2015 Future Deficit Reserve (\$18.1 million), Successor Agency City Legal Obligations Reserve (\$8.0 million) to repay a portion of the Supplemental Educational Revenue Augmentation Fund (SERAF) Loan, Development Fee Program Reserves (\$6.6 million - \$4.5 million Building, \$1.6 million Planning, \$520,000 Public Works), Police Department Overtime Reserve (\$4.0 million), 2014-2015 Homeless Rapid Rehousing Reserve (\$2.0 million), 2014-2015 Homeless Response Team (\$1.5 million), 2014-2015 San José BEST and Safe Summer Initiative Programs Reserve (\$1.5 million), Fire Station #37 (Willow Glen) Reserve (\$620,000), 2014-2015 Children's Health Initiative (\$550,000), Aircraft Rescue and Firefighting Services Reserve (\$508,000), Wellness Program Reserve (\$317,000), and 2014-2015 Community and Action Pride Grants Reserve (\$100,000).
- The 2013-2014 Ending Fund Balance Reserve (\$22.0 million) and the Expenditure Savings/Additional Revenue (\$10.5 million) represent the total excess revenues and expenditure savings of \$32.5 million expected to be generated at the end of 2013-2014 for use in 2014-2015. As part of the 2013-2014 Year End Budget Review memorandum approved by the City Council on June 17, 2014, \$22.0 million of the projected excess revenues and expenditure savings was set aside in reserves. This included \$9.8 million in excess revenues

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

and \$12.2 million in expenditure savings (\$2.0 million Earmarked Reserves, \$4.6 million City-Wide Expenses, and \$5.6 million departmental personal services). The remaining savings of \$10.5 million in excess revenues and expenditures includes:

- \$1.9 million in expenditure savings from the Mayor and City Council, Council General as approved in the Mayor's June Budget Message for Fiscal Year 2014-2015 as approved by the City Council.
 - \$1.5 million in expenditure savings attributed to anticipated savings in the City's 2013-2014 General Fund Successor Agency City Subsidy. As a result of the most current projected cash flow, it is anticipated that the 2013-2014 budgeted subsidy of \$3.1 million will not be necessary and \$1.5 million in savings can be used to assist in the payment of the May 2010 SERAF Loan due in June 2015.
 - \$7.1 million in excess revenues and expenditures from 2013-2014 primarily due to: additional Sales Tax in the second quarter of 2013-2014 (actual growth of 7.9% compared to estimated 3.5% growth), additional Property Taxes, and additional Solid Waste Fees (\$600,000) above budgeted estimates. The remainder reflects anticipated expenditure savings as a result of a continuation of higher than budgeted position vacancy rates throughout the City in addition to unanticipated City-Wide Expenditures savings in various appropriations such as workers' compensation claims costs.
- The Liquidation of Prior Year Encumbrances was estimated at \$2.0 million in 2013-2014 to be available for use in 2014-2015. This is consistent with the level assumed in the Forecast.

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