



2014-2015
City Manager's Budget Request

&

2015-2019
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2014

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**2014-2015
CITY MANAGER'S BUDGET REQUEST
&
2015-2019
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS**

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

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Prepared by
Office of the City Manager
February 2014

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TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Ed Shikada

SUBJECT: 2014-2015 CITY MANAGER'S
BUDGET REQUEST AND
2015-2019 FIVE-YEAR FORECAST

DATE: February 28, 2014

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2014-2015 City Manager's Budget Request (2014-2015 Budget Balancing Strategy Guidelines) and the 2015-2019 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. Following are the major highlights of this report.

As shown in the chart below, a small General Fund shortfall of \$1.5 million is projected for 2014-2015. This projection is derived by comparing the estimated revenues with the cost of delivering City Council-approved existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. In the remaining years of the Forecast, small General Fund shortfalls and a surplus are projected, ranging from -\$6.5 million to \$0.4 million annually. These margins are extremely narrow when put into context of the size of the projected General Fund budget, ranging from -0.3% to 0.02% of the projected annual budget (revenues and expenditures). Over the five-year period, a total shortfall of \$13.5 million is anticipated, or approximately \$2.7 million annually. This average shortfall figure equates to only 0.1% of the projected General Fund annual budget.

2015-2019 General Fund Forecast Incremental General Fund Surplus/(Shortfall)

2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
(\$1.5 M)	(\$4.2 M)	\$0.4 M	(\$6.5 M)	(\$1.7 M)

- This Forecast reflects the Administration's best estimates on the projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the Forecast period, including: 1) impacts associated with the implementation of the remaining elements of the Fiscal Reform Plan (e.g., cost savings and/or additional revenues); 2) costs associated with fully funding the annual required contributions for police retiree healthcare; 3) costs associated with services that were funded on a one-time basis in 2013-2014; 4) costs associated with the restoration of key services (police, fire, libraries, community centers, and street maintenance) to January 1, 2011 levels; 5) costs associated with a Police Staffing

Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions) that will be brought forward for City Council consideration as a Manager's Budget Addendum later in the 2014-2015 budget process; 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) one-time revenue sources or expenditure needs, including the \$18.1 million in one-time funding that is currently in the 2014-2015 Future Deficit Reserve. The Forecast also does not factor in the potential impact associated with the sunseting of the Library Parcel Tax in 2015, which is budgeted in a special fund. If this Tax is not renewed, there would be significant service delivery impacts for the Library, which relies on this tax revenue to support both operations and the capital program, including the purchase of library materials. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

- The City's budget is in a fairly stable position over the forecast period. The difficult budget balancing actions implemented in recent years played a critical role in bringing revenues and expenditures into close alignment in this Forecast. These actions included a combination of significant service and position reductions, employee total compensation reductions, increased employee benefit cost sharing, changes to service delivery models across the organization, and increasing revenues, including four voter-approved tax measures, to address a decade of cumulative General Fund budget shortfalls totaling almost \$700 million that required the elimination of approximately 2,000 positions. In-depth planning efforts were undertaken to strategically address these unprecedented budget challenges. The City first developed a General Fund Structural Deficit Elimination Plan in 2008 that outlined cost reduction and revenue strategies to bring the General Fund into structural balance. This document was later updated by the Fiscal Reform Plan that was approved by the City Council in May, 2011. The Fiscal Reform Plan presented a strategy to achieve long-term financial stability, restore key City services to January 1, 2011 levels (police, fire, libraries, community centers, and street maintenance), and open facilities that had been recently completed or were under construction. This plan identified cost reduction strategies, primarily retirement-related, and revenue strategies, primarily Sales Tax and Business Tax measures, that would generate additional resources to meet these goals.
- While the City's budget has stabilized, there continues to be a significant deficit in the service levels provided to the residents and businesses in San José. There are major gaps in services across the board that impact our community, from public safety to parks, libraries, and community services. There are also significant unmet deferred infrastructure and maintenance needs that will have a long-term impact on the City.
- The chart on page 3 compares the 2014-2015 Forecast to the 2013-2014 Adopted Budget. The carry-over from the 2013-2014 Adopted Budget of -\$0.1 million is the first element and represents the amount of the 2013-2014 General Fund shortfall addressed with one-time solutions, resulting in the carryover of that portion to the following year. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by \$27.8 million, driven primarily by increases in the Sales Tax, Property Tax, Utility Tax, Franchise Fee, and Licenses and Permits revenue estimates. When comparing expenditures (the third element), base costs are expected to increase by \$29.2 million from 2013-2014 ongoing budget levels, with the largest increase in retirement contribution expenditures and employee compensation.

**2014-2015 General Fund Forecast
Reconciliation from 2013-2014 Adopted Budget**

2014-2015 General Fund Forecast Components (Ongoing)	\$ in Millions
Carry-Over from 2013-2014 Adopted Budget	-\$ 0.1
Major Revenue Changes	
- Sales Tax Increase	10.0
- Property Tax Increase	7.7
- Licenses and Permits Increase	4.8
- 2014-2015 Beginning Fund Balance Increase	4.7
- Utility Taxes/Franchise Fees Increase	4.3
- Departmental Charges Increase	2.0
- Revenue from the Federal Government Decrease	(5.5)
- County of Santa Clara Paramedic Program Reimbursement Elimination	(2.2)
- Other Revenue Net Increases	2.0
Total Revenue Changes (Increase)	\$ 27.8
Major Expenditure Changes	
- Retirement Contributions Increases	14.6
- Employee Compensation Planning Reserve Increase	10.9
- SJPOA Negotiated Employee Pay/Associated Fringe Increase	7.0
- Non-Management Step/Management Pay-For-Performance Increases	3.0
- Employee Market Competitiveness Reserve Establishment	1.2
- Successor Agency to the Redevelopment Agency Subsidy Increase	1.1
- General Liability Claims Cost Increases	1.0
- Healthcare/Dental Cost Increases	0.6
- 2014-2015 Future Deficit Reserve Liquidation (ongoing portion)	(5.9)
- Fire Apparatus/Police Vehicle Replacements Cost Decreases	(2.0)
- Sick Leave Payments Upon Retirement Cost Decrease	(1.0)
- Other Expenditure Net Decreases	(1.3)
Total Expenditure Changes (Increase)	\$ 29.2
2014-2015 Projected General Fund Shortfall	-\$ 1.5

- Retirement costs (pension and retiree healthcare) remain a major cost driver in this Forecast. For 2014-2015, retirement costs are projected at \$236.1 million in the General Fund (\$308.6 million all funds), representing a total increase of \$23.9 million (11.3%) from the 2013-2014 Modified Budget level of \$212.2 million. This increase includes base budget increases (\$14.6 million) and those associated with committed additions, non-management step increases, management pay-for-performance, negotiated salary adjustments, and the Employee Compensation Planning Reserve. During the forecast period, General Fund retirement contributions will increase by approximately \$28.5 million (12.0%) from \$236.1 million in 2014-2015 to \$264.6 million in 2018-2019. During the same period, the City retirement contributions for all funds will increase by \$37.2 million (12.0%) from \$308.6 million in 2014-2015 to \$345.8 million in 2018-2019. Similarly, the budgetary City retirement contribution rates show significant increases to cover Tier 1 members in the Federated Retirement System, police Tier 1, and fire members of the Police and Fire Department Retirement Plan. For Tier 1 members in the Federated Retirement System, the budgetary City retirement contribution rate increases from 68.8% in 2014-2015 to 88.3% in 2018-2019; for police Tier 1 members in the Police and Fire Department Retirement Plan the

budgetary City retirement contribution rate increases from 80.3% in 2014-2015 to 84.0% in 2018-2019; and for fire members in the Police and Fire Department Retirement Plan, the budgetary City retirement contribution rate increases from 81.1% in 2014-2015 to 84.4% in 2018-2019.

- As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. Various cost elements can also vary from year to year. As seen in recent years, retirement costs have been fluctuating and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions as approved by the Federated and Police and Fire Department Retirement Boards. Consistent with past practice, as part of the preparation for the 2014-2015 Proposed and Adopted Budgets, the Administration will continue to update the City Council on both the revenue and expenditure estimates as new information becomes available.
- As is customary in the Forecast, two alternative forecasts have been developed to model the range of financial scenarios possible under varying economic conditions. "Optimistic" and "Pessimistic" Cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case". In 2014-2015, the Optimistic Case results in a projected surplus of \$6.7 million, while the Pessimistic Case results in a shortfall of \$10.5 million.
- In approaching the 2014-2015 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2014-2015 City Manager's Budget Request). The Service Restoration Decision Making Framework, the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City of San José Budget Principles combined with City Council priorities identified in prior policy sessions will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2014-2015 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval process.
- Looking forward, the Administration's goal is to build capacity to meet the City's basic service delivery needs, maintain competitiveness as an employer, and address the significant backlog of unmet/deferred infrastructure and maintenance needs. This will require continued diligence on controlling the City's costs and pursuing increased revenues to support City services.
- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total \$352 million over the five-year period and are up 25% from the \$281 million included in the 2014-2018 Adopted CIP. Significant growth is anticipated for the Construction and Conveyance (C&C) Tax receipts (30% increase) due to the recovering real estate market, and strong growth is also anticipated for the Building and Structure Construction Tax (18% increase) and the Construction Excise Tax (23% increase)

due to an increase of development activity over the next several years across residential, commercial and industrial sectors.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the recommended 2014-2015 City Manager's Budget Request and the 2015-2019 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program (CIP).

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends be used in developing the 2014-2015 Proposed Budget. These guidelines are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated fiscal status for 2014-2015 is an integral part of the Administration's proposed approach to preparing the 2014-2015 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2014-2015, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2014-2015 City Manager's Budget Request; an overview of the 2015-2019 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; the Fiscal Reform Scorecard; and a description of the next steps in the 2014-2015 budget process.

2014-2015 CITY MANAGER'S BUDGET REQUEST

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines recommended to be used in the development of the 2014-2015 Proposed Budget. These proposed guidelines have been formulated in the context of projections for small General Fund deficits and a surplus over the Forecast period. The over-arching goals of these guidelines are to continue operational and fiscal stability and to deliver services to our community in a cost-effective manner. This includes bringing General Fund revenues and expenditures into balance while maintaining, and in some limited cases, expanding service levels in high priority areas that have been impacted by the budget balancing actions required in recent years. These guidelines will be used with the Service Restoration Decision Making Framework, the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City Council-approved City of San José Budget Principles that have been previously presented to the City Council and are attached as an appendix to this document.

In accordance with the City Charter, the City is required to adopt a balanced budget each year, addressing any projected shortfall or allocating any projected surplus. In 2014-2015, a General Fund shortfall of \$1.5 million is projected, representing only 0.1% of the General Fund annual

budget (revenues and expenditures). In the out years of the Forecast, General Fund shortfalls and a surplus range from -\$6.5 million to \$0.4 million annually. These surplus and shortfall amounts are very small when put into context of the size of the projected General Fund budget, ranging from -0.3% to 0.02% of the projected annual budget. With a projected shortfall of less than 0.5% of the budget, the Administration does not anticipate major service changes in 2014-2015. However, in order to balance the budget and create capacity to add resources in critical areas, the organization will continue to pursue additional revenues, more efficient and cost-effective ways to provide City services, potential restructuring opportunities, and reductions that do not impact direct service delivery.

Although overall service levels are clearly not at adequate levels for our community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support those additions, to the extent possible. Given the projected shortfall in the second year (2015-2016) of the Forecast of \$4.2 million, it would also be prudent to consider a two-year strategy when developing the budget for 2014-2015. This multi-year strategy, which was implemented in both 2012-2013 and 2013-2014, has helped provide both organizational and fiscal stability and has served as an effective budget balancing tool. Currently, there is a 2014-2015 Future Deficit Reserve that totals \$18.1 million. The Administration recommends that the one-time funding contained in the 2014-2015 Future Deficit Reserve, as well as any additional one-time funds that become available during the budget development process, be strategically invested, with a portion reserved to address the projected shortfall in 2015-2016.

Because of the difficult decisions that have been made over the last few years and an improving economy, revenues and expenditures are in close alignment in this Forecast, with annual variances of less than 0.5% of the budget (revenues and expenditures). Challenges remain, however, in addressing other funding needs that are not included in the Forecast, some of which could be potentially funded by the remaining Fiscal Reform Plan strategies that have not yet been implemented or factored into the Forecast. When evaluating the annual General Fund shortfalls or surplus projected in this Forecast, it is important to keep in mind that these figures do not include the following:

- Various cost reduction and revenue strategies identified in the City-Council-approved Fiscal Reform Plan, which are not yet implemented. This Plan outlined cost reduction and revenue strategies to eliminate the General Fund structural deficit, restore selected services to January 1, 2011 levels, and open facilities that had been recently completed or were under construction.
- The costs associated with fully funding retiree healthcare in the first half of 2014-2015 for members of the Federated Retirement System and in all years for police Tier 1 and Tier 2 members of the Police and Fire Department Retirement Plan. This Forecast reflects limits included in negotiated Memoranda of Agreements (MOAs) with bargaining groups in the Federated Retirement System and the Police and Fire Department Retirement Plan. The MOAs with bargaining units in the Federated Retirement System include an 18-month extension of the phase-in to fully fund these costs, which expires in December 2014. For police and fire members, the current limit of the percentage contribution is 11%. This limit has not been reached for fire members, however, it has been reached for police members of the Police and Fire Department Retirement Plan in this Forecast, resulting in the meet and confer process.

- The costs to continue services funded on a one-time basis in 2013-2014 totaling approximately \$2.5 million in the General Fund as well as those services funded on a two-year basis totaling approximately \$7.3 million. Some of the major one-time items include the Public Works Department Preventative Maintenance Program (\$1.3 million), the Filling Empty Storefronts Pilot Program (\$250,000), the Evergreen Branch Library Sunday Hours (\$150,000), and the CommUniverCity Program (\$100,000). The programs funded on a two-year basis include Homeless Rapid Rehousing (\$2.0 million), Homeless Response Team (\$1.5 million), enhanced San Jose BEST and Safe Summer Initiative Program (\$1.5 million), and Community Action and Pride Grants (\$100,000). Many of these programs and services will likely need to be re-evaluated for continued funding in 2014-2015. This analysis will be conducted during the 2014-2015 budget process and funding recommendations for these programs and services will be included in the 2014-2015 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.
- The costs to restore service levels in critical service areas, including police, fire, libraries, and community centers to January 1, 2011 levels as previously directed by the City Council. This cost is estimated at approximately \$36 million based on 2013-2014 costs.
- The costs associated with a Police Staffing Restoration Strategy (to increase budgeted sworn officers from 1,109 to 1,250 positions) that will be brought forward for City Council consideration as a Manager's Budget Addendum later in the 2014-2015 budget process.
- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were last calculated in April 2013 at \$13 million annually in the General Fund (\$148 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling \$135 million in the General Fund (\$909 million all funds). These figures will be updated and presented to the Transportation and Environment Committee in spring 2014.
- One-time revenues that may become available or one-time expenditure needs. This includes the 2014-2015 Future Deficit Reserve of \$18.1 million. Because the Forecast compares ongoing revenues and expenditures, it does not factor in one-time funding elements that may be available or required in any given year.
- Impacts associated with the potential elimination of the Library Parcel Tax. The Library Parcel Tax is scheduled to sunset in 2015. These tax revenues, which are budgeted in a special fund, generate \$7.9 million annually and are used to support both library operations and the library capital program, including the purchase of library materials. Without these funds, there would be significant service delivery impacts for the Library; therefore, on March 4, 2014, the City Council will be considering placing a San Jose Libraries Local Funding Continuation Measure on the June 3, 2014 ballot for voter consideration.
- It should be noted that the Development Fee Programs (Building, Fire, Planning, and Public Works) are designed to be 100% cost recovery and have been programmed to have a neutral impact on the Forecast by adjusting the revenue and costs to be equal. In the Fire Fee Program, revenues are sufficient to cover the Base Budget costs. In the Planning, Building, and Public Works Development Fee Programs, however, small budget gaps are currently projected for 2014-2015. Sufficient fee program reserves are available in each of these programs to address these small variances and have been programmed into the Forecast.

2014-2015 Budget Balancing Strategy Guidelines

The 2014-2015 Budget Balancing Strategy Guidelines provide recommended direction on the general approaches to use in the development of the 2014-2015 Proposed Budget. These guidelines are consistent with those adopted by the Mayor and City Council last year as part of the 2013-2014 Mayor's March Budget Message.

2014-2015 Budget Balancing Strategy Guidelines

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

Framework and Guiding Principles for Restoring City Service Levels

As the City brings the General Fund revenues and expenditures into balance and continues to implement the cost reduction and revenue strategies identified in the Fiscal Reform Plan, there is expected to be some capacity to restore City service levels in the future. As mentioned previously, one of the goals of the City Council is to restore services to January 1, 2011 levels (see *Appendix A* for Service Restorations Previously Identified by City Council (January 1, 2011 Levels)). As the City Council is aware, it is important that the City take a holistic approach regarding the restoration of services as additional resources become available.

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

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

Incorporating Strategies into the 2014-2015 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2014-2015 City Manager's Budget Request combined with the Service Restoration Decision Making Framework, the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City of San José Budget Principles to approach the 2014-2015 budget development process. In December 2013, the Administration directed the City departments to develop 2014-2015 budget proposals using a draft version of the 2014-2015 Budget Balancing Strategy Guidelines. For prudent contingency planning, General Fund budget reduction targets were set at levels to generate approximately \$10 million in General Fund proposals from non-public safety departments to address a potential General Fund shortfall. While a much smaller shortfall is projected for 2014-2015 than originally anticipated, the budget

balancing strategy guidelines and budget proposals generated from departments will still provide a good starting point for developing the 2014-2015 budget. The Administration will continue to pursue cost reductions and service delivery efficiencies that make sense, but does not anticipate any further direct service reductions in 2014-2015 consistent with the approach in 2013-2014 and 2012-2013.

As part of the 2014-2015 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2014-2015 Budget Balancing Strategy Guidelines, with any desired revisions. These guidelines incorporate both short-term and long-term approaches to budget balancing efforts and service level restoration and reflect the City's sound fiscal principles. City Council priorities and goals identified in prior policy sessions will also guide the City's budget balancing efforts. Input from the community through community surveys, various City Councilmember and stakeholder outreach activities, and the January 2014 San José Neighborhood Association/Youth Commission Priority Setting Session will also serve as an important tool in this process.

The Mayor is scheduled to issue a proposed March Budget Message on March 7, 2014, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide specific guidance for the preparation of the City Manager's 2014-2015 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 21, 2014 and May 1, 2014, respectively. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Proposed Budget Study Sessions and Public Hearings to discuss the budget proposals and the associated impacts on performance measures and service delivery. The Administration will also work with the City Council to provide informational meetings on the Proposed Budget in each City Council District in April and May 2014. Additional input by the City Council and community will be incorporated into the budget through these Proposed Budget Study Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2014.

2015-2019 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2015-2019 Five-Year Forecast and Revenue Projections portion of this document is divided into five sections.

1. **Elements of the General Fund Forecast** – This section begins with a description of the overall economic outlook and the expected performance of the economy over the five-year period, followed by detailed descriptions of the assumptions made concerning each of the General Fund revenue and expenditure categories. The Elements of the General Fund Forecast section ends with information regarding the projected General Fund operating margin for each of the five years included in the forecast period.
2. **Base General Fund Forecast** – The forecast model is presented in this section. It includes projections for each of the General Fund revenue and expenditure categories. The expenditure summary is divided into two sections:

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

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

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

2015-2019 General Fund Forecast

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

2015-2019 General Fund Five-Year Forecast
(\$ in Millions)

	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019
Projected Revenues	\$899.2	\$924.7	\$952.1	\$981.3	\$1,008.0
Projected Expenditures	\$900.7	\$930.4	\$957.4	\$993.1	\$1,021.5
Total Cumulative Surplus/(Shortfall)	(\$1.5)	(\$5.7)	(\$5.3)	(\$11.8)	(\$13.5)
Total Incremental Surplus/(Shortfall)	(\$1.5)	(\$4.2)	\$0.4	(\$6.5)	(\$1.7)

Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; costs associated with fully funding the annual required contributions for police retiree healthcare; costs associated with services funded on a one-time basis in 2013-2014; costs associated with restoration of key services (police, fire, libraries, community centers, and street maintenance) to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions) that will be brought forward by City Council consideration as a Manager's Budget Addendum later in the 2014-2015 budget process; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. The Forecast also does not factor in the potential impact associated with the sunset of the Library Parcel Tax in 2015, which is budgeted in a special fund. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

In the 2015-2019 Forecast, small incremental General Fund shortfalls are anticipated for four of the five years. Similar to last year, overall revenue growth is close to the expenditure growth over the forecast period, with an annual variance of less than 0.5% of the budget (revenues and expenditures). However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast. The Forecast also does not reflect Fiscal Reform Plan cost reduction and revenue generation strategies that have not yet been implemented.

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

When reconciling next year's Forecast to the 2013-2014 Adopted Budget, the projected shortfall of \$1.5 million for 2014-2015 is the result of the following: a shortfall carryover from the 2013-2014 Adopted Budget of \$0.1 million, improved revenues of \$27.8 million, offset by increased costs of \$29.2 million.

General Fund revenues are estimated to improve \$27.8 million when compared to the ongoing revenue performance assumed in the 2013-2014 Adopted Budget. Revenue performance in 2013-2014 continues to reflect moderate growth and is estimated to slightly exceed current budgeted levels. Revenue categories that are forecasted to grow year-over-year include: Sales Tax to reflect improved current year growth rates (\$10.0 million); Property Tax based on the most recent information provided by the County of Santa Clara (\$7.7 million); Licenses and Permits (\$4.8 million) primarily reflecting strong Development Fee Program Revenues; Franchise and Utility Taxes (\$4.3 million) based on current year activity levels and forecasted rate increases, and miscellaneous categories that have experienced a net increase based on actual collections experience (\$1.0 million).

On the expenditure side, several upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of \$29.2 million in 2014-2015. The most significant expenditure changes are the following: increase in retirement contributions based on rates provided by the Retirement Boards (\$14.6 million); an increase to the Employee Compensation Planning Reserve (\$10.9 million); SJPOA negotiated pay increases and associated fringe (\$7.0 million), and non-management step increases/management pay-for-performance (\$3.0 million). These cost increases are partially offset by the liquidation of the ongoing portion of the 2014-2015 Future Deficit Reserve (\$5.9 million) and lower than projected replacement costs for fire apparatus and police vehicles (\$2.0 million).

City Retirement Contributions

Given the major impact of retirement costs on the City's budget in recent years, detailed information is provided on the retirement projections incorporated into this Forecast. Overall, the City Retirement contribution costs are determined by the two Retirement Boards as guided by actuarial recommendations and take into account overall benefit levels, the funding status of each retirement plan, and economic and demographic assumptions. The retirement costs in this Forecast assume the pre-payment of the annual required City contribution for Tier 1 participants in the Federated Retirement System, police Tier 1 and fire members of the Police and Fire Department Retirement Plan. As detailed in the table on the following page, General Fund retirement contributions are projected to increase by \$23.9 million, or 11.3%, from 2013-2014 to 2014-2015 (by \$36.5 million, or 13.4%, in all funds). Over the Forecast period, the General Fund retirement contributions are estimated to increase by \$28.5 million, or 12.1% from \$236.1 million in 2014-2015 to \$264.6 million in 2018-2019. During the same period, the City retirement contribution for all funds will increase by \$37.2 million, or 12.1%, from \$308.6 million in 2014-2015 to \$345.8 million in 2018-2019.

**2015-2019 CITY RETIREMENT CONTRIBUTION COSTS
AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES**
(\$ in Millions and with Pre-Payment Discount)

Retirement Plan	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019
Fed. Ret. System Tier 1 – Pension	\$58.2	\$64.4	\$64.3	\$65.0	\$67.2	\$67.5
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	\$10.1	\$11.8	\$13.8	\$13.4	\$12.7	\$12.0
Fed. Retirement Plan Tier 1 - Total	\$68.3	\$76.2	\$78.1	\$78.4	\$79.9	\$79.5
Budgetary Contribution Rates	57.4%	68.8%	73.6%	77.7%	83.7%	88.3%
Fed. Ret. System Tier 2a – Pension	\$2.0	\$0.6	\$0.6	\$0.6	\$0.6	\$0.7
Fed. Ret. Syst. Tier 2a – Ret. Healthcare*	\$2.5	\$1.2	\$1.5	\$1.6	\$1.6	\$1.7
Fed. Retirement Plan Tier 2a - Total	\$4.5	\$1.8	\$2.1	\$2.2	\$2.2	\$2.4
Budgetary Contribution Rates	15.3%	16.6%	19.0%	19.3%	19.3%	19.4%
Fed. Ret. System Tier 2b – Pension	N/A	\$1.3	\$1.8	\$2.3	\$2.8	\$3.4
Fed. Ret. Syst. Tier 2b – Ret. Healthcare*	N/A	\$3.6	\$4.4	\$5.7	\$7.1	\$8.4
Fed. Retirement Plan Tier 2b - Total	N/A	\$4.9	\$6.2	\$8.0	\$9.9	\$11.8
Budgetary Contribution Rates	N/A	16.6%	19.0%	19.3%	19.3%	19.4%
Police Ret. Plan Tier 1 – Pension	\$75.4	\$77.2	\$77.1	\$77.7	\$79.9	\$79.7
Police Ret. Plan Tier 1 – Ret. Healthcare	\$11.9	\$11.8	\$12.0	\$11.9	\$11.8	\$11.5
Police Retirement Plan Tier 1 – Total	\$87.3	\$89.0	\$89.1	\$89.6	\$91.7	\$91.2
Budgetary Contribution Rates	73.3%	80.3%	79.1%	79.8%	82.7%	84.0%
Police Retirement Plan Tier 2 – Pension	N/A	\$1.3	\$1.6	\$2.0	\$2.5	\$3.1
Police Ret. Plan Tier 2 – Ret. Healthcare	N/A	\$1.3	\$1.6	\$2.0	\$2.6	\$3.2
Police Retirement Plan Tier 2– Total	N/A	\$2.6	\$3.2	\$4.0	\$5.1	\$6.3
Budgetary Contribution Rates	N/A	21.8%	21.8%	21.8%	21.8%	21.8%
Fire Retirement Plan – Pension	\$46.1	\$54.2	\$54.5	\$56.2	\$60.8	\$63.8
Fire Ret. Plan – Retiree Healthcare	\$5.4	\$6.8	\$8.0	\$8.3	\$8.6	\$8.9
Fire Retirement Plan - Total	\$51.5	\$61.0	\$62.5	\$64.5	\$69.4	\$72.7
Budgetary Contribution Rates	73.0%	81.1%	80.0%	80.7%	83.4%	84.4%
Other Retirement Costs	\$0.6	\$0.6	\$0.7	\$0.7	\$0.7	\$0.7
Total General Fund	\$212.2	\$236.1	\$241.9	\$247.4	\$258.9	\$264.6
Total All Funds	\$272.1	\$308.6	\$317.3	\$324.6	\$339.0	\$345.8

* Federated Retirement System Board approved a blended Retiree Healthcare rate for 2015-2016 through 2018-2019 projections. Actual rates in those years will differ depending on Plan.

Source: 2013-2014 Modified Budget; Cheiron Letters dated January 15, 2014, January 29, 2014, February 18, 2014, and February 26, 2014 with applied pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan Tier 1, and the Fire Retirement Plan; Automated Budget System adjusted payroll for Fire Retirement Plan and Other Retirement Costs

In 2009, the City and Federated bargaining units reached an agreement to begin a five-year phase-in to fully fund the annual required contribution for retiree healthcare benefits. The last year of the phase-in was 2012-2013. In June 2013, an 18-month extension of the phase-in for members in the Federated Retirement System was approved by the City Council. This is set to expire in December 2014. This Forecast assumes the full funding of the ARC upon expiration in December 2014 (with a contribution rate of 12.96% for the City for Tier 1 and Tier 2a members of the Federated Retirement System and a contribution rate of 18.6% for Tier 2b employees). It is important to note that retiree healthcare negotiations are ongoing between the Administration and the Federated Retirement System bargaining groups. For the Police and Fire Department Retirement Plans, in the out years of the Forecast period, the retiree healthcare contribution percentage has a limit of 11%, which, if reached, results in the meet and confer process per the MOAs with SJPOA and IAFF, Local 230. The cost for retiree healthcare is shared approximately 50/50 between the City and employees. Per the Board's actuary, in order to fully fund the ARC for retiree healthcare benefits, preliminary results indicate that the City's annual contributions would be in excess of the current limit of the percentage contribution of 11% for police members of the Police and Fire Department Retirement Plan.

In the Five-Year General Fund Forecast, retirement costs (pension and retiree healthcare) remain a major cost driver. Throughout the forecast period, retirement costs account for a significant percentage of overall expenditures, representing approximately 26% of General Fund.

General Fund Committed Additions

Cost estimates for a number of specific "Committed Additions" that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2014-2018 Adopted Capital Improvement Program or for projects approved by the City Council during 2013-2014. The costs of the additions total \$204,000 in 2014-2015 and increase to approximately \$1.7 million by the end of the Forecast period.

2015-2019 General Fund Committed Additions

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
New Parks and Recreation Facilities Maintenance & Operations	\$193,000	\$331,000	\$484,000	\$605,000	\$692,000
New Traffic Infrastructure Assets Maintenance & Operations	11,000	57,000	121,000	131,000	145,000
Measure O (Library) Maintenance & Operations	0	237,000	735,000	757,000	779,000
Measure P (Parks) Maintenance & Operations	0	0	0	87,000	81,000
Measure O (Public Safety) Maintenance & Operations: Fire	0	11,000	23,000	23,000	23,000
Total	\$204,000	\$636,000	\$1,363,000	\$1,603,000	\$1,720,000

Some of the larger facilities expected to come on-line during this forecast period include: the Fire Station 21, the Southeast Branch Library, and the Softball Complex. While the future operating and maintenance costs of approximately \$3.1 million for Fire Station 37 (South Willow Glen) were included in previous forecasts, Fire Station 37 has been removed from this forecast due to a lack of sufficient funding for project construction. Due primarily to the unexpectedly high cost of construction during much of the Measure O program, the decision to rebuild instead of remodel Fire Station 2 (which resulted in a net cost increase of approximately \$4.1 million), and the recent uptick in bid prices expected for Fire Station 21, the Administration anticipates that only \$2.0 million in public safety bond funds will remain after the completion of Fire Station 21. This amount leaves the Fire Station 37 project over \$5.0 million short of the funds needed to complete the project. A Manager's Budget Addendum outlining options related to Fire Station 37 and Fire Station 6 will be released for City Council consideration later in the 2014-2015 budget process. A detailed listing of all capital project operating and maintenance costs included in this 2015-2019 General Fund Forecast can be found in the Committed Additions Section of this document.

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

General Fund Capital Operating and Maintenance/Budget Principle #8 requires City Council certification that funding will be made available in the General Fund for capital projects with an estimated operating budget impact greater than \$100,000 at the time of taking beneficial use of the facility or project. Capital projects with operating and maintenance costs over \$100,000 and previously certified are included in the Capital Improvement Program and displayed in Chart A in Section III. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast that have not been approved by the City Council may be recommended for certification as part of the 2015-2019 Proposed Capital Improvement Program. If certified by the City Council, the operating and maintenance costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

Alternative Forecast Scenarios

In order to model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2014-2015 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

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

The Optimistic Case assumes a much faster and more robust recovery than currently anticipated. When compared to the Base Case scenario, the real estate market improves significantly with increases not only in the price of housing, but also the volume of home sales, out pacing the growth rates assumed in the Base Case. This housing market recovery drives growth in employment levels and inflation. This vigorous recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax. In the Optimistic Case, the City would experience surpluses in all years of the Forecast ranging from \$3.6 million to \$14.1 million.

The Pessimistic Case assumes that a combination of adverse factors interact to impede the moderate recovery underlying the Base Case and continue a sluggish recovery. Under this scenario, looming impacts in the world economy in areas such as Europe, Japan, and China are anticipated to ripple through to the U.S. economy at a national level as well as at the State and local levels. Housing prices are anticipated to fall both locally and nationally as the Federal Reserve monetary and fiscal policies result in higher interest rates, which in turn, results in higher mortgage rates. Higher mortgage rates would negatively impact both home sales and prices. In this scenario, the City's revenues, particularly Property Tax and Sales Tax, would be impacted by an economic slowdown. In the Pessimistic Case, the City would experience shortfalls in all years of the Forecast ranging from \$7.0 million to \$17.9 million.

Capital Revenue Forecast

Section V of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2014-2015 Capital Budget and the 2015-2019 Capital Improvement Program (CIP). As in past years, the construction-related revenue estimates included in this report are derived from construction activity projections provided by the Planning, Building and Code Enforcement (PBCE) Department and an analysis of actual collection patterns. The projections and their basis are described in a report prepared by the PBCE Department, which is included as *Appendix C* of this document (Development Activity Highlights and Five-Year Forecast [2015-2019]). This activity forecast includes a review of specific projects that are in progress as well as a general prediction of expected levels of new construction.

The following table compares the estimates for the economically sensitive capital revenue categories included in this Five-Year Forecast with those included in the 2014-2018 Adopted CIP. As shown below, higher collections are projected in all revenue categories. Based on improved real estate activity, construction activity estimates, and a review of revenue collection patterns, a significant increase in these taxes and fees of \$71.5 million, or 25%, is expected when comparing the 2015-2019 Forecast to the 2014-2018 Adopted CIP estimates.

Capital Revenue Forecast Comparison Summary
(\$ in Thousands)

	2014-2018 CIP	2015-2019 Forecast	Difference	% Change
Construction and Conveyance Tax	\$150,000	\$195,000	\$45,000	30%
Building and Structure Construction Tax	55,000	65,000	10,000	18%
Construction Excise Tax	70,000	86,000	16,000	23%
Municipal Water System Fees	750	750	0	0%
Residential Construction Tax	925	950	25	3%
Sanitary Sewer Connection Fee	3,250	3,750	500	15%
Storm Drainage Connection Fee	750	750	0	0%
TOTAL	\$280,675	\$352,200	\$71,525	25%

Real estate activity (primarily housing sales) determines the collection level of one of the major capital revenue sources, the Construction and Conveyance Tax. As the housing market shows continued improvement from the sharp declines experienced after the collapse of the financial market, this category is projected to generate \$195 million over the next five years, which is 30% higher than the estimates assumed in the 2014-2018 Adopted Capital Improvement Program. However, the growth rate in real estate activity has slowed compared to last year, and the average annual collection level of \$39 million is still below the actual collection levels in the mid-2000's that reached a peak of \$49 million in 2005-2006.

The remaining economically sensitive capital revenue categories are directly linked to private development activity. Based on projections provided by the Planning, Building and Code

Enforcement Department, the robust construction activity experienced in 2013-2014—estimated at \$1.45 billion—will taper off over the next several years: \$1.0 billion for 2014-2015, \$825 million in 2015-2016, and then drop slightly again to \$775 million for 2016-2017 through 2018-2019. These assumptions show a slight improvement of 9% or \$350 million from the levels presented in the 2014-2018 Forecast (\$775 million in 2014-2015 and \$750 million from 2015-2016 through 2017-2018). For the largest categories, significant revenue increases are projected, including an 18% (\$10 million) increase to the Building and Structure Construction Tax and a 23% (\$16 million) increase to the Construction Excise Tax, due to an increase of development activity over the next several years across residential, commercial and industrial sectors.

Fiscal Reform Plan Scorecard

In May 2011, the City Council approved the Fiscal Reform Plan, which contained various cost savings/avoidance and revenue strategies to achieve \$216 million in General Fund savings by 2016-2017. The table below provides an update, or scorecard, for these strategies by identifying the amount of General Fund savings for the fiscal year it was implemented or specific notes regarding the implementation status. For strategies that are not yet implemented, the potential cost savings/avoidance amount or the anticipated revenue amount for the respective fiscal year are depicted below.

Fiscal Reform Plan - General Fund Scorecard
(\$ in Millions)

	Implement. Status	Not Yet Implemented				Total
		2014-2015	2015-2016	2016-2017	2017-2018	
Cost Reduction Strategies						
10% Total Compensation Reduction	Net \$39.6M (2011-2012)					
Workers' Compensation Reform	(1)					TBD
Additional Retirement Contribution/ Employee Pay Reductions (or Opt-In)		TBD	TBD	TBD	TBD	TBD
Supplemental Retiree Benefit Reserve Elimination	\$13.4M (2014-2015)					
Retiree Healthcare Modifications (2)	\$6.5M (2014-2015)					
Tier 2 – Federated Retirement System and Police Retirement Plan	(3)					
Tier 3 for Unit 99	(4)					
Sick Leave Payments Upon Retirement (\$5.0M)	(5)					
Overtime (est. \$1.2M)	(6)					TBD
Organizational Changes/Efficiencies	(7)					
Subtotal Cost Red. Strategies	\$59.5M	TBD	TBD	TBD	TBD	TBD
Revenue Strategies						
Sales Tax (1/4% - 1/2%)		\$8.5M - \$17.0M	\$25.5M- \$51.0M			\$34.0M- \$68.0M
Business Tax (est. \$10.0M)						TBD
Disposal Facility Tax/Muni. Water System Tax (est. \$7.5M)						TBD
Subtotal Revenue Strategies		\$8.5M - \$17.0M	\$25.5M- \$51.0M			\$34.0M- \$68.0M
TOTAL	\$59.5M	TBD	TBD	TBD	TBD	TBD

- (1) Workers' Compensation Reform includes implementation of the workers' compensation offset as part of Measure B (not yet implemented) and the Workers' Compensation Pilot Program (in progress).
- (2) These savings due to the retiree healthcare modifications only include savings for non-sworn employees. Per the Memoranda of Agreements with SJPOA and IAFF, Local 230, the City and employees' retiree healthcare contributions are capped at 11.0% and 10.0%, respectively.
- (3) The Tier 2 plan for non-sworn employee groups became effective on September 30, 2012. A Tier 2 Plan for Police sworn employees became effective August 4, 2013. A Tier 2 Plan for Fire sworn employees has not yet been agreed to by that bargaining unit and is pending binding interest arbitration.
- (4) The Tier 3 Defined Contribution Plan for new employees in Unit 99 was effective on February 4, 2013.
- (5) Sick Leave Payments Upon Retirement were eliminated for non-sworn employees hired after September 30, 2012 and for police sworn employees hired on or after July 7, 2013. Sick Leave Payments Upon Retirement were frozen effective June 22, 2013 for non-sworn employees hired on or before September 30, 2012, and were frozen effective July 6, 2013 for police sworn employees hired before July 7, 2013. Sick Leave Payments Upon Retirement remain eliminated for employees represented by OE#3.
- (6) Elimination of overtime pay for management employees (Police Captain, Battalion Chief, and maintenance supervisory positions) requires negotiation with affected Bargaining Groups (SJPOA; IAFF, Local 230; AMSP).
- (7) As part of the annual budget process, during the last several years, departments and services were consolidated (e.g., Public Works and General Services), lower cost service models were put in place (e.g., Police sworn civilianization and Parks Maintenance), services were outsourced (e.g., custodial, graffiti eradication, and in-state prisoner transport services), and technologies were implemented in order to gain efficiencies and reduce costs.

Next Steps in the 2014-2015 Budget Process

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

March 2014

- 2014-2015 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2014

- 2014-2015 Proposed Capital Budget and 2015-2019 Capital Improvement Program Released

April-May 2014

- Community Budget Meetings in Each City Council District

May 2014

- 2014-2015 Proposed Operating Budget and 2014-2015 Proposed Fees and Charges Released
- City Council Study Sessions and Initial Public Hearing on 2014-2015 Proposed Operating Budget, 2015-2019 Proposed Capital Budget and Capital Improvement Program, and 2014-2015 Proposed Fees and Charges

June 2014

- 2014-2015 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2014-2015 Operating Budget, 2014-2015 Capital Budget and 2015-2019 Capital Improvement Program, and 2014-2015 Fees and Charges adopted by City Council

CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. In 2014-2015, a small General Fund shortfall of \$1.5 million is projected, which the Administration seeks to balance without service reductions or eliminations. In the remaining years of the Forecast, small General Fund shortfalls and a surplus ranging from -\$6.5 million to \$0.4 million annually are projected. These margins are very narrow when put into context of the size of the projected General Fund budget, ranging from -0.3% to 0.02% of the projected annual budget (revenues and expenditures).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document and it is important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the Forecast period, including: 1) impacts associated with the implementation of the remaining elements of the Fiscal Reform Plan (cost savings and additional revenues); 2) costs associated with fully funding the annual required contributions for police retiree healthcare; 3) costs associated with services that were funded on a one-time basis in 2013-2014; 4) costs associated with the restoration of key services to January 1, 2011 levels; 5) costs associated with unmet/deferred infrastructure and maintenance

needs; and 6) one-time revenue sources or expenditure needs. This Forecast also does not factor in the impacts associated with the sunseting of the Library Parcel Tax in 2015, which is budgeted in a special fund. In addition, no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

The revenue and expenditure projections for 2014-2015 will continue to be refined over the next several months as additional information becomes available. This is particularly important in the areas of Sales Tax and Property Tax. Sales Tax data for the second quarter of 2013-2014, which covers the 2013 holiday period, will be received in March 2014. Based on this additional data, any necessary adjustments will be incorporated into the 2014-2015 Proposed Operating Budget. Similarly, as additional Property Tax data becomes available, it may be necessary to adjust the 2014-2015 revenue estimates.

This document also provides the recommended 2014-2015 City Manager's Budget Request (Budget Balancing Strategy Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. With a projected shortfall of less than 0.5% of the budget, the Administration does not anticipate major service changes this year. However, in order to balance the budget and create capacity to add resources in critical areas, the organization will continue to pursue additional revenues, more efficient and cost-effective ways to provide City services, potential restructuring opportunities, and reductions that do not impact direct service delivery. Given the projected shortfall in the second year (2015-2016) of the Forecast of \$4.2 million, it would also be prudent to consider a two-year strategy when developing the budget for 2014-2015. The 2014-2015 Future Deficit Reserve of \$18.1 million, along with any additional one-time funds identified in the budget development process, provides the resources necessary to implement this two-year strategy and to address critical service delivery and infrastructure needs.

Over the last three years, the City's budget has stabilized as a result of the very difficult budget actions taken in recent years and the improving economy. The Mayor and City Council have remained committed to ensuring the fiscal health of the City while delivering essential services in the most cost effective manner. This diligence has served the City well during its most difficult financial crisis in recent history. Bringing the budget into balance, however, has come at a great cost to the community and City employees and the City continues to remain in a "service deficit" position. Continued focus and commitment to strategies that will enable the City to rebuild its core services remains a priority for 2014-2015 and beyond.



Ed Shikada
City Manager

*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

Section 1

Elements of the General Fund Forecast

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three alternative Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2014-2015 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast; however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment.

- ❑ **Base Case** – The Base Case Forecast is built on the assumption of a continued moderate recovery from the deep global recession on a national level and the continued dampening of overall growth due to budgetary pressures at the federal level. At the local level, positive near term growth is estimated to continue in the Silicon Valley as a result of the continued strength in the technology industry. Local employment levels are expected to continue to experience moderate growth and the unemployment rate is expected to continue to decrease and ultimately remain around historical normal levels. Home values are anticipated to continue to improve over the five years. In the Base Case Forecast, General Fund revenue collections are anticipated to experience moderate growth over the forecast period.
- ❑ **Optimistic Case** – The Optimistic Case assumes a much faster and more robust recovery than currently anticipated. When compared to the Base Case scenario, the real estate market improves significantly with increases not only in the price of housing, but also the volume of home sales, out pacing the growth rates assumed in the Base Case. This housing market recovery drives growth in employment levels and inflation. This vigorous recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.
- ❑ **Pessimistic Case** – The Pessimistic Case assumes that a combination of adverse factors interact to impede the moderate recovery underlying the Base Case and continue a sluggish recovery. Under this scenario, looming impacts in the world economy in areas such as Europe, Japan, and China are anticipated to ripple through to the U.S. economy at a national level as well as at the State and local levels. Housing prices are anticipated to fall both locally and nationally as the Federal Reserve monetary and fiscal policies result in higher interest rates, which in turn, results in higher mortgage rates. Higher mortgage rates would negatively impact both home sales and prices. In this scenario, the City's revenues, particularly Property Tax and Sales Tax, would be impacted by an economic slowdown.

Base Case Forecast

As with all forecasts, this General Fund Forecast is based on a series of assumptions regarding the overall economic environment, now and in the future. These assumptions were reached after reviewing the projections included in a number of economic forecasts. The economic conditions

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the City Manager's 2014-2015 Proposed Operating Budget, scheduled to be published on May 1, 2014.

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

Current National Economic Conditions

The U.S. economy continues to grow at a relatively subdued pace; the U.S. Gross Domestic Product (GDP) increased by 1.9% in 2013, compared with an increase of 2.8% in 2012. The slowing of GDP experienced in 2013 was due to a combination of factors, including slowed growth in nonresidential fixed investment, personal consumption expenditures (PCE), and imports, partly offset by a deceleration of imports and a smaller decrease in state and local government spending¹. National employment has seen somewhat greater gains than GDP, but continues to reflect a very slow recovery from the "Great Recession" of 2009. The U.S. unemployment rate stood at 6.6% in January 2014, according to the U.S. Department of Labor's Bureau of Labor Statistics. While this is down from the 7.9% level at the end of January 2013, the current unemployment rate does not account for those workers too discouraged to search for work and remains above pre-recession levels of 4-5%.

Bright spots in the national economy include the auto industry and the energy sector. Selling at a pace close to 16 million units a year, the auto sector is providing solid support to the country's industrial production base. Car sales began recovering immediately after the 2008 housing crash and have been growing robustly since then. The energy sector has been stimulated by the adoption of advanced drilling techniques for natural gas and oil that are providing strong job growth in certain parts of the country and are anticipated to help moderate the growth in energy prices.

Though the real estate market continues to improve, existing home sales are being hampered by a lack of available inventory affecting most parts of the country. Prices for existing homes are rising but the rate of increase has recently tempered somewhat because of slightly rising interest rates. Existing home sales in December 2013 were 0.6% below the December 2012 level and the preliminary annual total for existing home sales in 2013 was up 9.1% from the prior year.² Sales

¹ U.S. Department of Commerce Bureau of Economic Analysis, National Income and Product Accounts Gross Domestic Product, 4th Quarter and Annual 2013 (Advance Estimate), January 30, 2014

² National Association of Realtors, News Release, January 23, 2014.

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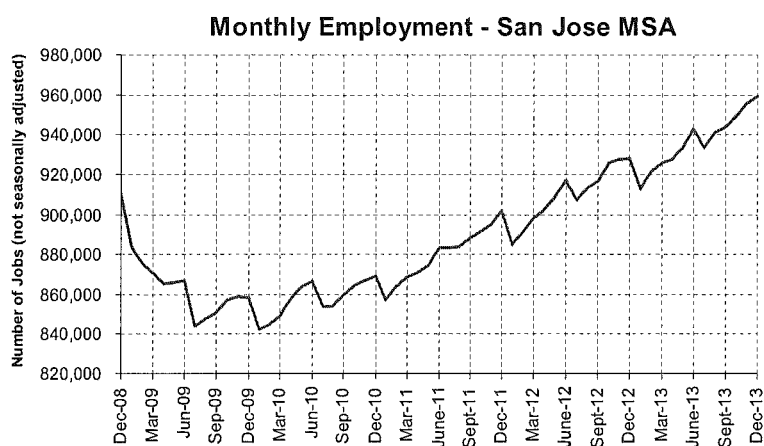
of new homes are still well below average sales levels for the last decade. Nation-wide, privately-owned housing starts in January 2014 reflected a 4.6% increase from the prior year level.³ Yet, average new housing starts for all of 2013 were slightly less than one million. In a normal year, housing starts average around 1.5 million. Additionally, most of these new homes are multi-family residences. Multi-family residences will exert upward pressure on the economy in the coming quarters, but not quite as much as the equivalent amount of single-family homes. Because the Federal Reserve Board intends to lessen its monetary stimulus activities, mortgage rates are expected to rise slightly.

National Economic 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 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%. Currently, the Consumer Price Index (CPI) increased in 2013 by 1.6%⁴. 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.



³ U.S. Census Bureau and U.S. Department of Housing and Urban Development, News Release, January 27, 2014

⁴ U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index News Release, February 20, 2014

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Current City of San José Economic Conditions

Fortunately for the City, the economic performance in Silicon Valley and San José continues to show strength above that experienced nationally and state-wide. The Beacon Employment Report noted that nonfarm employment growth between August 2012 and August 2013 in the South Bay area was 3.0%, which was noticeably higher than the State of California average of 1.7%. Beacon anticipates future annual nonfarm employment growth of 2% through 2018 and is currently forecasting the unemployment rate in the region to reach 5% by the end of 2015⁵.

Data from the State of California Employment Development Department paints a similar picture. The employment levels in the San Jose Sunnyvale Santa Clara Metropolitan Statistical Area (MSA) continues to increase. Total employment grew by 31,000 jobs, or 3.3% from 928,300 in December 2012 to a preliminary estimate of 959,300 in December 2013. The entire increase is due to non farm jobs, the most significant of which are in the Professional and Business Services (6,800); Construction (5,500); Manufacturing (5,200); Trade, Transportation and Utilities (5,100); followed by Leisure and Hospitality (4,000) industries. Financial Activities was the only industry to experience a decline in growth when compared to December of the prior year.⁶ The Administrative Support industry continues to be one of the fastest growing sectors in the State.⁷ By August 2013, the South Bay labor market was one of the few in California whose levels had already exceeded its pre-recession employment peak.

Another positive indicator is the continuing decline in the unemployment rate. In December 2013, the unemployment rate in the San José Metropolitan Statistical Area (MSA) fell to 5.8%, down from the December 2012 rate of 7.8%. This compares favorably to the revised rate from November 2013 of 6.3%, to the unadjusted employment rate for California of 7.9%, and to the overall rate for the nation of 6.5%.

Unemployment Rate (Unadjusted)

	Dec. 2012	Nov. 2013	Dec. 2013**
San José Metropolitan Statistical Area*	7.8%	6.3%	5.8%
State of California	9.8%	8.3%	7.9%
United States	7.6%	6.6%	6.5%

* San Benito and Santa Clara Counties

Source: California Employment Development Department

** Preliminary Estimate

⁵ Beacon Economics, The Regional Outlook – South Bay

⁶ State of California Employment Development Department Labor Market Information Division Press Release, January 24, 2014

⁷ Beacon Economics, The Regional Outlook – South Bay

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Development activity has surged to levels not seen in over a decade. Through January, the table below shows substantial growth in all development categories when compared to last year. While this activity level is anticipated to decrease over the next several years, the increased supply of residential, commercial, and industrial buildings will provide future economic gains to San José.

Private Sector Construction Activity (Valuation in \$ Millions)

	YTD Jan 2013	YTD Jan 2014	% Increase
Residential	\$ 278.2	\$ 496.3	78%
Commercial	\$ 128.2	\$ 261.1	104%
Industrial	\$ 137.5	\$ 382.2	178%

The local housing market continues to be a source of strength, though the pace of growth has moderated somewhat from the dramatic increases experienced in 2012-2013. The median single-family home price in January 2014 was \$660,000, which is an increase of 7.6% from the January 2013 price of

\$613,500. In addition, the average days on market for single-family and multi-family homes dropped slightly from 44 days in January 2013 to 42 days in January 2014. However, available inventory continues to be tight, as the number of property transfers (sales) for all types of residences in January 2014 totaled 398, which represents a decrease of approximately 12.7% from the 456 sales that occurred in the same month in the prior year.

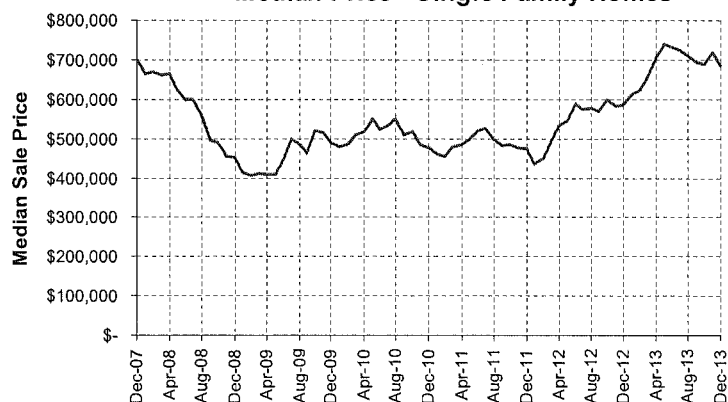
Economic conditions will continue to be closely monitored and factored into the development of the 2014-2015 Proposed Budget, scheduled to be released May 1, 2014.

City of San José Economic Outlook

The outlook for Silicon Valley overall, and San José in particular, similar to the previous year's Forecast, is positive in the near term and in the out years of this Forecast.

Due to the concentration of technology firms in the Silicon Valley, this region is heavily influenced by the technology sector. The strength in the technology sector as well as continued improvement in the housing sector are expected to grow the local economy through 2015.

Median Price - Single Family Homes



In the near term, the strength in the technology industry will keep employment levels increasing. However, signs such as the high stock valuations of many technology companies indicate that the current technology product cycle may be over its peak. As this technology cycle recedes,

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which has been defined by the emergence of mobile-social networking, employment will continue to grow, but at a more sustainable long-term level. Mild rebounds in State and local government hiring, as well as the gains in construction are also expected to bolster the employment rate in the long term.

Continued improvement in the real estate sector is also expected over the Forecast period, though the growth rates will lessen compared to last year's surge. With a greater supply of land than in some other areas of the County, it is likely that both companies and workers will find San José an attractive place to build offices and homes. This will translate to growth in residents and jobs, and bring revenues to the City. However, on the negative side, the limited supply of housing may eventually limit the area's supply of high-tech workers, and thus dampen growth. These workers may decide to go elsewhere as the limited supply of housing becomes too expensive and commutes get too long.

Additionally, in the long term, political and policy constraints on Federal discretionary spending may have impacts on needed investments in the San José region. Potential impacts include transportation infrastructure spending, which stimulates a diverse array of economic demand, and defense spending, which now has a significant high tech component that reaches multiple companies in Santa Clara County.

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

Optimistic Case

In the Optimistic Case, the economy is assumed to grow at a much more rapid pace than assumed in the Base Case. This growth is primarily due to a more robust rebound in housing at both the national and local levels, higher local employment levels, and, most notably, higher inflation. Higher inflation would significantly increase many City revenues, particularly Sales and Property Taxes.

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

Under the Optimistic Case, the economically sensitive revenues are expected to experience much stronger performance as general increases in employment and consumer attitudes promote increased spending, which generate Sales Tax for the City. Improvement in the real estate market will result in higher Property Tax revenues. Development activity is also expected to

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improve as well as business tax collections and Transient Occupancy Tax receipts. Conversely, Gas taxes are slightly lower as a result of higher oil prices and continued increases in mandated fuel economy, which is anticipated to cause the number of taxable gallons consumed to fall. By the end of the Forecast period, revenues are \$55.9 million above the Base Case.

Pessimistic Case

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

The world economy, already slow to recover, could still encounter setbacks from a variety of sources, including a slowing Chinese economy or problems within emerging markets. As the Federal Reserve begins to wind down its expansionary monetary policy, interest rates could rise faster than projected, thereby lowering national economic activity below that projected in the Base Case. The higher interest rates would also translate into higher mortgage rates. Should mortgage rates rise too high, home prices and home sales would fall both nationally and locally.

As the real estate market plays a primary role in the economic fortunes of San José, any lowering of real estate prices and related construction activity would apply a brake to job growth that would negatively impact all sectors of the economy. The result of which would be decreased revenue collections in categories such as Property Tax, Sales Tax, Transient Occupancy Tax, and development fee activity when compared to the Base Case. Conversely, Gas Taxes are slightly up due to projected reductions in oil prices which typically results in increased gas consumption. By the end of the Forecast period, total revenues are \$46.5 million below the Base Case.

Impact of Forecasted Economic Conditions on Revenue Collections

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

An in-depth analysis of the General Fund revenue categories was completed to develop 2014-2015 revenue estimates included in this Forecast. Over 450 revenue sources were examined to

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estimate the outcome in 2013-2014 and build upon those projections to develop the 2014-2015 revenue estimates. These estimates are based on the Base Case Forecast economic scenario described in this section. These revenue estimates will be closely examined and updated again during the preparation of the 2014-2015 Proposed Operating Budget that will be released on May 1, 2014.

REVENUE FORECAST

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown to increase from \$841.5 million in 2014-2015 to \$950.7 million in 2018-2019, for an average growth rate of 2.9% per year.

February 2014 Forecast Revenue Summary

Revenue Category	Modified Budget	Forecast				
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
General Revenues						
Property Tax	\$ 220,850,000	\$ 228,573,000	\$ 239,773,000	\$ 250,611,000	\$ 262,991,000	\$ 275,799,000
Sales Tax	172,110,000	177,724,000	184,371,000	191,783,000	198,514,000	204,867,000
Transient Occupancy Tax	10,600,000	11,750,000	12,496,000	13,028,000	13,449,000	13,923,000
Franchise Fees	43,923,000	45,186,000	46,089,000	46,914,000	47,768,000	48,676,000
Utility Tax	91,895,000	94,950,000	96,808,000	98,677,000	100,581,000	102,573,000
Telephone Line Tax	20,600,000	20,700,000	20,700,000	20,700,000	20,700,000	20,700,000
Business Tax	42,935,000	43,500,000	43,683,000	43,853,000	44,011,000	44,169,000
Other Licenses and Permits	49,268,246	45,055,000	46,902,000	48,309,000	50,000,000	51,450,000
Departmental Charges	38,179,213	37,443,000	38,978,000	40,148,000	41,553,000	42,758,000
Fines, Forfeitures & Penalties	14,862,200	14,175,000	14,447,000	14,700,000	14,938,000	15,301,000
Money and Property	2,673,000	2,799,000	2,883,000	2,969,000	3,059,000	3,150,000
Revenue From Local Agencies	37,131,820	22,145,000	22,745,000	23,344,000	23,986,000	24,644,000
Revenue from the State	11,877,725	10,734,000	10,510,000	10,510,000	10,510,000	10,510,000
Federal Revenue	13,111,532	1,473,000	-	-	-	-
Other Revenue	118,934,047	14,079,000	14,597,000	14,849,000	15,124,000	15,419,000
Gas Tax	15,000,000	14,850,000	14,554,000	14,247,000	14,015,000	13,778,000
Total General Revenues	\$ 903,950,783	\$ 785,136,000	\$ 809,536,000	\$ 834,642,000	\$ 861,199,000	\$ 887,717,000
Transfers and Reimbursements						
Overhead Reimbursements	\$ 36,576,248	\$ 37,107,000	\$ 38,629,000	\$ 39,788,000	\$ 41,180,000	\$ 42,374,000
Transfers	16,502,033	18,436,000	18,729,000	19,001,000	19,406,000	19,715,000
Reimbursements for Services	742,833	787,000	820,000	844,000	874,000	899,000
Total Transfers and Reimbursements	\$ 53,821,114	\$ 56,330,000	\$ 58,178,000	\$ 59,633,000	\$ 61,460,000	\$ 62,988,000
Total General Fund Revenues	\$ 957,771,897	\$ 841,466,000	\$ 867,714,000	\$ 894,275,000	\$ 922,659,000	\$ 950,705,000
Beginning Fund Balance	\$ 215,180,741	\$ 57,752,000	\$ 57,014,000	\$ 57,865,000	\$ 58,666,000	\$ 57,317,000
Grand Total Sources	\$ 1,172,952,638	\$ 899,218,000	\$ 924,728,000	\$ 952,140,000	\$ 981,325,000	\$ 1,008,022,000
Growth %			2.84%	2.96%	3.07%	2.72%

Understanding the basis for the revenue estimates included in this Forecast requires a discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2014-2015 General Fund Forecast.

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REVENUE FORECAST

Property Tax

Property Tax receipts of \$221.7 million are projected for 2013-2014, which represents 8.1% growth from the prior year and is slightly above the modified budget estimate of \$220.9 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 Secured (8.8%) and SB 813 (10.0%), as well as Airplane Property Tax (3.2%) categories with a minor decline of 1.1% in Homeowners Property Tax Relief and 0.9% in Unsecured Property Tax. Overall, in 2014-2015, collections are expected to continue to increase but at a more moderate pace of 3.1% to \$228.6 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. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Taxes account for over 90% of the revenues in this category. In 2013-2014, Secured Property Tax receipts are expected to total \$202.7 million, reflecting an increase of 8.8% from the 2012-2013 collection level. This projected increase can be attributed to two 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; and 2) the change in the California Consumer Price Index (CCPI) of 2.0% for the 2013-2014 tax roll. 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 3.5% to \$209.8 million. This projected increase is related to two factors: the change in the CCPI and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2014-2015 tax roll is an increase of 0.45%, significantly below the prior year level of 2.0%. A net increase in residential and commercial valuation is also anticipated from the combination of changes in ownership, new construction, and the continued partial or full restoration of property values that had previously been reassessed downward under Proposition 8 due to declining home values. All properties that have received a reduction under Proposition 8 do not automatically receive the CCPI adjustment as these properties are assessed annually and adjusted upward or downward depending on the changes to property values. With the continued recovery in the real estate market, it is anticipated that upward adjustments will continue to be realized in 2014-2015. In calendar year 2013, residential real estate experienced gains as the December 2013 median sales price of \$685,000 for single-family homes was 17% above the December 2012 level of \$584,500.

It should be noted that final data on the actual tax levy for 2014-2015 is not yet available as adjustments are made through June 30, 2014. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Many of the adjustments, however, are not reflected until the latter months of a given fiscal year (April-June). The impact of reassessments of commercial property will not be known until the end of 2013-2014. As this information becomes available, refinements to the Property Tax estimates may be

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

brought forward in the 2014-2015 Proposed Budget or during the Proposed Budget review process in May and June.

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through December, 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.

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 payment is estimated at \$2.2 million in 2013-2014, a 3.2% increase from prior year levels. In 2014-2015, receipts are anticipated to remain at prior year levels.

The Homeowners Property Tax Relief category is projected at \$1.0 million for 2014-2015, which is consistent with the 2013-2014 revenue estimate and 2012-2013 actual collections.

In the out-years of the Forecast, annual Property Tax receipts are projected to increase approximately 4.5% to 4.9% annually over the five year period. A portion of this growth due to an estimated 2% CPI increase annually.

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REVENUE FORECAST

Sales Tax

The Sales Tax category includes General Sales Taxes and Proposition 172 Sales Taxes. Overall, 2013-2014 collections are expected to increase 5.4% over prior year levels to \$172.5 million. In 2014-2015, year-over-year growth of 3.0% is expected, bringing the projected revenue to \$177.7 million. It is important to note that the total revenue anticipated for 2013-2014 includes a number of one-time adjustments.

For the General Sales Tax revenue category, only one quarter of 2013-2014 data is available. Based on this limited information, year-over-year growth of 5.3% is projected in 2013-2014, resulting in collections of \$166.9 million. This increase from the \$158.6 million collected in 2012-2013 does factor in one-time accounting adjustments to reflect prior-year collections (\$300,000) and the "Triple Flip" true-up payment from the State for 2013-2014. The 2013-2014 estimate reflects actual growth of 8.5% in the first quarter and projected underlying growth of 3.5% in the remaining three quarters based on recent sales tax performance and current economic conditions. With continued improvement in the economy, sales tax growth is also expected to continue.

For 2014-2015, the General Sales Tax revenue projection of \$171.9 million assumes moderate growth of 3.0% in taxable sales from 2013-2014 levels. Because there are again one-time accounting adjustments to reflect prior-year collections and the "Triple Flip" true-up payment from the State in 2013-2014 that are not reflected in 2014-2015, the underlying economic growth in 2014-2015 is estimated to be approximately 4.0%. To put the 2014-2015 estimate into perspective, the projected revenue of \$171.9 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 dotcom boom (not adjusted for inflation). In the out-years of the Forecast, annual Sales Tax performance is expected to show moderate growth of 3.2% to 4.0% annually over the five-year period.

The Sales Tax revenue projections for 2013-2014 will continue to be refined over the next couple of months as additional information becomes available. Sales Tax data for the second quarter of 2013-2014, which covers the 2013 holiday period, will be received in March 2014. Based on this additional data, any necessary adjustments to the estimate will be incorporated into the 2014-2015 Proposed Operating Budget.

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total \$5.6 million in 2013-2014, which represents an 8.7% increase from the prior year collections of \$5.2 million based on activity through the first seven months of 2013-2014. In 2014-2015, collections are projected to increase 4.0%, to \$5.8 million.

Transient Occupancy Tax

Currently, 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

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

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.

In 2014-2015, growth of 1.3% 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. Over the five-year forecast period, revenues are anticipated to grow steadily at 3.2% to 6.4% annually, with an assumed increase in room capacity inventory in 2015-2016 included in this forecast.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at \$44.7 million in 2013-2014, an increase of 2.1% from prior year receipts of \$43.7 million. The projected increase in 2013-2014 is primarily due to higher collections in the Gas and Electric services. In 2014-2015, Franchise Fees are expected to increase 1.2% to \$45.2 million due to growth in the Gas (5.1%), Water (5.0%), Cable (1.1%), and Electric (1.0%) categories.

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 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 showed an increase of 4.5%. The reconciliation of annual receipts from PG&E for 2013-2014 will be received in April 2014.

In the Electric Franchise Fee category, collections in 2013-2014 are expected to reach \$19.0 million, reflecting growth of approximately 4% 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% to 1.3% effective 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

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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% based on the assumption that costs will continue to rise. Based on PG&E forecasts, rate increases of 5.7% to 7.3% are estimated primarily due to the 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.

In City Generated Tow, projected revenues of \$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.

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 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; therefore, both the 2013-2014 and 2014-2015 estimates do not assume growth from 2012-2013 as City Council approval of a rate increase will be required.

Remaining categories, including Cable, Water, and Nitrogen Gas Pipeline, are estimated to end the year at \$9.4 million, which is slightly below (\$113,000) budgeted levels of \$9.5 million. Activity levels in 2014-2015 are expected to increase slightly compared to 2013-2014 levels, with 1.1% growth in Cable (to \$9.1 million), 5.0% growth in Water (to \$305,000), and no growth in the Nitrogen Gas Pipeline (\$66,000) categories. Increases are anticipated due to estimated changes in consumption levels as well as rates.

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase from 1.8% to 2.0% annually. Over the next five years, however, it should be noted that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels. In addition, the City's current Cable Franchise Fee agreement is scheduled to sunset in 2016.

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Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2013-2014 are anticipated to total \$94.8 million, representing an increase of 4.1% 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 \$95.0 million. Overall, a number of proposed rate cases have been filed that would affect electricity, gas, and water rates and consequently revenues. Due to the uncertainty regarding the outcome of rate cases, the Forecast 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.

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, and estimated increase of 1% growth beginning January 2014, as well as actual collection trends. The significant growth from prior year levels is partially due to a refund that was processed by Pacific Gas and Electric (PG&E) 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 payments reflected in 2013-2014, partially offset by the January 2014 estimated rate increase (0.7% to 1.3%) as outlined by PG&E, with minimal changes in anticipated consumption levels. Gas Utility Taxes are anticipated to increase to \$9.2 million in 2013-2014, a 9.4% 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 anticipated 5.7% to 7.3% increase in prices. In 2014-2015, revenues are anticipated to increase by approximately 1.6% to \$9.3 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 receipts of \$11.1 million are anticipated to be received in 2013-2014, a 5.6% increase from 2012-2013 primarily reflecting the rising wholesale price of water and consistent with growth seen over the first half of this fiscal year. In 2014-2015, receipts are expected to increase 2.7% to \$11.4 million based on the continued rising wholesale price of water as well as some growth due to anticipated increases in 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 are anticipated, however a minimal increase of annualizing a 5% increase January 2014 is included in 2014-2015 projections. The current estimates do not factor in additional rate increases or a drop in consumption as a result of the current drought.

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 \$33.1 million, an approximately 1% increase from 2012-2013 (\$32.9 million) due to one-time accounting

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adjustments that increased 2013-2014 receipts. In 2014-2015, revenues are estimated to decline slightly to \$32.9 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.

In the out years of the Forecast, growth ranging from 1.9% to 2.0% annually is expected in the Utility Tax category. As discussed above, there is significant volatility and uncertainty regarding the performance in this category based on outstanding rate cases as well as consumption levels. The Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts in both 2013-2014 and 2014-2015 are anticipated to total \$20.7 million, which is very close to the collection levels seen since 2009-2010. Given the steady nature of collections in this category, receipts are anticipated to remain flat in the out years of the Forecast for this category.

Business Taxes

This category includes General Business Tax, Disposal Facility Tax, Cardroom Tax, and Marijuana Business Tax. In 2013-2014, Business Taxes are estimated to reach \$43.8 million, a 3.0% decline 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 decrease 0.7% to \$43.5 million due to a decrease in General Business Tax to normalize the one-time activities in 2013-2014 for the final two months of the Business Tax Amnesty Program which ended August 2013.

In 2013-2014, General Business Tax proceeds are expected to reach \$11.3 million, a decline of 18.6% from the prior year level of \$13.9 million as a result of the end of the Business Tax Amnesty Program. As part of the Amnesty Program, a business owner was allowed to file a request for amnesty between December 1, 2012 and August 31, 2013. In 2014-2015, a decline of 2.7% to \$11.0 million is projected and reflects the elimination of the one-time revenues generated by the final two months of the Amnesty Program. As a result of the Amnesty Program, a thorough review of business accounts was completed resulting in the closing of inactive accounts. Additional information on this program can be found in a February 4, 2014 information memo which can be found at <https://www.piersystem.com/external/content/document/1914/2086510/1/02-05-14Finance.PDF>.

Based on current performance, collections in the Cardroom Tax category are estimated at \$16.0 million in 2013-2014, a decrease of 1.9% from the prior year collection level (\$16.3 million). In 2012-2013, there was a slight spike in activity resulting from the opening of Casino M8trix in August 2012. In 2014-2015, receipts are anticipated to remain at 2013-2014 levels. When compared to 2011-2012 receipts that did not have these one-time impacts, estimated 2014-2015 collections of \$16.0 million reflect growth of 7.1%.

In the Disposal Facility Tax category, collections are estimated at \$10.5 million in 2013-2014

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based on current collection trends, which assumes a slight decline (2.0%) from prior year collection levels of \$10.7 million. Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream varies due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. In recent years, revenues in this category have declined due, in large part, to increased waste diversion and the overall slowdown in the economy. In 2014-2015, revenues are projected to remain consistent with the 2013-2014 collection level of \$10.5 million.

On November 2, 2010, San José voters approved Ballot Measure U, which allows the City to tax all marijuana businesses (medical and non-medical; legal and illegal) at a rate of up to 10% of gross receipts. 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 Marijuana Regulatory Program, 2014-2015 estimates are anticipated to remain flat at \$6.0 million until more information is known.

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

Licenses and Permits and Departmental Charges

The Licenses and Permits and Departmental Charges categories contain fees and charges collected by various departments. The most significant revenue sources are development-related fees. Revenue collection levels are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. In 2014-2015, the Licenses and Permits category is estimated at \$45.1 million and the Departmental Charges category is estimated at \$37.4 million.

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

For the non-development-related fees and charges, the 2014-2015 estimates are based on current collection trends. In the out years of the forecast, both the Licenses and Permits and Departmental Charges categories are expected to experience growth ranging from 2.9% to 4.1%.

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The growth rates in the out years are tied to the expected increases in costs which the fees are designed to recover, including increased retirement and health costs.

Fines, Forfeitures and Penalties

In 2013-2014, the Fines, Forfeitures and Penalties category is expected to generate \$14.4 million. The largest component of this revenue category is Parking Fines, which are currently expected to generate approximately \$9.8 million in 2013-2014, an increase of 3.8% from the 2012-2013 receipts of \$9.4 million. When the 2013-2014 Adopted Budget was developed, however, it was assumed that Parking Fines would increase to \$11.0 million in 2013-2014 after a decline in 2012-2013 resulting from the transition of parking compliance officers from the Airport Department to the Transportation Department. Actual parking fine revenues have remained below projections and well below the 2011-2012 level of \$11.8 million due to a higher level of staff absences as a result of injuries and non-work related injuries/illnesses. In 2014-2015, Parking Fines are expected to improve slightly with receipts estimated at \$10.0 million. Total revenue in 2014-2015 is estimated at \$14.2 million in the Fines, Forfeitures, and Penalties category. In the out years of the Forecast, annual growth of approximately 1.6% to 2.4% is projected.

Money and Property

This category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, and interest income and is projected to generate \$2.8 million in 2014-2015. Of this amount, \$1.9 million is expected to be generated from the rental of City-owned facilities. An additional \$350,000 is projected from subrogation recovery efforts and \$550,000 is projected from various interest earnings. For the General Fund portion of pooled funds, the 2014-2015 estimate for interest earnings 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. In the out years of the Forecast, growth of approximately 3% annually is assumed.

Revenue from Local Agencies

In 2014-2015, revenue of \$22.1 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency of San Jose, and the Central Fire District. This is significantly lower than levels in the 2013-2014 Modified Budget primarily due to a number of one-time payments from various grants and a one-time reimbursement from the Successor Agency to the Redevelopment Agency of San Jose in 2013-2014 and the elimination of the reimbursement from the County of Santa Clara to support the paramedic program.

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

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The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. For 2013-2014, Central Fire District payments are expected to end the year at \$5.2 million based on information from the Central Fire District staff, reflecting a 6.6% increase from the prior year. In 2014-2015, collections are projected to increase approximately 3.5%, to \$5.4 million, consistent with the increase in Secured Property Tax assumed in this forecast.

Payment from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) has been eliminated in 2014-2015. 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. While the City continues to work through this issue with the County, no payments are assumed over the forecast period. However, the direct incremental cost to the City to provide the advanced life support-level of service totaling over \$5 million annually remains in the Forecast.

In addition, other projected payments from local agencies total \$1.4 million in 2014-2015, 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 in the Cambrian area to the City of Campbell (\$199,000).

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately 2.6% to 2.8%.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach \$10.7 million in 2014-2015 and decline to \$10.5 million in 2015-2016 through 2018-2019. Tobacco Settlement payments, which are estimated at \$9.0 million in 2014-2015 and the remaining years of the Forecast, account for the majority of revenue in this category.

The following State grants and reimbursements are expected in 2014-2015: Abandoned Vehicles Abatement Program (\$600,000); Auto Theft reimbursement (\$370,000); California Gang Reduction, Intervention and Prevention (CalGRIP) Grant (\$224,000); and Highway Maintenance Charges reimbursement (\$105,000). Vehicle License Fees Collection In Excess are also estimated at \$435,000 annually and account for the Vehicle License Fee revenues that are collected by the Department of Motor Vehicles as a result of certain compliance procedures that are equally apportioned to counties and cities on a population basis.

Adjustments to the grant amounts are reflected in the remaining years of the Forecast. A decrease of \$224,000 is expected in 2015-2016 to reflect the elimination of the CalGRIP Grant. No annual growth is projected in the remaining three out years of the Forecast.

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Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues. The following grants are anticipated in 2014-2015: Staffing for Adequate Fire & Emergency Response Grant 2011 (SAFER) (\$1.0 million); Community Oriented Policing Services (COPS) Hiring Grants (\$68,000); Community-Based Violence Prevention Office of Juvenile Justice and Delinquency Prevention (OJJDP) Grant (\$264,000); and National Forum Capacity-Building Grant OJJDP 2012-2015 (\$142,000). The corresponding expenditures for these grants are included in this forecast.

In the out-years of the Forecast, no grant funding is included. All of these grants were originally scheduled to sunset in 2014-2015 and no revenue is included in the forecast for these programs. The Police Department has pursued a one-time grant extension for the COPS 2010 grant which was recently approved and the associated one-time revenue will be brought forward as part of the 2014-2015 Proposed Budget. Extensions to the SAFER 2011 and COPS 2011 grants will be sought. Should extensions to the term of these grants be approved, additional revenues may be brought forward as part of the 2014-2015 budget process.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including Arena Rental, Suite, Parking, and Naming revenues, cost reimbursements for the Investment Program, payments from Comcast and AT&T required under the Franchise Agreement, and proceeds from the Sale of Surplus Property. In 2013-2014, this category is expected to generate \$120.5 million. The 2013-2014 estimate includes \$100 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANS) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits. Factoring out the TRANS issuance, 2013-2014 collections for this category are estimated to total \$20.5 million.

In 2014-2015, the revenue estimate of \$14.1 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.

In 2014-2015, Arena Rental, Suite, Parking, and Naming revenues are projected at \$5.5 million. The cost reimbursement for the Investment Program is estimated at \$2.4 million based on the current allocation of staff to this function. Payments from Comcast and AT&T 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. In addition, the proceeds from the Sale of Surplus Property category has been set at \$1.2 million based on the anticipated assets that will be sold next fiscal year and is slightly down from the \$1.3 million assumed in the 2013-2014 Adopted Budget. In the out years of the Forecast, annual increases range from 1.7% to 3.7%.

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Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2013-2014 are projected to reach \$15.0 million, a slight decline of 0.7% from the prior year level of \$15.1 million. Collections are expected to continue to decline slightly by 1.0% to \$14.85 million in 2014-2015. In recent years, revenues in this category have declined. Several factors can impact collections, including volatile gas prices, the lingering impacts of the economic downturn, and a move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In the out years of the Forecast, collections are expected to decline by between 1.6% and 2.1% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2014-2015, a total of \$37.1 million in reimbursements are projected based on 2014-2015 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2014-2015 salaries for those positions for which an overhead rate is applied.

In the remaining years of the Forecast, annual increases ranging from 2.9% to 4.1% are assumed, reflecting increases in costs which the overhead rate is designed to recover, including increased personal services costs.

Transfers

The Transfers category is projected at \$18.4 million in 2014-2015, which reflects an increase of 7.8% from the \$17.1 million anticipated in 2013-2014, primarily due to the elimination of one-time reductions to transfer amounts in 2013-2014. The largest component of this category (\$9.6 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs. In 2014-2015, these reimbursements have been set to cover the base 2014-2015 costs. As discussed in the 2013-2014 Adopted Operating Budget, Fire SAFER 2010 grant revenues of \$2.3 million were anticipated to be received in 2013-2014 as a result of the approved extension of the time period to expend the grant funds from the Federal Emergency Management Agency/Department of Homeland Security. This additional revenue was used to lower the Transfer from the Airport Maintenance and Operation Fund to the General Fund for aircraft rescue and firefighting services provided by the Fire Department in order to help with airport cost competitiveness in 2013-2014. This one-time reduction was eliminated as part of the 2014-2015 forecasted transfer levels. However, a reserve of \$508,000 remains and it is anticipated that the Administration will incorporate this strategy into the 2014-2015 budget development process as appropriate.

Additional large transfers programmed for 2014-2015 include the Construction and Conveyance Tax Fund transfer (\$3.8 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer (\$1.8 million) for pavement maintenance activities; and the Workforce

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Investment Act Fund transfer (\$528,000) for use of various community centers and Workforce Investment Act program services.

Annual increases in the out years range from 1.5% to 2.1%. The reimbursement from the Airport Maintenance and Operation Fund for police and fire services is expected to increase in the out years based on the increased costs for those services.

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2014-2015 of \$787,000. In the remaining years of the Forecast, annual increases are expected to recover the projected cost increases from 2.9% to 4.1%.

Beginning Fund Balance

The \$57.8 million forecast estimate of available 2014-2015 Beginning Fund Balance is based on the following assumptions:

- The 2014-2015 Contingency Reserve, \$31.0 million, is projected at the current level based on the assumption that this amount will not be used in 2013-2014 and will be carried over to 2014-2015. This reserve level complies with the City Council policy to maintain a minimum 3% Contingency Reserve. The Contingency Reserve is approximately enough to cover General Fund payroll costs for less than two and one-half weeks in an emergency.
- A total of \$24.0 million in fund balance will be achieved from a combination of excess revenues and expenditure savings (\$22.0 million) as well as the liquidation of prior-year carryover encumbrances (\$2.0 million). The estimated revenue and expenditure savings of \$22.0 million is anticipated to be generated by approximately 1% excess revenue and expenditure savings of 1.5%.
- An additional \$2.8 million reflects the liquidation of reserves: \$1.98 million from the Building Development Fee Program Reserve, \$417,000 from the Planning Development Fee Program Reserve, and \$339,000 from the Public Works Development Fee Program Reserve have been included in the fund balance estimate to cover 2014-2015 costs associated with these programs; and \$17,000 from the Wellness Program Reserve is included to support Wellness Program costs programmed in 2014-2015.

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue of 1.0% and expenditure savings, including liquidations of carryover encumbrances, of 1.75% would be generated annually; that the Contingency Reserve of \$31.0 million would be carried over each year; and the use of the Development Fee Program Reserves would continue in the out years to support development fee projected program costs in excess of revenues. This Contingency Reserve level in the out years of the Forecast complies with the City Council approved policy to maintain a minimum 3% Contingency Reserve level. In total, the Beginning Fund Balance ranges from \$57.8 million in 2014-2015 to \$57.3 million in 2018-2019.

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An in-depth analysis of the General Fund expenditure categories was completed to develop the 2014-2015 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2014-2015 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from \$900.8 million in 2014-2015 to \$1.0 billion in 2018-2019, for an average growth rate of 3.2% per year.

February 2014 Forecast Expenditure Summary

Expenditure Category	Modified Budget	Forecast				
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Personal Services						
Salaries and Other Compensation	\$ 378,477,361	\$ 384,846,000	\$ 398,387,000	\$ 407,847,000	\$ 417,533,000	\$ 427,449,000
Retirement	212,191,405	236,135,000	241,882,000	247,446,000	258,948,000	264,615,000
Health and Other Fringe Benefits	51,610,549	54,991,000	59,752,000	64,926,000	71,298,000	77,471,000
Total Personal Services	\$ 642,279,315	\$ 675,972,000	\$ 700,021,000	\$ 720,219,000	\$ 747,779,000	\$ 769,535,000
Total Non-Personal/Equipment	\$ 95,400,806	\$ 86,995,000	\$ 90,173,000	\$ 91,939,000	\$ 94,925,000	\$ 97,305,000
City-Wide						
City-Wide Expenses	\$ 223,771,488	\$ 73,803,000	\$ 75,265,000	\$ 77,979,000	\$ 81,929,000	\$ 84,410,000
Capital Projects	31,270,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000
Transfers	24,913,473	26,092,000	26,660,000	28,246,000	29,177,000	30,872,000
Earmarked Reserves	124,317,556	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000
Contingency Reserve	31,000,000	31,000,000	31,000,000	31,000,000	31,000,000	31,000,000
Total City-Wide	\$ 435,272,517	\$ 137,595,000	\$ 139,625,000	\$ 143,925,000	\$ 148,806,000	\$ 152,982,000
Committed Additions						
New Parks and Recreation Facilities Maint. & Operations		\$ 193,000	\$ 331,000	\$ 484,000	\$ 605,000	\$ 692,000
New Traffic Infrastructure Assets Maint. & Operations		11,000	57,000	121,000	131,000	145,000
Measure O (Library) Maint. & Operations			237,000	735,000	757,000	779,000
Measure P (Parks) Maint. & Operations					87,000	81,000
Measure O (Public Safety) Maint. and Operations - Fire			11,000	23,000	23,000	23,000
Total Committed Additions		\$ 204,000	\$ 636,000	\$ 1,363,000	\$ 1,603,000	\$ 1,720,000
Total Base Exp. w/ Committed Additions	\$ 1,172,952,638	\$ 900,766,000	\$ 930,455,000	\$ 957,446,000	\$ 993,113,000	\$ 1,021,542,000
Growth %			3.3%	2.9%	3.7%	2.9%

It is important to note that adjustments are made to the Forecast to eliminate one-time additions/deletions and annualize partial year allocations that were included in the 2013-2014 Adopted Budget. Various one-time additions totaling approximately \$2.5 million that are scheduled to expire in June 2014, include funding for the Public Works Department Preventative Maintenance Program, Evergreen Branch Saturday Hours, San Jose Parks Foundation, CommUniverCity Program, Overfelt Swimming, Franklin McKinley Children's Initiative Summer Programming, Domestic Violence Coordination, 2-1-1 Santa Clara County Information and Referral Services, Neighborhoods of Distinction Program, Filling Empty Storefronts Pilot, Senior Nutrition Gas Cards, La Raza Roundtable/Harvard Study Consensus Building Project, Center for Employment Training, and the Energy Efficiency Program. There were also programs funded on a two-year basis totaling approximately \$7.3 million, including the Homeless Rapid Rehousing, the Homeless Response Team, an enhanced San José BEST and

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Safe Summer Initiative Program, and Community Action and Pride Grants. Many of these programs and services will likely need to be re-evaluated for continued funding in 2014-2015 and 2015-2016. This analysis will be conducted during the 2014-2015 budget process and funding recommendations for these programs and services will be included in the 2014-2015 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

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

Personal Services

As is the usual practice, the first year (2014-2015) projection for personal services costs in this Forecast has been calculated at a detailed level. An extract of payroll system information as of September 2013 was used as the starting point. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, accurate salary step status, as well as any position reallocations. Also, 2013-2014 ongoing position reductions (cost savings) and additions (cost increases) were annualized and all categories of benefit costs in the coming year were projected. In January 2014, the most recent retirement plan and health plan information for each position was also updated from the payroll system.

For the 2014-2015 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the General Fund's total costs. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the \$676.0 million projected personal services total for 2014-2015, salaries and other compensation costs amount to \$384.8 million (56.9% of projected personal services), retirement costs amount to \$236.1 million (34.9% of projected personal services), and health and other fringe benefits costs amount to \$55.0 million (8.2% of projected personal services). Growth in retirement costs and other personnel cost components (e.g., scheduled non-management step increases, management pay for performance, health and other fringe benefits) continue to impact personal services costs and are the primary factor for the expenditure growth in this category. In addition, as was the case in the February 2013 Forecast, a modest employee compensation planning reserve has been assumed to set aside funds for future salary adjustments for all employees with the exception of those represented by the San José Police Officers' Association (SJPOA). The City and the SJPOA have agreed upon pay increases through December 31, 2015 which are reflected in this Forecast. Also, an employee market competitiveness reserve has been included to potentially provide salary adjustments to specific job classifications where recruitment and retention issues are being experienced.

Below is a discussion of the specific factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this

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Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. For this Forecast, the out years are projected to inflate at a composite rate of approximately 3.5%.

Salaries and Other Compensation:

An Employee Compensation Planning Reserve for all employees but SJPOA is included in each year of this Forecast in order to set aside funds for potential employee pay increases. This reserve allocation totaling \$13.5 million for 2014-2015 represents a modest amount of funding, and would require City Council labor negotiations direction and discussions with the City's bargaining groups before any form of distribution could be made. For employees represented by the SJPOA, the Forecast includes 3.33% increases in 2014-2015 (\$7.0 million) and 3.33% increases through December 2015. Total ongoing funding of \$1.2 million is also included in an Employee Market Competitiveness Reserve in 2014-2015 to provide funding for potential salary increases for specific job classifications where recruitment and retention issues are being experienced. Further analysis is underway to determine which classifications may be considered for a special employee compensation pay increase.

Salary step increases for current non-management employees and pay for performance for management employees for 2014-2015 are projected at \$3.0 million, or an increase of 0.44%. With the exception of employees represented by the San José Police Officers' Association (SJPOA) and San José Fire Fighters, International Association of Fire Fighters (IAFF) Local 230, non-management step increases have been calculated at a 2.5% step increase rate. For SJPOA and IAFF, a 5% step increase rate was applied in this forecast. The out years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

Overtime expenditures in the General Fund total \$21.2 million for 2014-2015, with the majority of the expenditures for Police Department (\$12.0 million) and Fire Department (\$5.6 million) operations. The out years of the Forecast continue these costs, with small adjustments using salary step growth as the inflationary factor.

Retirement:

The City's two retirement systems, the Federated Retirement System and the Police and Fire Department Retirement Plan, provide defined retirement benefits to eligible employees. Both retirement plans use investment income and employer and employee contributions to provide eligible retirees with pensions and retiree healthcare benefits. Employees represented by SJPOA and IAFF, Local 230 are members of the Police and Fire Department Retirement Plan and have different retirement benefits with the corresponding different City contributions and rates. Within the Federated Retirement System, effective September 30, 2012, as approved by the City Council, the City provides for a lower defined benefit plan (Tier 2) for new employees who are members of the Federated Retirement System. Employees who joined the City prior to

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September 30, 2012, who are members of the Federated Retirement System are members of Tier 1. Employees who are members of the Federated Retirement System who joined the City between September 30, 2012 and September 27, 2013 are eligible for retiree healthcare coverage (Tier 2a). Effective September 27, 2013, as approved by the City Council, new employees, who are members of the Federated Retirement System, no longer receive retiree healthcare coverage (Tier 2b). Within the Police and Fire Department Retirement Plan, effective August 4, 2013, the City provides for a lower defined benefit plan (Tier 2) for new police members. A lower defined benefit plan has not yet been implemented for new fire members in the Police and Fire Department Retirement Plan and is pending binding interest arbitration.

For 2014-2015, retirement costs total \$236.1 million for the General Fund based on the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. To generate budgetary savings, this cost assumes the pre-payment of the City's annual required contribution (ARC) for Federated Retirement System Tier 1 members and contributions for the Police and Fire Department Retirement Plan for police Tier 1 and fire members. This amount, which is an increase of \$23.9 million from the 2013-2014 Modified Budget of \$212.2 million, represents 26.2% of the total General Fund base expenditure budget. Of the \$236.1 million General Fund retirement cost, \$235.5 million is associated with the ARC for pension and retiree healthcare as follows: \$82.9 million is projected to be paid to the Federated Retirement System (\$76.2 million for Tier 1, \$1.8 million for Tier 2a and \$4.9 million for Tier 2b); and \$152.6 million to the Police and Fire Department Retirement Plan (\$89.0 million for police Tier 1, \$2.6 million for police Tier 2, and \$61.0 million for fire).

The remaining \$0.6 million in retirement costs are associated with part-time benefited employees, the Mayor and City Council, and new employees in Unit 99, who opted to participate in a defined contribution plan versus a defined benefit plan. At the December 4, 2012 City Council Meeting, the City Council approved a defined contribution plan (Tier 3) for new employees in Unit 99. Unit 99 consists of Senior Staff, Executive Staff, and senior managers under the City Manager's Appointing Authority; City Council Office staff; professional and management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor; and some employees in the City Clerk's Office. Effective February 4, 2013, new employees to the City hired directly into Unit 99 will have the ability to make the one-time election to participate in the defined benefit Tier 2 plan or the Tier 3 plan. The Tier 3 plan provides for a City contribution of 3.75%.

In comparison to the February 2013 Forecast for the 2014-2015 retirement cost projections, the 2014-2015 retirement costs experienced an increase of \$7.4 million, from \$228.7 million to \$236.1 million, due to economic and demographic assumption changes between the Federated Retirement System and the Police and Fire Department Retirement Plan. The overall increase was partially offset by savings from the implementation of the lower cost defined benefit plan for police Tier 2 members.

In 2010-2011, the Retirement Boards adopted an annual required contribution methodology, which requires the City to pay a minimum ARC or a percentage of payroll, whichever is greater.

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With this ARC funding methodology, if the City's pensionable payroll amount changes due to staffing reductions or vacancies, the City's retirement cost will not change unless the City's ARC is based on a percentage of payroll. Due to the independently estimated payroll projections by the Retirement Boards' actuary and the City Manager's Budget Office, the City calculations for the City retirement contributions for Federated Retirement System Tier 1, police Tier 1 and fire members of the Police and Fire Department Retirement Plan, are based on the minimum ARC as required by the Boards or the ARC based on Board approved percentage of budgeted payroll as calculated by the City Manager's Budget Office, whichever is greater. For fire members of the Police and Fire Department Retirement Plan, the payment of the minimum ARC is assumed in the 2014-2015, 2017-2018, and 2018-2019 fiscal years. The City's payment of retirement costs based on a percentage of payroll is assumed for the fire members of the Police and Fire Department Retirement Plan in 2015-2016 and 2016-2017 fiscal years, in all five years for police Tier 1 members of the Police and Fire Department Retirement Plan and the Federated Retirement System Tier 1 contributions. Please note that in November 2012, the Federated Retirement System Board approved that for Federated Retirement System Tier 2 members, the City's contribution shall only be based on a percentage of payroll. This Forecast continues the assumption that the City's contributions for the Federated Retirement System Tier 2a and Tier 2b members and for police Tier 2 participants of the Police and Fire Retirement Plan shall be paid based on a percentage of payroll.

In 2009, the City and bargaining units contributing to the Federated Retirement System reached an agreement to begin a five-year phase-in to fully fund the annual required contribution for retiree healthcare benefits. The last year of the phase-in was 2012-2013. In June 2013, an 18-month extension of the phase-in for members in the Federated Retirement System was approved by the City Council. This is set to expire in December 2014. This Forecast assumes the full funding of the ARC upon expiration in December 2014 (with a contribution rate of 12.96% for the City for the Federated Retirement System Tier 1 and Tier 2a members and a contribution rate of 18.6% for Tier 2b employees in the Federated Retirement System). It is important to note that a retiree healthcare working group is currently underway with the nine Federated Retirement System bargaining units, with the possibility of entering into negotiations, where changes to retiree healthcare could be made.

Per the respective Memoranda of Agreements with SJPOA and IAFF, the annual retiree healthcare contribution rate is capped at 11.0% for the City and 10.0% for employees. The City's retiree healthcare contribution rate for police members assumes the 11% cap through the Five-Year Forecast. The City's retiree healthcare contribution rate for fire members is increasing by 1.3% percentage points from 8.0% in 2013-2014 to 9.3% in 2014-2015, and is projected to increase to 10.6% for 2015-2016 and remain steady at 10.7% for the remaining Forecast period falling slightly below the cap of 11%.

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

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2015-2019 CITY RETIREMENT CONTRIBUTION COSTS AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES (\$ in Millions and with Pre-Payment Discount)

Retirement Plan	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Fed. Ret. System Tier 1 – Pension	\$58.2	\$64.4	\$64.3	\$65.0	\$67.2	\$67.5
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	\$10.1	\$11.8	\$13.8	\$13.4	\$12.7	\$12.0
Fed. Retirement Plan Tier 1 - Total	\$68.3	\$76.2	\$78.1	\$78.4	\$79.9	\$79.5
Budgetary Contribution Rates	57.4%	68.8%	73.6%	77.7%	83.7%	88.3%
Fed. Ret. System Tier 2a – Pension	\$2.0	\$0.6	\$0.6	\$0.6	\$0.6	\$0.7
Fed. Ret. Syst. Tier 2a – Ret. Healthcare*	\$2.5	\$1.2	\$1.5	\$1.6	\$1.6	\$1.7
Fed. Retirement Plan Tier 2a - Total	\$4.5	\$1.8	\$2.1	\$2.2	\$2.2	\$2.4
Budgetary Contribution Rates	15.3%	16.6%	19.0%	19.3%	19.3%	19.4%
Fed. Ret. System Tier 2b – Pension	N/A	\$1.3	\$1.8	\$2.3	\$2.8	\$3.4
Fed. Ret. Syst. Tier 2b – Ret. Healthcare*	N/A	\$3.6	\$4.4	\$5.7	\$7.1	\$8.4
Fed. Retirement Plan Tier 2b - Total	N/A	\$4.9	\$6.2	\$8.0	\$9.9	\$11.8
Budgetary Contribution Rates	N/A	16.6%	19.0%	19.3%	19.3%	19.4%
Police Ret. Plan Tier 1 – Pension	\$75.4	\$77.2	\$77.1	\$77.7	\$79.9	\$79.7
Police Ret. Plan Tier 1 – Ret. Healthcare	\$11.9	\$11.8	\$12.0	\$11.9	\$11.8	\$11.5
Police Retirement Plan Tier 1 – Total	\$87.3	\$89.0	\$89.1	\$89.6	\$91.7	\$91.2
Budgetary Contribution Rates	73.3%	80.3%	79.1%	79.8%	82.7%	84.0%
Police Retirement Plan Tier 2 – Pension	N/A	\$1.3	\$1.6	\$2.0	\$2.5	\$3.1
Police Ret. Plan Tier 2 – Ret. Healthcare	N/A	\$1.3	\$1.6	\$2.0	\$2.6	\$3.2
Police Retirement Plan Tier 2– Total	N/A	\$2.6	\$3.2	\$4.0	\$5.1	\$6.3
Budgetary Contribution Rates	N/A	21.8%	21.8%	21.8%	21.8%	21.8%
Fire Retirement Plan – Pension	\$46.1	\$54.2	\$54.5	\$56.2	\$60.8	\$63.8
Fire Ret. Plan – Retiree Healthcare	\$5.4	\$6.8	\$8.0	\$8.3	\$8.6	\$8.9
Fire Retirement Plan - Total	\$51.5	\$61.0	\$62.5	\$64.5	\$69.4	\$72.7
Budgetary Contribution Rates	73.0%	81.1%	80.0%	80.7%	83.4%	84.4%
Other Retirement Costs	\$0.6	\$0.6	\$0.7	\$0.7	\$0.7	\$0.7
Total General Fund	\$212.2	\$236.1	\$241.9	\$247.4	\$258.9	\$264.6
Total All Funds	\$272.1	\$308.6	\$317.3	\$324.6	\$339.0	\$345.8

* Federated Retirement System Board approved a blended Retiree Healthcare rate for 2015-2016 through 2018-2019 projections. Actual rates in those years will differ depending on Plan.

Source: 2013-2014 Modified Budget; Cheiron Letters dated January 15, 2014, January 29, 2014, February 18, 2014, and February 26, 2014 with applied pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan Tier 1, and the Fire Retirement Plan; Automated Budget System adjusted payroll for Fire Retirement Plan and Other Retirement Costs

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During the forecast period, General Fund retirement contributions will increase by approximately \$28.5 million, or 12.1%, from \$236.1 million in 2014-2015 to \$264.6 million in 2018-2019. For 2018-2019, projected retirement costs are estimated to be 25.9% of the General Fund. During the same period, the City retirement contribution for all funds will increase by \$37.2 million from \$308.6 million in 2014-2015 to \$345.8 million in 2018-2019.

Similarly, the City's budgetary retirement contribution rates show significant increases for the Federated Retirement System Tier 1 participants and for police Tier 1 and fire members of the Police and Fire Department Retirement Plan. To cover the necessary City payment for Federated Retirement System Tier 1 members, the budgetary retirement contribution rate increases from 68.8% in 2014-2015 to 88.3% in 2018-2019; for Federated Retirement System Tier 2a, the budgetary contribution rate increases from 16.6% in 2014-2015 to 19.4% in 2018-2019; for Federated Retirement System Tier 2b members, the budgetary City contribution rate decreases from 21.3% in 2014-2015 to 19.4% in 2018-2019; for police Tier 1 members, the budgetary City contribution rate increases from 69.7% in 2014-2015 to 73.3% in 2018-2019; for the police Tier 2, the budgetary retirement contribution rate stays at 21.8% through the five-year Forecast; and for fire members, the budgetary retirement contribution rate increases from 81.1% in 2014-2015 to 87.3% in 2018-2019.

For illustration purposes, the table on the following page depicts the Retirement Board approved contribution rates for 2014-2015 and the Cheiron projected rates for the out years of the Forecast. To cover Federated Retirement System Tier 1 contributions, the Board approved City pension rate increased from 50.8% for 2013-2014 to 60.3% for 2014-2015 and is projected to increase to 77.7% for 2018-2019. The City pension rate to cover Tier 2a and Tier 2b participants is 5.5% throughout the Five-Year Forecast. The retiree healthcare contribution rate (for employees with retiree healthcare coverage – Tier 1 and Tier 2a) increased from 8.7% for 2013-2014 to 11.0% for 2014-2015 (blending of the capped rate of 9.4% for the first half of 2014-2015 and the full ARC of 12.56% for the second half of 2014-2015) and is projected to increase to 13.8% for 2018-2019. It should be noted that the Federated Retirement Board approved a blended retiree healthcare contribution rate between 2015-2016 (13.5%) and 2018-2019 (13.8%) for contributions covering all Federated Retirement System members. The actual rate will differ between Tier 1, Tier 2a and Tier 2b.

To cover contributions for police Tier 1 members, the Retirement Board approved pension rate increased from 65.3% for 2013-2014 to 72.1% for 2014-2015 and is projected to increase to 75.9% for 2018-2019. The City pension rate to cover police Tier 2 participants decrease from 11.0% in 2013-2014 to 10.8% in each year of the Five-Year Forecast. Per the MOA between the City and SJPOA, the retiree healthcare contribution rate increased from 10.3% for 2013-2014 to 11.0% for 2014-2015 and will be held at 11.0% for the out-years even if the ARC for retiree healthcare is not fully funded. Per the MOA with SJPOA, once the 10% and 11% caps are reached, the parties will meet and confer. Through that process, changes could be made to retiree healthcare. Over the Forecast period, the total City contribution rate for police Tier 1 members increases from 83.1% to 86.9%. To cover contributions for police Tier 2 members, City rates increase from 21.3% in 2013-2014 to 21.8% in 2014-2015 and remain at this rate through the five-year Forecast.

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To cover contributions for fire members, the Board approved pension rate increased from 66.8% for 2013-2014 to 73.5% for 2014-2015 and is projected to increase to 76.6% for 2018-2019. The retiree healthcare contribution rate increased from 8.0% for 2013-2014 to 9.3% for 2014-2015 and is projected to increase to 10.6% for 2015-2016 and remain steady at 10.7% for the remaining Forecast period which is slightly below the cap of 11.0%. Over the Forecast period, the total contribution rate to cover fire members increases from 82.8% to 87.3%.

2015-2019 BOARD APPROVED CITY CONTRIBUTION RATES

Retirement Plan	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Fed. Ret. System Tier 1 – Pension	50.8%	60.3%	62.7%	66.7%	72.9%	77.7%
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	8.7%	11.0%	13.5%	13.8%	13.8%	13.8%
Fed. Retirement Plan Tier 1 – Total	59.5%	71.3%	76.2%	80.5%	86.7%	91.5%
Fed. Ret. System Tier 2a – Pension	6.7%	5.5%	5.5%	5.5%	5.5%	5.5%
Fed. Ret. Syst. Tier 2a – Ret. Healthcare*	8.6%	11.0%	13.5%	13.8%	13.8%	13.8%
Fed. Retirement Plan Tier 2a - Total	15.3%	16.5%	19.0%	19.3%	19.3%	19.3%
Fed. Ret. System Tier 2b – Pension	6.7%	5.5%	5.5%	5.5%	5.5%	5.5%
Fed. Ret. Syst. Tier 2b – Ret. Healthcare*	10.6%	15.7%	13.5%	13.8%	13.8%	13.8%
Fed. Retirement Plan Tier 2b - Total	17.3%	21.2%	19.0%	19.3%	19.3%	19.3%
Police Ret. Plan Tier 1 – Pension **	65.3%	72.1%	70.9%	71.6%	74.6%	75.9%
Police Ret. Plan Tier 1 – Ret. Healthcare***	10.3%	11.0%	11.0%	11.0%	11.0%	11.0%
Police Retirement Plan Tier 1 – Total	75.6%	83.1%	81.9%	82.6%	85.6%	86.9%
Police Retirement Plan Tier 2 – Pension **	11.0%	10.8%	10.8%	10.8%	10.8%	10.8%
Police Ret. Plan Tier 2 – Ret. Healthcare	10.3%	11.0%	11.0%	11.0%	11.0%	11.0%
Police Retirement Plan Tier 2– Total	21.3%	21.8%	21.8%	21.8%	21.8%	21.8%
Fire Retirement Plan – Pension	66.8%	73.5%	72.3%	72.8%	75.6%	76.6%
Fire Retirement Plan – Retiree Healthcare	8.0%	9.3%	10.6%	10.7%	10.7%	10.7%
Fire Retirement Plan – Total	74.8%	82.8%	82.9%	83.5%	86.3%	87.3%

* Federated Retirement System Board approved a blended Retiree Healthcare rate for 2015-2016 through 2018-2019 projections. Actual rates in those years will differ depending on Plan.

** At the City's request, Cheiron provided a letter dated February 18, 2014 to the City Manager's Budget Office detailing Tier 1 and Tier 2 pension rates.

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

Source: Cheiron Letters dated January 15, 2014, January 29, 2014, February 18, 2014 (informational letter to City Manager's Budget Office providing further detail of the breakdown of rates between Tier 1 and Tier 2), and February 26, 2014

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Health and Other Fringe:

A forecasted health rate increase of 10% is included in the 2014-2015 Forecast based on national and City trend information received from the City's Human Resources Department benefits consultant. For the out years of the Forecast, the annual rate increase assumptions are held constant to the 2014-2015 rate increase.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, a 2.5% increase is anticipated in 2014-2015. For the out years, the Forecast assumes annual rate increases of 5.0% based on City trends and actuarial analysis.

There are no changes to the life insurance rates in this Forecast based on projected provider charges. For the payment of Unemployment Benefit Claims, the City is self-insured. Based on actual claims experienced in 2013-2014, current funding available in the Unemployment Insurance Fund, and projected future claims, the unemployment insurance rate continues to be suspended through 2016-2017. Starting in 2017-2018 and through the remaining out years, \$750,000 is included to cover projected future claims.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total \$87.0 million in 2014-2015. In general, the process utilized by the Budget Office includes adjusting each department's current year budget to eliminate one-time cost allocations, annualizing all partial-year reductions or additions approved for 2013-2014, and including projected increases or decreases for specific large non-personal/equipment allocations (e.g., utilities, contractual services, vehicle maintenance and operations costs, and Police Department vehicle replacement). The resulting 2014-2015 estimates represent a decrease of \$8.4 million from the 2013-2014 Modified Budget level of \$95.4 million, primarily due to the elimination of rebudgeted or carryover projects.

Departmental gas and electricity funding for 2014-2015 totaling \$12.6 million has been slightly adjusted in this Forecast to reflect projected rate increases, full year costs of new facilities coming online, and consumption changes. Minimal increases for negotiated contracts are included, primarily in the Police Department (\$315,000) for academy and County lab costs. Vehicle maintenance and operations costs in the General Fund including fuel, inventory, and fleet staffing reflect a \$300,000 increase (total of \$15.4 million) from the 2013-2014 Adopted Budget, primarily due to increased fuel and personnel costs. The 2014-2015 non-personal/equipment base includes an adjustment for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles from the Adopted Budget level of \$3.9 million to \$2.9 million based on the current replacement schedules and projected costs for these vehicles. In the out years of the Forecast, the police vehicle replacement costs are expected to decline in the first three Forecast years and increase in the last two years of the Forecast, based on the anticipated

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replacements that will be necessary in those years. Over the five-year period, police vehicle replacement costs are expected to total \$16.8 million.

For the out years of the Forecast, a growth rate of 2.0% has been assumed from the 2014-2015 non-personal/equipment base levels in each of the four years, adjusted for police vehicle replacement costs in those years. With this adjustment, the average growth rate for the non-personal/equipment category is 3.0% annually.

City-Wide

City-Wide Expenses in the first year of the Forecast (2014-2015) total \$73.8 million, a decline from the 2013-2014 Modified Budget of \$223.8 million. This large reduction primarily reflects the impact of deleting the \$100.6 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; deleting allocations that were rebudgeted to 2013-2014 (\$29.0 million); and the elimination of one-time proposals (\$9.4 million).

As part of determining the current financial state of the Successor Agency to the Redevelopment Agency (Successor Agency), in the context of the continuing efforts to wind down and dissolve the former Redevelopment Agency of San Jose, the Administration recently reviewed property tax increment revenues and the current level of enforceable obligations for the forecast period. For the purpose of this Forecast, assumptions regarding Property Tax Increment receipts over the five year period (2% growth annually), as well as sale of property timing, have been made. Based on these assumptions, it is projected that there will not be sufficient property tax increment revenues to pay all enforceable obligations during the forecast period and that the City will assume a portion of certain contractually obligated payments of the Successor Agency (4th Street Garage Debt Service, Convention Center Debt Service, HUD 108 Loan payments, and ERAF Loan Payments) as necessary. In addition, it is assumed that the City will also fund Successor Agency administrative support costs over the forecast period. The City's legal challenge of the County's actions of withholding a percentage of former agency tax increment to fund the County employees' retirement plan (the PERS levy) remains unknown, therefore, this forecast does not include these revenues.

Total General Fund support of \$2.0 million is assumed in 2014-2015. This figure drops to \$1.0 million annually in the out years of this forecast to reflect anticipated improvements in the financial outlook of the Successor Agency. In addition to the General Fund support, the General Purpose Parking Fund and Community Development Block Grant Fund are projected to provide financial support for the 4th Street Garage Debt Service and HUD 108 Loan payments, respectively, as necessary.

Although no assumption for City repayment of \$10.0 million in interfund loans associated with the former Redevelopment Agency Supplemental Educational Revenue Augmentation Fund (SERAF) loan is included at this time, the 2013-2014 budget includes an \$8.0 million reserve to assist in making the principle plus interest payments due by June 30, 2015. With the approval of

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AB 1484 in June 2012, loans such as the interfund loans made in connection with the SERAF loan may be deemed an enforceable obligation contingent upon 1) a finding by the State Department of Finance that all required audits of the Successor Agency have been completed, and 2) a finding by the Oversight Board that these loans were for legitimate redevelopment purposes. The Administration continues to work through these requirements.

The remaining line-items in this category are adjusted to reflect anticipated costs for 2014-2015 based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2014-2015 allocations in this category include: Workers' Compensation Claims (\$19.5 million); Convention Center Lease Payments (\$15.3 million); Sick Leave Payments Upon Retirement (\$5.0 million); City-owned Facility Operating Agreements (\$3.4 million); FMC Debt Service Payments (\$3.3 million); San José BEST and Safe Summer Initiative Program (\$3.1 million); Parking Citations/Jail Courthouse Fees (\$2.5 million); General Liability Claims (\$3.0 million); Successor Agency Legal Obligations Subsidy (\$2.0 million); and Property Leases (\$1.9 million).

In the out years of the Forecast, City-Wide Expenses are projected to increase at an average growth rate of 3.6%. While several of the individual line items are expected to remain at 2014-2015 levels over this period, there are some categories that are expected to experience growth over the five years, including Workers' Compensation Claims (from \$19.5 million to \$24.4 million). The FMC debt service payment is expected to increase significantly in the out years (from \$3.3 million to \$6.9 million) based on higher variable interest rate assumptions.

The anticipated administrative costs to issue TRANs Debt Service are also expected to climb (from \$800,000 to \$3.1 million over the forecast period) based on a conservative estimate of the size of the issuance required and anticipated increases in variable interest rates and higher bank fees. Prefunding the City's portion of retirement contributions over the past several years was successful in generating budgetary savings. Over the five-year period, however, prefunding amounts are projected to increase to levels where the City's short-term borrowing capacity may be reached. Additionally, to fulfill the larger cash requirements, the maturity horizon of the City's investment portfolio may need to shorten, reducing investment returns. Should this scenario materialize during the five-year projected period, switching back to a pay-as-you-go method of funding retirement contributions may be considered.

The General Fund Capital Projects category totals \$5.3 million in 2014-2015 and remains at this level in each of the out years of the Forecast. The largest item in this category is fire apparatus replacement (\$4.0 million annually). The investment in fire apparatus replacement in this Forecast is based on an analysis of projected replacement schedules, replacement costs, and apparatus changes to meet safety needs and has been lowered by \$1.0 million annually based on this analysis. It also assumes that the Fire C&C Fund will pay \$400,000 annually for these costs. In the Service Yards C&C Fund, this forecast assumes revenue collections in that fund would fully cover Central Service Yards debt service payments. The Capital Projects category also includes the continuation of annual allocations for Arena repairs (\$100,000 in the out years), unanticipated maintenance of City facilities (\$600,000), fuel tanks and methane monitoring

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

control and replacement (\$350,000), and annual capital expenditures (\$150,000) to maintain sufficient power backup for the City Hall and the 9-1-1 Police Communications Building.

The **Transfers** category totals \$26.1 million in 2014-2015 and increases to \$30.9 million in the remaining years of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for City Hall is the largest line-item in this category and totals \$17.2 million in 2014-2015 (\$17.6 million to \$20.5 million in the remaining years of the Forecast). Other large transfers include the following: funding to cover a portion of the debt service payments and operating costs for the Hayes Mansion Conference Center (\$4.0 million in 2014-2015 to \$5.4 million in the out years) and Rancho del Pueblo and Los Lagos Golf Courses (\$1.6 million in 2014-2015 and up to \$1.89 million in the out years); payments in accordance with the San José Arena Management agreement extension (\$1.3 million in 2014-2015 and \$750,000 in the out years of the Forecast) for Arena repairs and capital enhancements; and a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement (\$1.0 million annually).

All of the debt service and maintenance and operations costs for the Hayes Mansion Conference Center and golf courses are funded in the Community Facilities Revenue and Municipal Golf Course Funds; however, revenues in those funds are not projected to be sufficient to completely cover these costs. The transfer for the Hayes Mansion Conference Center decreased from a \$5.9 million subsidy level in the out years of the last forecast to \$4.0 million required in 2014-2015 and then increases to \$5.4 million in the last year of this forecast based on projected debt service payments for that facility. These debt service payments are lower than the last Forecast due to a recent debt refunding and principal pay down. The transfer for the golf course subsidy also decreases from the \$2.0 million annual level assumed in the February 2013 Forecast to \$1.6 million in 2014-2015 based on current operational activity.

The payments for Arena repairs and capital enhancements are in compliance with the San José Arena Management Agreement Extension from 2009-2018. Payment for the City's share of the \$16.5 million of improvements at the Arena, as approved by the City Council in May 2007, total \$1.0 million in this Forecast. An additional \$250,000 is allocated to the Arena Reserve Fund to pay for repairs.

The transfer to the Vehicle Maintenance and Operations Fund (\$1.0 million annually) is included to fund a vehicle replacement schedule for the General Fleet as well as transfers to the Communications C&C Fund (\$237,500 in 2014-2015 to \$450,000 in the out years) to fund the City's share of capital costs for the Silicon Valley Regional Interoperability Authority and reimburse that fund for Civic Center video equipment.

The Transfers category also includes payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas (\$829,000 to \$870,000 annually).

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

The **Earmarked Reserves** category includes a Deferred Infrastructure and Maintenance Reserve of \$800,000 to fund critical capital maintenance or address urgent technology needs. These resources would be allocated as part of the 2014-2015 Proposed Budget. In addition, funding of \$150,000 is allocated to the General Plan Update Reserve to set aside fees collected by developers toward the future update or revision of the General Plan.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2013-2014, and would be recommended for rebudget or use in 2014-2015. Some of the larger current Earmarked Reserves include the 2014-2015 Future Deficit Reserve, Workers' Compensation/General Liability Catastrophic Reserve, Development Fee Program Reserves, and Salaries and Benefits Reserve.

Per City Council policy, the **Contingency Reserve** is projected at the level necessary to comply with the City Council policy to maintain a minimum 3% Contingency Reserve (\$31.0 million). This amount would be sufficient to cover approximately one pay period of payroll costs (two and one-half weeks). Amounts necessary to remain in compliance with that policy are also included in each of the remaining four years of the Forecast.

Committed Additions to the Base General Fund Forecast

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

Committed Additions total \$204,000 in 2014-2015 and increase to approximately \$1.7 million by 2018-2019. These Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

The approved bond measures from the elections of November 2000 and March 2002 will result in new and expanded library (Measure O), park (Measure P), and police and fire (Measure O) facilities and will require additional maintenance and operations funding (\$248,000 in 2015-2016 and increasing to approximately \$883,000 in 2018-2019). Some of the new facilities anticipated to be open during this forecast period include the Southeast Branch Library and the Softball Complex.

Also included in the Committed Additions are maintenance and operations costs associated with non-bond projects such as new parks and recreation facilities and new traffic infrastructure. The non-bond projects committed additions costs in the Forecast range from \$204,000 in 2014-2015 and increases to \$837,000 by 2018-2019.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

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

Budget Principle #8 states that Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 without City Council certification that funding will be made available in the applicable year of the cost impact. Consistent with that direction, this Forecast includes a detailed list and discussion of capital projects that were previously certified by the City Council with annual operating and maintenance costs in the General Fund greater than \$100,000. Capital funding for these projects have been included as part of approved Capital Improvement Programs or approved by City Council in 2013-2014. The majority of these costs are associated with the voter-approved General Obligation bonds for Park, Library, and Public Safety facilities. The operating and maintenance costs for these facilities are included in the figures presented in this Forecast. There are no new projects identified in the Forecast that would need certification.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2014-2015, a shortfall of \$1.5 million is projected, followed by a shortfall of \$4.2 million in 2015-2016. A modest surplus of \$421,000 is projected in 2016-2017, followed by shortfalls of \$6.5 million in 2017-2018 and \$1.7 million in 2018-2019. Base Case expenditures, including committed additions, increase from \$900.8 million in 2014-2015 to \$1.02 billion in 2018-2019, for an average annual growth rate of approximately 3.2%. The sources of revenue total \$899.2 million in 2014-2015 and grow to \$1.01 billion in 2018-2019, increasing at a slightly lower average annual growth rate of 2.9%.

The following table shows how the projected surpluses and shortfalls have changed in the most recent forecasts. It is assumed that each preceding surplus or shortfall is addressed completely with ongoing solutions in the year it appears. Each year of the February 2014 Forecast is compared to the comparable year in the February 2013 Forecast.

2015-2019 General Fund Forecast Changes in Operating Margin (\$ in Millions)					
	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
February 2013 Incremental Surplus/(Shortfall)	(\$13.7)	\$2.0	(\$4.7)	(\$6.0)	N/A
June 2013 Incremental Surplus/(Shortfall)	(\$0.1)	N/A	N/A	N/A	N/A
Revised Forecast	(\$13.8)	\$2.0	(\$4.7)	(\$6.0)	N/A
February 2014 Incremental Surplus/(Shortfall)	(\$1.5)	(\$4.2)	\$0.4	(\$6.5)	(\$1.7)

Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; costs associated with fully funding the annual required contributions for police retiree healthcare; costs associated with services funded on a one-time basis in 2013-2014; costs associated with restoration of key services (police, fire, libraries, community centers, and street maintenance) to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions) that will be brought forward by City Council consideration as a Manager's Budget Addendum later in the 2014-2015 budget process; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. This forecast also does not factor in the potential impacts associated with the sunset of the Library Parcel Tax I 2015, which is budgeted in a special fund. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost recovery nature of those programs.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

For the February 2014 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2014-2015 and the remaining four years of the forecast period. The 2014-2015 projected shortfall of \$1.5 million reflects an improvement from the \$13.8 million budget shortfall projected in June 2013. A major factor contributing to this improvement includes the liquidation of the ongoing portion of the 2014-2015 Future Deficit Reserve (\$5.8 million) that was set aside as part of the \$20 million General Fund Contingency Plan to address uncertainties related to the Supplemental Retiree Benefit Reserve (SRBR) elimination and the lowest cost healthcare plan changes that is no longer needed. The remaining improvement is the net result of numerous revenue and expenditure changes that are explained earlier in this section.

In the remaining years of the Forecast, small General Fund shortfalls and a surplus are projected, ranging from -\$6.5 million to \$421,000 annually. These margins are extremely narrow when put into context of the size of the projected General Fund budget, ranging from -0.3% to 0.02% of the projected annual budget (revenues and expenditures). Over the five-year period, a total shortfall of \$13.5 million is anticipated, or approximately \$2.7 million annually. This average shortfall figure equates to only 0.1% of the projected General Fund annual budget.

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*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

BASE CASE

February 2014 Forecast

REVENUE SUMMARY

	MODIFIED BUDGET	FORECAST				
	<u>2013-2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
PROPERTY TAX	220,850,000	228,573,000	239,773,000	250,611,000	262,991,000	275,799,000
		3.50%	4.90%	4.52%	4.94%	4.87%
SALES TAX	172,110,000	177,724,000	184,371,000	191,783,000	198,514,000	204,867,000
		3.26%	3.74%	4.02%	3.51%	3.20%
TRANSIENT OCCUPANCY TAX	10,600,000	11,750,000	12,496,000	13,028,000	13,449,000	13,923,000
		10.85%	6.35%	4.26%	3.23%	3.52%
FRANCHISE FEES	43,923,000	45,186,000	46,089,000	46,914,000	47,768,000	48,676,000
		2.88%	2.00%	1.79%	1.82%	1.90%
UTILITY TAX	91,895,000	94,950,000	96,808,000	98,677,000	100,581,000	102,573,000
		3.32%	1.96%	1.93%	1.93%	1.98%
TELEPHONE TAX	20,600,000	20,700,000	20,700,000	20,700,000	20,700,000	20,700,000
		0.49%	0.00%	0.00%	0.00%	0.00%
BUSINESS TAX	42,935,000	43,500,000	43,683,000	43,853,000	44,011,000	44,169,000
		1.32%	0.42%	0.39%	0.36%	0.36%
OTHER LICENSES AND PERMITS	49,268,246	45,055,000	46,902,000	48,309,000	50,000,000	51,450,000
		(8.55%)	4.10%	3.00%	3.50%	2.90%
DEPARTMENTAL CHARGES	38,179,213	37,443,000	38,978,000	40,148,000	41,553,000	42,758,000
		(1.93%)	4.10%	3.00%	3.50%	2.90%
FINES, FORFEITURES & PENALTIES	14,862,200	14,175,000	14,447,000	14,700,000	14,938,000	15,301,000
		(4.62%)	1.92%	1.75%	1.62%	2.43%
MONEY & PROPERTY	2,673,000	2,799,000	2,883,000	2,969,000	3,059,000	3,150,000
		4.71%	3.00%	2.98%	3.03%	2.97%
REVENUE FROM LOCAL AGENCIES	37,131,820	22,145,000	22,745,000	23,344,000	23,986,000	24,644,000
		(40.36%)	2.71%	2.63%	2.75%	2.74%
REVENUE FROM THE STATE OF CALIFORNIA	11,877,725	10,734,000	10,510,000	10,510,000	10,510,000	10,510,000
		(9.63%)	(2.09%)	0.00%	0.00%	0.00%
FEDERAL REVENUE	13,111,532	1,473,000	0	0	0	0
		(88.77%)	(100.00%)	N/A	N/A	N/A
OTHER REVENUE	118,934,047	14,079,000	14,597,000	14,849,000	15,124,000	15,419,000
		(88.16%)	3.68%	1.73%	1.85%	1.95%
GAS TAX	15,000,000	14,850,000	14,554,000	14,247,000	14,015,000	13,778,000
		(1.00%)	(1.99%)	(2.11%)	(1.63%)	(1.69%)
TOTAL GENERAL REVENUES	903,950,783	785,136,000	809,536,000	834,642,000	861,199,000	887,717,000
		(13.14%)	3.11%	3.10%	3.18%	3.08%

BASE CASE

February 2014 Forecast

REVENUE SUMMARY

	MODIFIED BUDGET	FORECAST				
	<u>2013-2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	36,576,248	37,107,000	38,629,000	39,788,000	41,180,000	42,374,000
TRANSFERS	16,502,033	18,436,000	18,729,000	19,001,000	19,406,000	19,715,000
REIMBURSEMENTS FOR SERVICES	742,833	787,000	820,000	844,000	874,000	899,000
TOTAL TRANSFERS & REIMBURSEMENTS	53,821,114	56,330,000	58,178,000	59,633,000	61,460,000	62,988,000
		4.66%	3.28%	2.50%	3.06%	2.49%
TOTAL GENERAL FUND REVENUES	957,771,897	841,466,000	867,714,000	894,275,000	922,659,000	950,705,000
		(12.14%)	3.12%	3.06%	3.17%	3.04%
BEGINNING FUND BALANCE	215,180,741	57,752,000	57,014,000	57,865,000	58,666,000	57,317,000
GRAND TOTAL SOURCES	1,172,952,638	899,218,000	924,728,000	952,140,000	981,325,000	1,008,022,000
		(23.34%)	2.84%	2.96%	3.07%	2.72%

BASE CASE

February 2014 Forecast

EXPENDITURE SUMMARY

	MODIFIED BUDGET	FORECAST				
	<u>2013-2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
PERSONAL SERVICES						
Salaries and Other Compensation	378,477,361	384,846,000	398,387,000	407,847,000	417,533,000	427,449,000
Retirement	212,191,405	236,135,000	241,882,000	247,446,000	258,948,000	264,615,000
Health and Other Fringe Benefits	51,610,549	54,991,000	59,752,000	64,926,000	71,298,000	77,471,000
TOTAL PERSONAL SERVICES	642,279,315	675,972,000	700,021,000	720,219,000	747,779,000	769,535,000
		5.25%	3.56%	2.89%	3.83%	2.91%
TOTAL NON-PERSONAL/EQUIPMENT	95,400,806	86,995,000	90,173,000	91,939,000	94,925,000	97,305,000
		(8.81%)	3.65%	1.96%	3.25%	2.51%
CITY-WIDE						
CITY-WIDE EXPENSES	223,771,488	73,803,000	75,265,000	77,979,000	81,929,000	84,410,000
CAPITAL PROJECTS	31,270,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000
TRANSFERS	24,913,473	26,092,000	26,660,000	28,246,000	29,177,000	30,872,000
EARMARKED RESERVES	124,317,556	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000
CONTINGENCY RESERVE	31,000,000	31,000,000	31,000,000	31,000,000	31,000,000	31,000,000
TOTAL CITY-WIDE	435,272,517	137,595,000	139,625,000	143,925,000	148,806,000	152,982,000
		(68.39%)	1.48%	3.08%	3.39%	2.81%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,172,952,638	900,562,000	929,819,000	956,083,000	991,510,000	1,019,822,000
		(23.22%)	3.25%	2.82%	3.71%	2.86%

OPERATING MARGIN

	MODIFIED BUDGET	FORECAST				
	<u>2013-2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)						
GRAND TOTAL REVENUE	1,172,952,638	899,218,000	924,728,000	952,140,000	981,325,000	1,008,022,000
GROWTH RATE		(23.34%)	2.84%	2.96%	3.07%	2.72%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,172,952,638	900,562,000	929,819,000	956,083,000	991,510,000	1,019,822,000
GROWTH RATE		(23.22%)	3.25%	2.82%	3.71%	2.86%
OPERATING MARGIN CHANGE		(1,344,000)	(3,747,000)	1,148,000	(6,242,000)	(1,615,000)
<i>From Prior Year</i>						

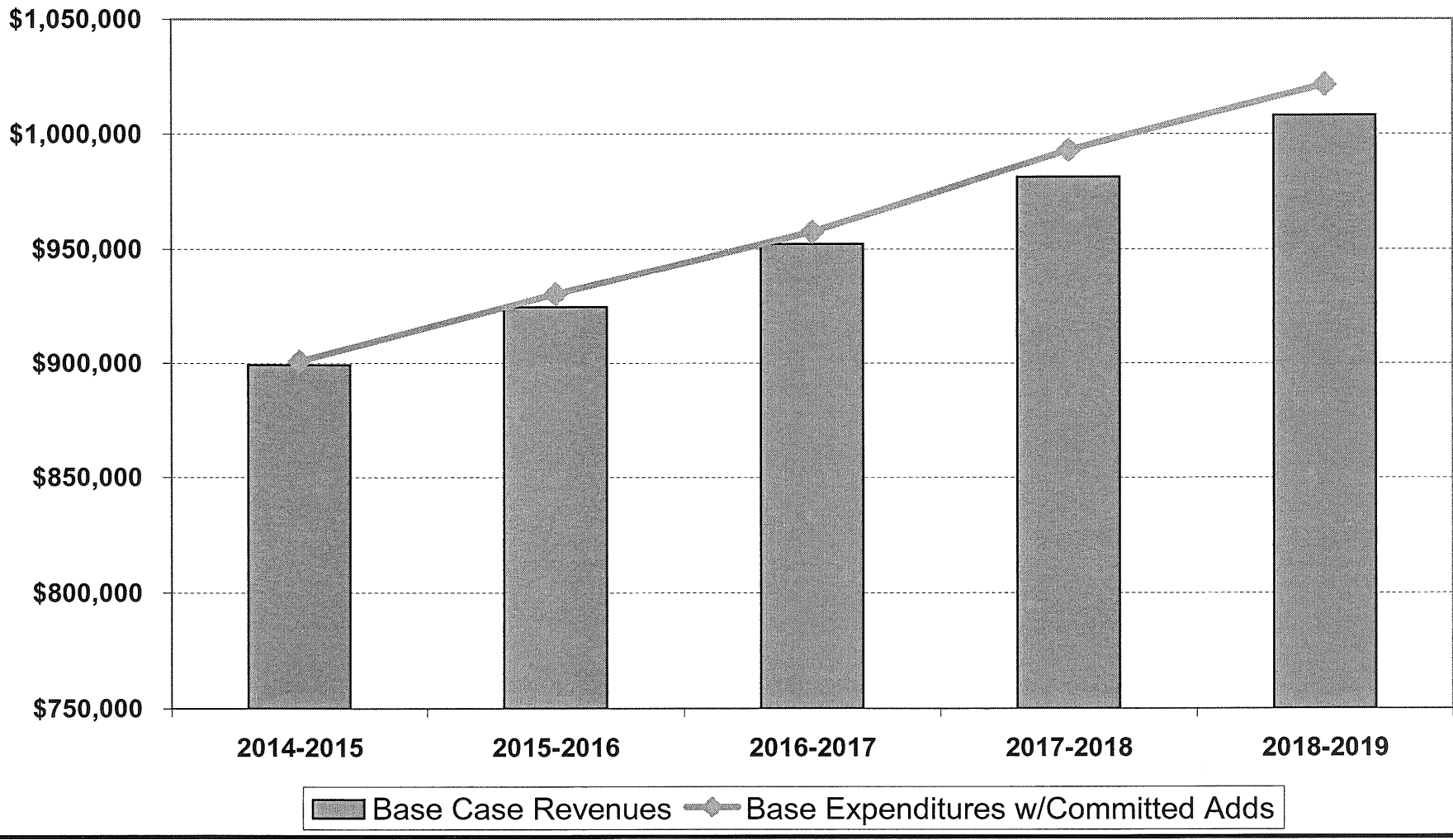
BASE CASE

February 2014 Forecast EXPENDITURE SUMMARY	MODIFIED	FORECAST					
	BUDGET	2013-2014	2015	2016	2017	2018	2019
COMMITTED ADDITIONS:							
New Parks and Recreation Facilities Maintenance and Operations			193,000	331,000	484,000	605,000	692,000
New Traffic Infrastructure Assets Maintenance and Operations			11,000	57,000	121,000	131,000	145,000
Measure O (Library) Maintenance and Operations			0	237,000	735,000	757,000	779,000
Measure P (Parks) Maintenance and Operations			0	0	0	87,000	81,000
Measure O (Public Safety) Maintenance and Operations: Fire			0	11,000	23,000	23,000	23,000
TOTAL COMMITTED ADDITIONS		0	204,000	636,000	1,363,000	1,603,000	1,720,000
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)		1,172,952,638	900,766,000	930,455,000	957,446,000	993,113,000	1,021,542,000
			(23.21%)	3.30%	2.90%	3.73%	2.86%

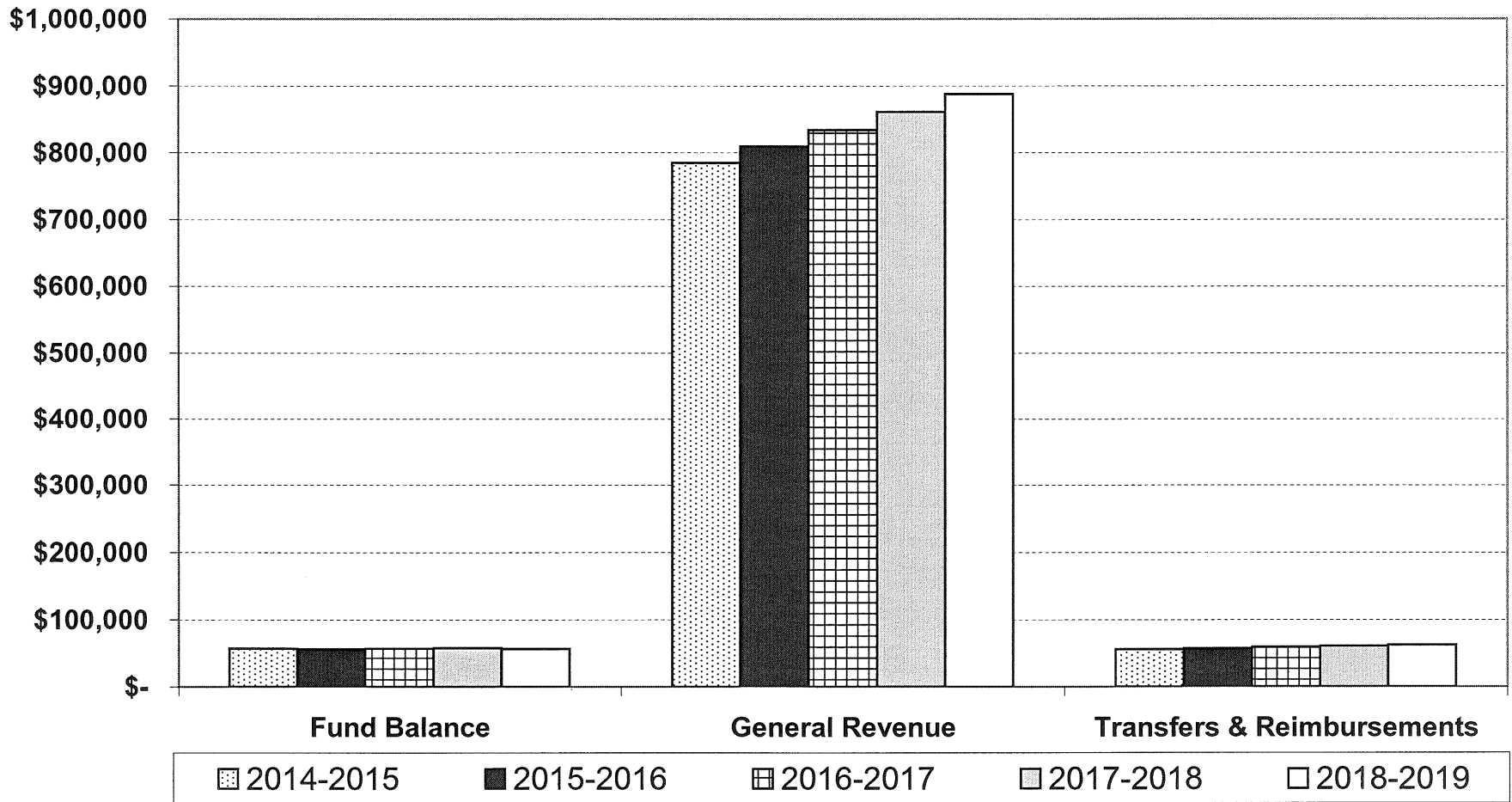
OPERATING MARGIN

	MODIFIED	FORECAST					
	BUDGET	2013-2014	2015	2016	2017	2018	2019
BASE EXPENDITURES (w / COMMITTED ADDITIONS)		1,172,952,638	900,766,000	930,455,000	957,446,000	993,113,000	1,021,542,000
GRAND TOTAL REVENUE		1,172,952,638	899,218,000	924,728,000	952,140,000	981,325,000	1,008,022,000
GROWTH RATE			(23.34%)	2.84%	2.96%	3.07%	2.72%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)		1,172,952,638	900,766,000	930,455,000	957,446,000	993,113,000	1,021,542,000
GROWTH RATE			(23.21%)	3.30%	2.90%	3.73%	2.86%
ONGOING OPERATING MARGIN CHANGE			(1,548,000)	(4,179,000)	421,000	(6,482,000)	(1,732,000)
<i>From Prior Year</i>							

2015-2019 General Fund Forecast PROJECTED REVENUES AND EXPENDITURES (\$ in thousands)

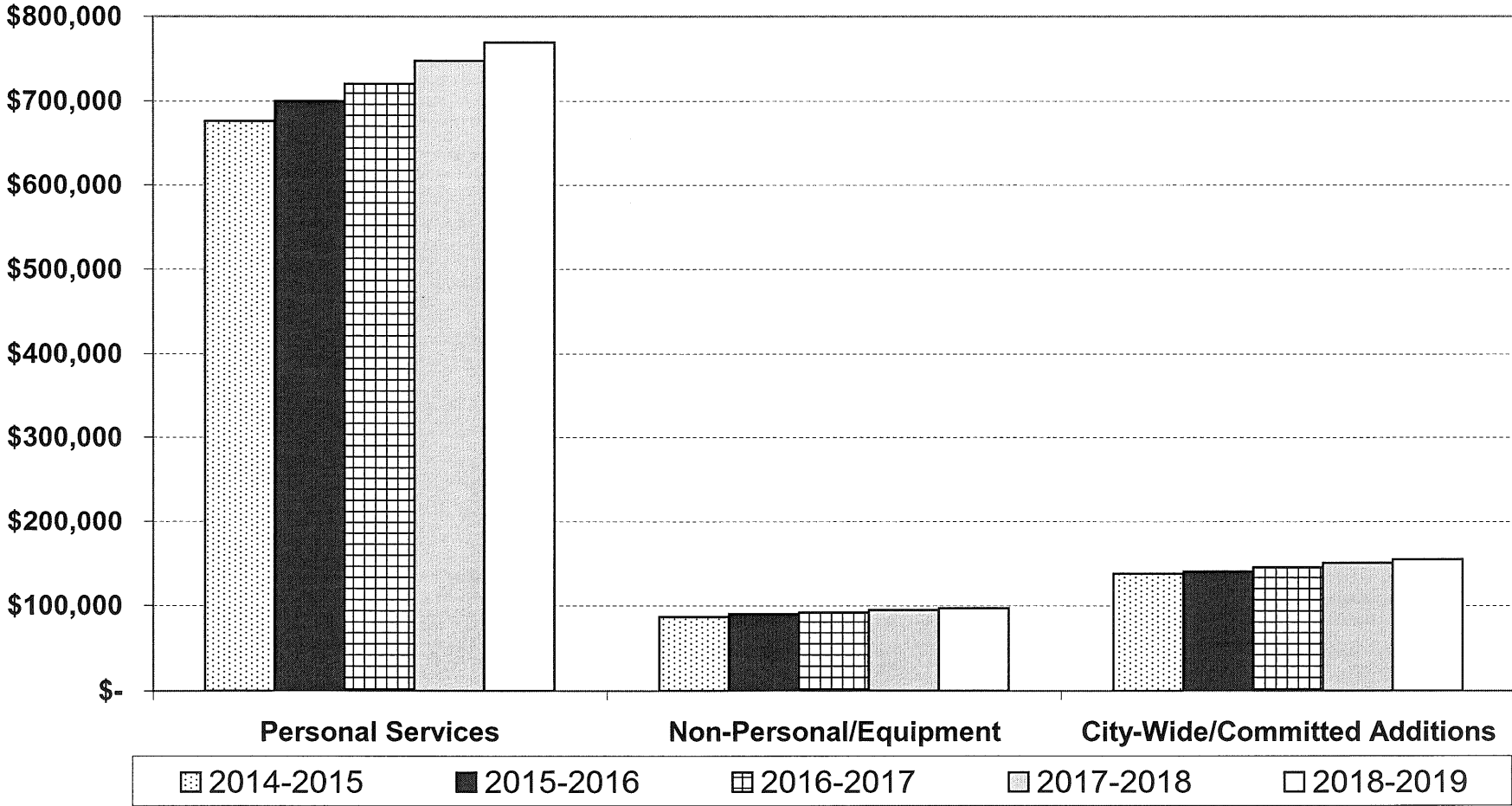


**2015-2019 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
(\$ in thousands)**



**2015-2019 General Fund Forecast
FIVE-YEAR USE OF FUNDS COMPARISON
(\$ in thousands)**

II - 7



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*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

Section 3

Committed Additions to the Base General Fund Forecast

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

Committed Additions involve expense changes for projects that have been previously approved by the City Council and deemed relatively unavoidable. The majority of items included in this category are additional maintenance and operating expenses that will be required to operate and maintain approved capital projects scheduled for completion or to open within the five-year horizon of this forecast. These expenses are related to the maintenance and operations of new parks and recreational facilities, traffic infrastructure assets, and the bond-funded Fire Station 21, Southeast Branch Library and Softball Complex facilities. It should be noted that the estimated costs included in this category have been submitted by the various departments involved, but have not yet been fully analyzed by the Budget Office. It can be anticipated that refinements of these estimates will be performed prior to bringing them forward for consideration by the City Council in any given year.

A summary of capital projects included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council’s adoption of Budget Principle #8 during the 2008-2009 budget process, a **General Fund Capital Operating and Maintenance/Budget Principle #8** discussion is included in this section. Capital projects with maintenance and operating costs over \$100,000 and previously certified and included in the approved Capital Improvement Program or approved by the City Council in 2013-2014 are identified in Chart A of this section. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast, that have not been previously approved by the City Council, may be recommended for certification as part of the 2015-2019 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

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

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

Committed Additions Summary

New Parks and Recreation Facilities Maintenance and Operations – This category reflects the projected additional costs of maintaining and operating new and expanded parks and recreation facilities included in the City’s Five-Year Capital Improvement Program. A number of parks scheduled to come online over the next five years include Del Monte Park, Lake Cunningham Bike Park and Robert Antonio Balermينو Park, to name a few. With the State of California’s initial acceptance of the joint bid submitted by the City and the Santa Clara Unified School District to purchase the Agnews Property, costs are included for the portion of the Agnews Property that would be the City’s responsibility to maintain. Should the sale transaction become final, it is anticipated that any major construction by the City on the Agnews property would occur outside this five-year period. The forecast also includes operating cost estimates for trail sections for the Coyote Creek Trail, Guadalupe River Trail, Lower Silver Creek Trail, Penitencia Creek Trail, and the Thompson Creek Trail. Funding continues to be set aside for Future Trail Projects to help meet the City’s goal to expand the City’s trail system to 100 miles by the year 2020. The City currently has over 55 miles of trails.

<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
193,000	331,000	484,000	605,000	692,000

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the projected additional costs that will be necessary to operate and maintain transportation-related projects included in the City’s Five-Year Capital Improvement Program. Funding to operate and maintain new traffic signals, landscaping, street lighting, radar speed display signs and other traffic infrastructure is assumed in this category. Many projects are related to traffic safety enhancements for pedestrians and bicyclists. Notable projects coming online over the forecast period include maintenance of street trees and traffic signals related to Bus Rapid Transit, The Alameda – A Plan for the Beautiful Way, Route 101: Interstate 280 to Yerba Buena, and Route 280/880 Stevens Creek Upgrade.

<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
11,000	57,000	121,000	131,000	145,000

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

<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
0	237,000	735,000	757,000	779,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

Committed Additions Summary

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

<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
0	0	0	87,000	81,000

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

While the future operating and maintenance costs of approximately \$3.1 million for Fire Station 37 were included in previous forecasts, Fire Station 37 has been removed from this forecast due to a lack of sufficient funding for project construction. Due primarily to the unexpectedly high cost of construction during much of the Measure O program, the decision to rebuild instead of remodel Fire Station 2 (which resulted in a net cost increase of approximately \$4.1 million), and the recent uptick in bid prices expected for Fire Station 21, the Administration anticipates that only \$2.0 million in public safety bond funds will remain after the completion of Fire Station 21. This amount leaves the Fire Station 37 project over \$5.0 million short of the funds needed to complete the project. As outlined in the Manager’s Addendum #31 sent to the City Council on May 28, 2013, the Administration intends to perform an analysis studying the operational impact of Fire and Paramedic emergency response coverage if the City were to (1) build and open Fire Station 37 and keep Fire Station 6; (2) build and open Fire Station 37 and close Fire Station 6; and (3) remodel Fire Station 6 and not construct Fire Station 37. Combined with this analysis, the construction and ongoing operational costs for each scenario will need to be developed. This analysis is expected to be released as a Manager’s Budget Addendum as part of the 2014-2015 budget process.

<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
0	11,000	23,000	23,000	23,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

General Fund Capital Operating and Maintenance/Budget Principle #8

In March 2008, the City Council adopted the Budget Principles as part of the approval of the Mayor's 2008-2009 March Budget Message. Budget Principle #8 pertains to Capital Improvement Projects and directs that capital improvement projects with annual operating and maintenance costs "shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire project, including maintenance and operations costs, will not require a decrease in existing basic neighborhood services."

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for these projects has been included as part of the approved Capital Improvement Program, approved by the City Council in 2013-2014, or align with previous City Council direction. There are no new projects identified in the Forecast that would need certification in accordance with Budget Principle #8. All capital projects that were previously approved for certification by the City Council with annual maintenance and operating costs in the General Fund greater than \$100,000 have been denoted in the chart with an asterisk. The Softball Complex has been previously certified by the City Council even though early operations and maintenance estimates do not exceed \$100,000; however, these costs may rise upon determination of the final project scope. By 2018-2019, the costs to maintain and operate all City Council approved projects, expected to come online during the five-year period, are projected at approximately \$1.7 million annually, of which approximately \$883,000 are related to voter-approved bond measures.

While the General Fund budget has started to stabilize, maintenance and operating costs for new capital facilities will continue to present challenges given the General Fund's very thin margins. All project maintenance and operating costs will be evaluated on an annual basis for inclusion in subsequent Five-Year General Fund Forecasts. A careful evaluation of the project schedules and/or staffing necessary to maintain and operate these facilities will be performed prior to bringing them forward for consideration by the City Council in any given year.

**CHART A - 2015-2019 GENERAL FUND FORECAST
Net Operating Impact of Capital Programs**

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Agnews Park and Community Center (<i>undeveloped</i>)	22,000	22,000	23,000	26,000	26,000
Del Monte Park	47,000	52,000	53,000	54,000	55,000
Future Trail Projects*	-	-	24,000	88,000	156,000
Lake Cunningham Bike Park	-	-	20,000	58,000	65,000
Martial-Cottle Community Garden	44,000	60,000	61,000	64,000	66,000
Martin Park	-	23,000	47,000	48,000	49,000
Montecito Vista Park	15,000	37,000	38,000	39,000	39,000
Noble Park Dog Park	-	15,000	31,000	32,000	33,000
Ocala Middle School Sportsfields**	-	-	-	-	-
Pellier Park	-	-	17,000	18,000	18,000
Roberto Antonio Balermino Park	11,000	22,000	22,000	23,000	23,000
Santana Park	-	-	-	4,000	9,000
Shady Oaks Sportsfield**	-	-	-	-	-
TRAIL: Coyote Creek (Flea Market)	-	-	5,000	5,000	5,000
TRAIL: Coyote Creek (Story Road to Selma Olinder Park)	-	-	10,000	10,000	10,000
TRAIL: Guadalupe River Trail (Tasman Dr Undercrossing)	-	2,000	2,000	2,000	2,000
TRAIL: Guadalupe River Trail (Coleman Rd Undercrossing)	-	-	3,000	3,000	3,000
TRAIL: Lower Silver Creek (Alum Rock Ave to Highway 680)	-	-	29,000	30,000	30,000
TRAIL: Lower Silver Creek (Dobern Bridge to Foxdale Dr)	-	6,000	6,000	6,000	6,000
TRAIL: Lower Silver Creek 4/5A (Alum Rock to Hwy 680)	-	23,000	23,000	24,000	24,000
TRAIL: Penitencia Creek Reach 1A (Noble Ave to Dorel Dr)	-	7,000	7,000	7,000	7,000
TRAIL: Penitencia Creek 1B (Dorel Dr to Noble Ave)	15,000	15,000	15,000	16,000	16,000
TRAIL: Thompspon Creek (Tully Road to Quimby Ave)	7,000	7,000	7,000	7,000	7,000
TRAIL: Three Creeks Pedestrian Bridge	-	2,000	2,000	2,000	2,000
Vista Montana Park (Turnkey) - Phase 2	14,000	19,000	20,000	20,000	21,000
West Evergreen Park	18,000	19,000	19,000	19,000	20,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	193,000	331,000	484,000	605,000	692,000
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Bus Rapid Transit	-	20,000	42,000	43,000	44,000
Innovative Bicycle Detection	-	-	16,000	16,000	16,000
Jackson Complete Streets (OBAG)	-	-	9,000	9,000	10,000
LED Streetlight Program (White Road)	-	2,000	2,000	2,000	2,000
Ocala Avenue Pedestrian Improvements (OBAG)	-	-	5,000	5,000	5,000
Route 101: Interstate 280 to Yerba Buena	5,000	5,000	5,000	6,000	6,000
Route 280/880/Stevens Creek Upgrade	-	6,000	6,000	6,000	6,000
Safe Pathways to Diridon Station	-	1,000	1,000	1,000	1,000
San Fernando Street Enhanced Bikeway & Ped Access	1,000	1,000	1,000	2,000	2,000
The Alameda - A Plan for the Beautiful Way	5,000	8,000	8,000	9,000	9,000
The Alameda - A Plan for the Beautiful Way Phase 2	-	-	4,000	4,000	5,000
Safety - Pedestrian Improvements	-	12,000	20,000	26,000	37,000
Safety - Traffic Signal Modifications/Construction	-	2,000	2,000	2,000	2,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	11,000	57,000	121,000	131,000	145,000
MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS					
Southeast Branch*	-	237,000	735,000	757,000	779,000
TOTAL MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS	-	237,000	735,000	757,000	779,000
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Softball Complex*	-	-	-	87,000	81,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	-	-	-	87,000	81,000
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE					
Fire Station 21 - Maintenance and Utilities	-	11,000	23,000	23,000	23,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE	-	11,000	23,000	23,000	23,000
TOTAL OPERATING IMPACT OF CAPITAL PROGRAMS	204,000	636,000	1,363,000	1,603,000	1,720,000

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

**Capital projects that are anticipated to recover all operating and maintenance costs from revenues generated by those facilities.

*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

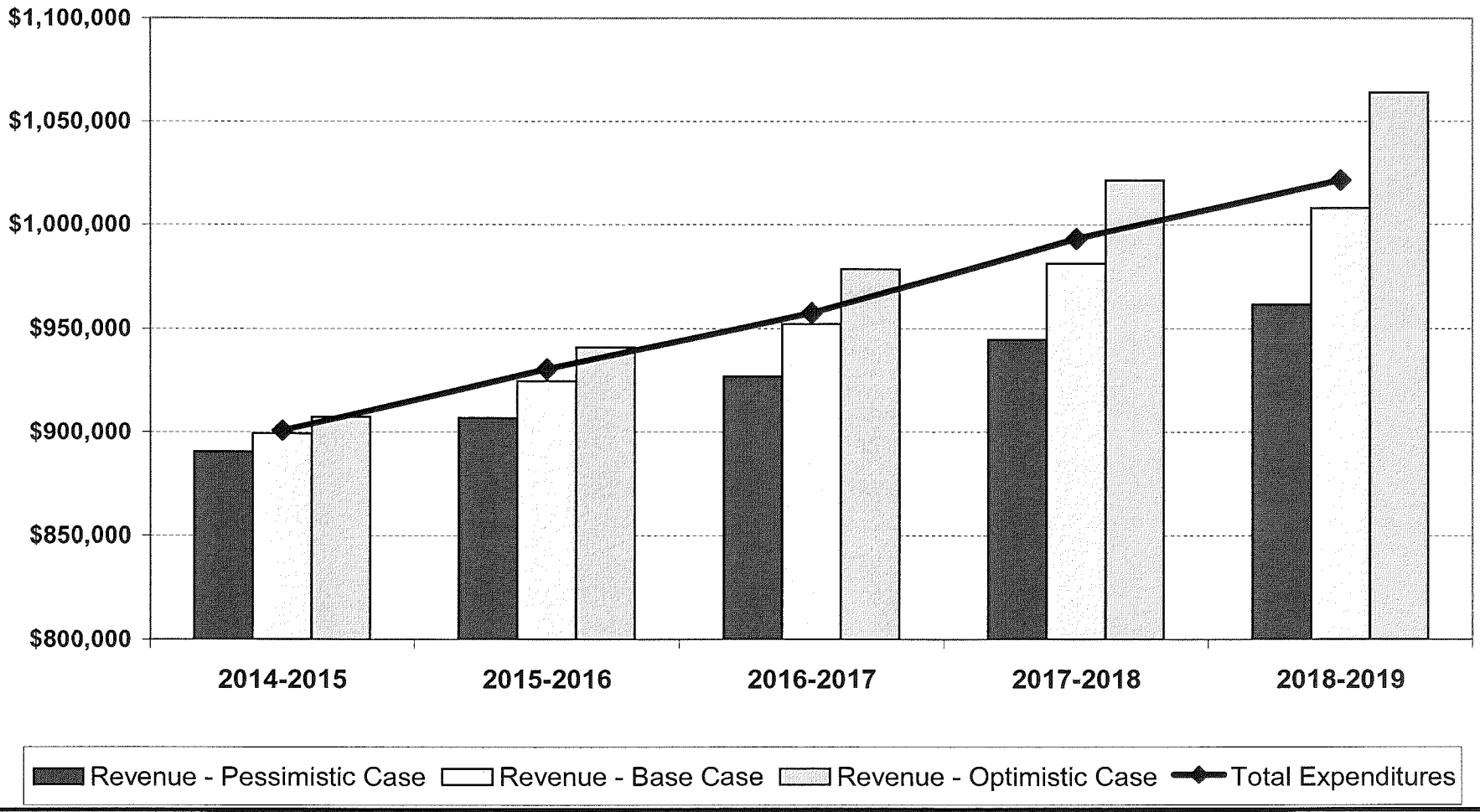
**2015-2019 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios**

BASE CASE					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
TOTAL REVENUES (\$)	899,218,000	924,728,000	952,140,000	981,325,000	1,008,022,000
GROWTH RATE		2.84%	2.96%	3.07%	2.72%
TOTAL EXPENDITURES (\$)	900,766,000	930,455,000	957,446,000	993,113,000	1,021,542,000
GROWTH RATE		3.30%	2.90%	3.73%	2.86%
OPERATING MARGIN - BASE	(1,548,000)	(4,179,000)	421,000	(6,482,000)	(1,732,000)

OPTIMISTIC CASE					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
TOTAL REVENUES (\$)	907,502,000	940,803,000	978,592,000	1,021,301,000	1,063,878,000
GROWTH RATE		3.67%	4.02%	4.36%	4.17%
TOTAL EXPENDITURES (\$)	900,766,000	930,455,000	957,446,000	993,113,000	1,021,542,000
GROWTH RATE		3.30%	2.90%	3.73%	2.86%
OPERATING MARGIN - OPTIMISTIC	6,736,000	3,612,000	10,798,000	7,042,000	14,148,000

PESSIMISTIC CASE					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
TOTAL REVENUES (\$)	890,222,000	906,986,000	926,941,000	944,744,000	961,502,000
GROWTH RATE		1.88%	2.20%	1.92%	1.77%
TOTAL EXPENDITURES (\$)	900,766,000	930,455,000	957,446,000	993,113,000	1,021,542,000
GROWTH RATE		3.30%	2.90%	3.73%	2.86%
OPERATING MARGIN - PESSIMISTIC	(10,544,000)	(12,925,000)	(7,036,000)	(17,864,000)	(11,671,000)

2015-2019 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
 (\$ in thousands)



*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

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

Construction-related Capital Program revenues are anticipated to increase significantly from the estimates provided in the 2014-2018 Adopted Capital Improvement Program (CIP), reflecting improvements in the current economic environment. There is a large projected increase of 25% over the 2014-2018 Adopted CIP, from \$280.7 million in the 2014-2018 Adopted CIP to \$352.2 million in the 2015-2019 Forecast. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2014-2018 Adopted CIP.

FORECAST COMPARISON SUMMARY (\$ in Thousands)

	2014-2018 CIP	2015-2019 Forecast	Difference	% Change
Construction and Conveyance Tax	\$150,000	\$195,000	\$45,000	30%
Building and Structure Construction Tax	55,000	65,000	10,000	18%
Construction Excise Tax	70,000	86,000	16,000	23%
Municipal Water System Fees	750	750	0	0%
Residential Construction Tax	925	950	25	3%
Sanitary Sewer Connection Fee	3,250	3,750	500	15%
Storm Drainage Connection Fee	750	750	0	0%
TOTAL	\$280,675	\$352,200	\$71,525	25%

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

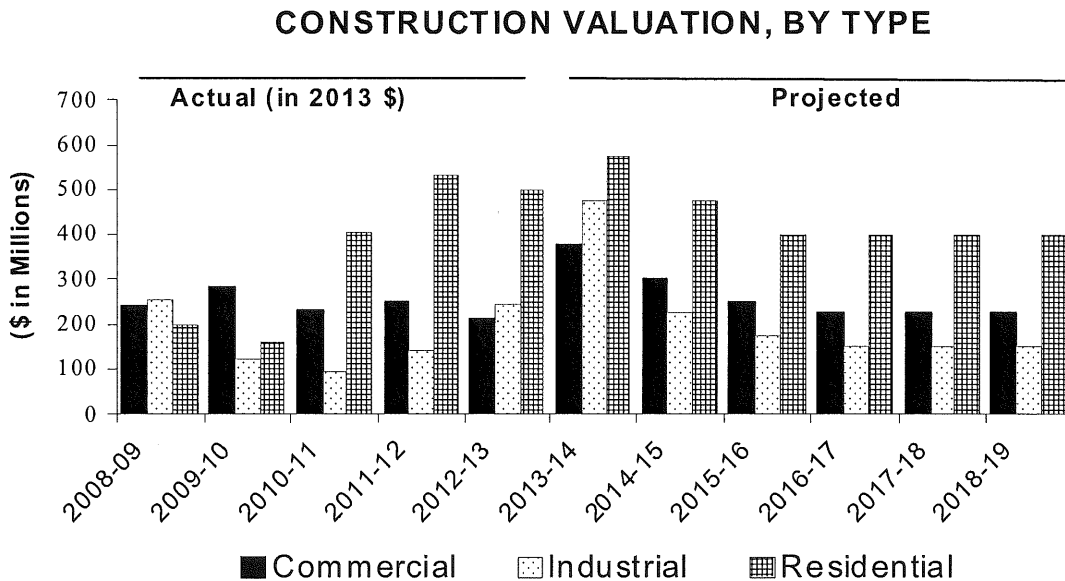
CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this Forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides projections of construction activity related to residential, commercial and industrial development. The valuation figures have been adjusted to 2013 dollars per Bureau of Labor Statistics Consumer Price Index, San José-San Francisco-Oakland all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled “Development Activity Highlights and Five-Year Forecast (2015-2019)”, which is attached as an appendix to this document.

Based on projections provided by the PBCE Department, construction activity valuation is projected to continue at substantially higher levels than experienced last year: \$1.5 billion for 2013-2014 or 52% increase compared to \$956 million in 2012-2013. This level of activity is expected to drop to \$1.0 billion in 2014-2015, down to \$825 million in 2015-2016, and then drop slightly again to \$775 million per year from 2016-2017 through 2018-2019. The assumptions for the five-year forecast show a slight improvement of 9%, or a \$350 million increase from the levels presented in the 2014-2018 Forecast where activity ranged from \$775 million in 2013-2014 through 2014-2015 and decreased to \$700 million in 2015-2016 through 2017-2018.

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



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

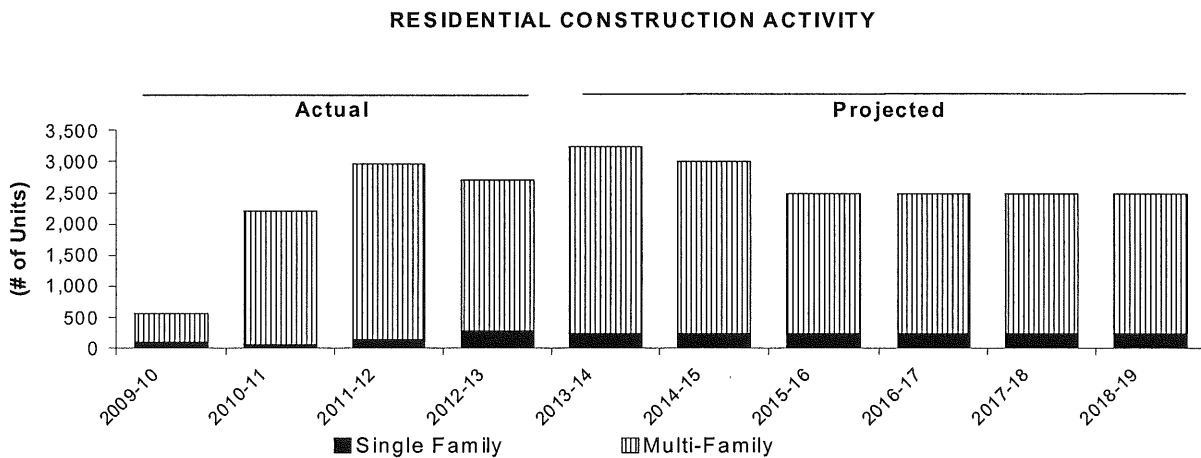
A summary of the PBCE Department construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast.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

A. Residential Construction Activity

A significant portion of development-related revenue in San José has traditionally been generated by residential construction. New construction activity in 2012-2013 in this sector totaled 2,702 dwelling units, and is expected to reach 3,250 new dwelling units in 2013-2014, an increase of 20%. This compares to an all-time low of just 573 new dwelling units in 2009-2010.

The total value of residential construction activity projected in this Forecast is \$2.075 billion, a 14% increase over the 2014-2018 Forecast. The PBCE Department expects residential construction activity to generate an estimated 3,000 new units in 2014-2015, and then decrease to 2,500 new units per year from 2015-2016 through 2018-2019. This represents an average of 2,600 units per year or 13,000 units over the forecast period. This activity level has increased by 8% compared to the 12,000 units included in the 2014-2018 Forecast.

This forecast expects a total of 11,750 multi-family dwelling units or approximately 90% of all dwelling units (single-family and multi-family) to be constructed. This figure represents a 9% increase compared to the projections in the 2014-2018 Forecast for this category. Conversely, only 1,250 new single-family dwelling units are anticipated during this forecast period, flat compared to projections in the 2014-2018 Forecast, demonstrating that high-density developments will continue to drive residential construction for the foreseeable future. The following chart shows the number of new units, by housing type, anticipated in San José through 2018-2019.



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

B. Commercial Construction Activity

In 2012-2013, commercial construction activity totaled \$212 million, a 15% decrease from 2011-2012. New construction fell to its lowest levels in almost 20 years, yet alterations of existing buildings continued to be strong, amounting to double the value of new construction for the third consecutive year. However in 2013-2014, the PBCE Department expects commercial activity to reach \$375 million in total permit valuation, a decade-plus high primarily driven by the San Jose Earthquakes soccer stadium and new retail developments at the “Hitachi site.”

The total commercial construction valuation projected in this Forecast is \$1.225 billion, which is a 9% increase from the previous five-year forecast. As discussed in the attached report provided by the PBCE Department, the outlook for commercial construction activity is to modestly slow down from the anticipated 2013-2014 activity, but will be driven somewhat by a handful of hotel projects in North San José, the Airport vicinity, and Downtown.

Information provided by real estate trade groups for the 4th Quarter in 2013 indicated that the San José office and research and development (R&D) vacancy rate was 17.3% and the retail vacancy rate was 4.8%. These rates are similar in comparison to the 4th Quarter in 2012 of 17.0% and 5.5%, respectively.

C. Industrial Construction Activity

In 2012-2013, industrial activity was mixed; new construction remained slow, yet alterations rose to a twelve-year high. Overall, activity amounted to \$247 million in 2012-2013, an increase of 76% from 2011-2012. Led by Samsung Semiconductor’s construction of a 680,000-square foot headquarters in North San José, industrial activity is in the midst of an industrial rebound in 2013-2014, with total permit valuation expected to reach \$475 million – its highest since the “dot com” boom. Without the sustained influx of additional new construction, the PBCE Department expects valuation to decrease. Beginning in 2014-2015, activity is anticipated to drop to \$225 million, drop again to \$175 million in 2015-2016, and fall to \$150 million from 2016-2017 through 2018-2019.

Information provided by real estate trade groups for the 4th Quarter in 2013 indicated that the San José vacancy rate for industrial space was 6.2%, which is down slightly from the 8.0% vacancy rate for the same period in 2012.

It should be noted that the City Council has undertaken several actions to reduce the cost of new development in San José to create a predictable and competitive environment that supports the City’s economic development goals of filling industrial buildings and encouraging new workplace development. To that end, in November 2013, the City Council extended a partial

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

suspension of construction taxes placed on new construction or alteration of office, research and development uses, data center uses and installation of solar photovoltaic systems until March 31, 2017 (R&D Facilities Incentive). The Council has directed staff to target voter approval of a ballot measure in November 2016 to make the incentive program permanent. Additionally, the City Council enacted the Downtown High Rise Incentive Program in May 2012, subsequently extended in February 2013, to stimulate investment by reducing construction taxes by 50% for new downtown residential high rise buildings for those projects that obtain a building permit by December 31, 2014. That program was again modified in August 2013 to apply the 50% reduction to commercial and industrial new construction in the Downtown that obtain a building permit by December 31, 2014. How these incentive programs are applied to the Building and Structure Construction Tax and the Construction Excise Tax are discussed in the following pages.

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2015-2019) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on “major” projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but not yet commenced, and pending City approval). In addition, individual maps are provided for each of the City’s 15 planning areas that show the projects in all status categories submitted since January 1, 2008. These maps can be used in conjunction with the activity data to help analyze the rate, type and location of major development activity in San José.

CONSTRUCTION AND CONVEYANCE TAX

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

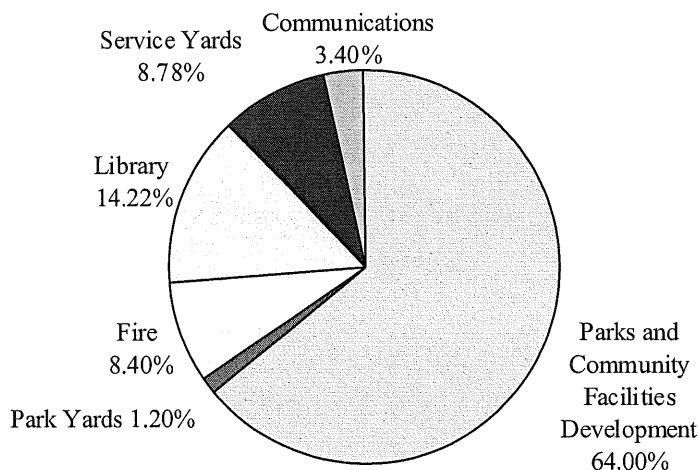
The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds one hundred dollars. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately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

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

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX

CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION



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

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

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

The five-year projection for Construction and Conveyance Tax revenue totals \$195 million, which is 30% higher than the estimate used to develop the 2014-2018 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

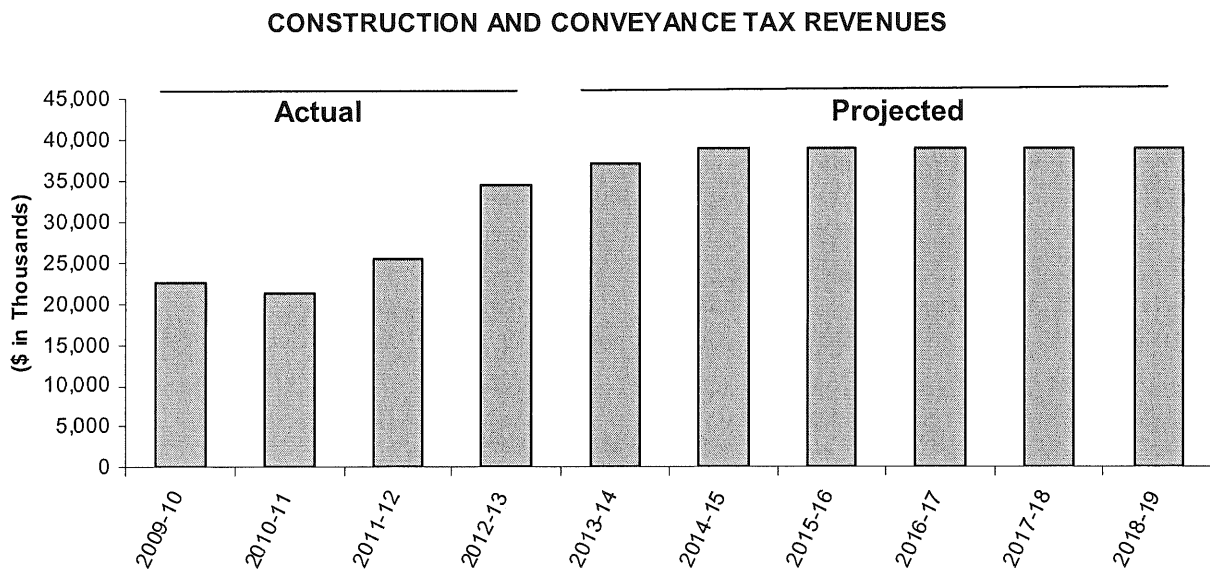
CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX

Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of \$49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to \$20.5 million in 2008-2009. Collections rose slightly in 2009-2010 to \$22.5 million and fell slightly to \$21.4 million in 2010-2011. Since that time, collections have risen sharply, \$25.4 million in 2011-2012, \$34.4 million in 2012-2013, and are on pace to reach \$37.0 million in 2013-2014. Revenues are projected to increase to \$39.0 million annually in 2014-2015 and throughout the forecast period, though these estimates could vary significantly due to the historically volatile real estate market.

The median single-family home price in January 2014 was \$660,000, which is an increase of 7.6% from the January 2013 price of \$613,500. In addition, the average days on market for single-family and multi-family homes dropped slightly from 44 days in January 2013 to 42 days in January 2014. However, available inventory continues to be tight, as the number of property transfers (sales) for all types of residences in January 2014 totaled 398, which represents a decrease of approximately 12.7% from the 456 sales that occurred in the same month in the prior year. These figures point to a strong real estate market that is moderating from last year's sharp growth rates.

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



CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX

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

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

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

As discussed above, the R&D Facilities Incentive and the Downtown Incentive programs impact the Building and Structure Construction Tax. The R&D Facilities Incentive acts to reclassify buildings that were previously identified as commercial – such as research and development facilities and data centers – and treats them as industrial, which results in projects moving from a tax rate of 1.5% to 1.0%. The Downtown Incentive acts to cut the tax rate in half for all categories for qualifying projects. It is likely that these targeted incentive programs have played a role in the recent uptick in construction activity.

Building and Structure Construction Tax receipts through January totaled \$13.5 million, well above the \$7.2 million collected through the same period last year. Due to this dramatic increase, the 2013-2014 Mid-Year Budget Review included an action to increase the revenue estimate from \$11.0 million to \$19.0 million. Revenues are still on pace to achieve this revised budget estimate.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals \$65.0 million, an increase of \$10.0 million (18%) from the estimate included in the 2014-2018 Adopted Capital Improvement Program (CIP). While annual collections are not anticipated to maintain the high pace experienced in 2013-2014, the next two years will still see relatively high revenues when compared to the recent past. Collections are projected to be \$16.0 million in 2014-2015, \$13.0 million in 2015-2016, and remain at \$12.0 million from 2016-2017 through 2018-2019. A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax is shown in the chart that follows.

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX

The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure, which is for residential or commercial purposes or is associated with a mobile home. This general purpose tax may be used for any “usual current expenses” of the City. However, the City Council has historically used the majority of these funds for traffic improvements. The current rates are:

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

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

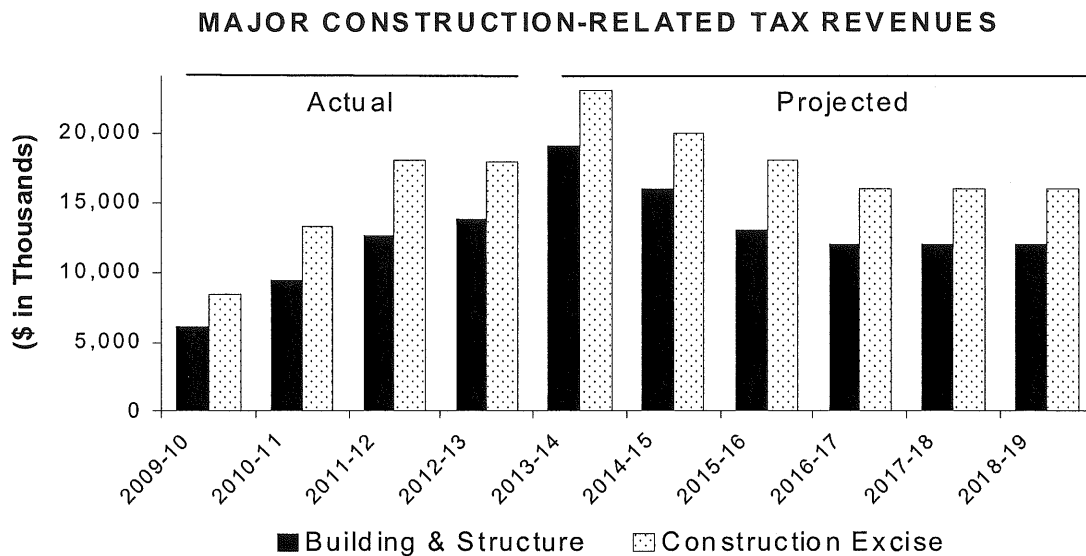
Unlike the Building and Structure Construction Tax, this tax does not apply to industrial development. As a result, changes in industrial building activity do not affect these tax receipts. However, the R&D Facility Incentive reclassifies certain building uses from commercial to industrial. As the Construction Excise Tax does not levy a tax on industrial uses, these facilities would be exempt, resulting in the R&D Facility Incentive having a large impact on the Construction Excise Tax than the Building and Structure Construction Tax. The Downtown Incentive acts to cut the tax rate in half in both residential and commercial categories for qualifying projects. As noted above, it is likely that these targeted incentive programs have played a role in the recent uptick in construction activity.

Tax receipts through January for the Construction Excise Tax Fund totaled \$15.9 million, much higher than the \$9.2 million collected through the same period last year. Due to this dramatic increase, the 2013-2014 Mid-Year Budget Review included an action to increase the revenue estimate from \$14.0 million to \$25.0 million. However, the January data indicates that the total amount of revenue expected in 2013-2014 may decrease slightly to \$23.0 million. The Administration will continue to carefully monitor this revenue source to determine if any further budgetary adjustments are needed prior to year-end.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total \$86.0 million over the five-year forecast period, with proceeds estimated at \$20.0 million in 2014-2015, \$18.0 million in 2015-2016, and \$16.0 million from 2016-2017 through 2018-2019. This collection level represents an increase of \$16 million (23%) from the 2014-2018 Adopted CIP. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown in the chart below.

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX



MUNICIPAL WATER SYSTEM FEES

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

Fee collections for the Municipal Water System in 2013-2014 are tracking at or near the budgeted estimate. This level of activity is expected to continue in the near term and \$750,000 in revenue is expected over the five-year period of this forecast for the fees detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

(\$ in Thousands)

	2014-2018 CIP	2015-2019 Forecast	Difference	Change
Advance System Design Fee	250	250	0	0%
Meter Installation Fee	250	250	0	0%
Service Connection Fee	250	250	0	0%
TOTAL	750	750	0	0%

CAPITAL REVENUE FORECAST

MUNICIPAL WATER SYSTEM FEES

The forecast for Municipal Water System fees remains unchanged from the 2014-2018 Adopted CIP, reflecting a relatively steady pace of the combined development activity in the Municipal Water System service areas which include North San José, Evergreen, Alviso, Edenvale, and Coyote Valley areas.

RESIDENTIAL CONSTRUCTION TAX

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

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

Collections for this tax in 2013-2014 are tracking high and are expected to exceed the budgeted estimate. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, \$950,000 in revenue is expected over the five-year period of this forecast, which is a 3% increase from the 2014-2018 Adopted CIP revenue estimates of \$925,000, and reflects expectations that development activity will continue to increase.

SANITARY SEWER CONNECTION FEE

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

Fee collections in 2013-2014 are tracking high and are expected to exceed the budgeted estimate. The 2015-2019 Forecast projection for this fee is \$3.8 million, which is a 15% increase from the 2014-2018 CIP estimate of \$3.3 million. This estimate is based on the assumptions that development activity will continue to increase.

CAPITAL REVENUE FORECAST

STORM DRAINAGE CONNECTION FEE

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

Fee collections in 2013-2014 are tracking lower and may fall short of the budgeted estimate. The five-year forecast for Storm Drainage Connection Fees is \$750,000, which matches the estimate included in the 2014-2018 Adopted CIP.

ATTACHMENT A
CONSTRUCTION-RELATED REVENUE
2015-2019 FORECAST
(in \$ thousands)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	5 Yr Total
Construction and Conveyance Tax							
2014-2018 Adopted CIP	30,000	30,000	30,000	30,000	30,000	30,000	150,000
2015-2019 FORECAST	37,000	39,000	39,000	39,000	39,000	39,000	195,000
Difference	7,000	9,000	9,000	9,000	9,000	N/A	45,000
Building and Structure Construction Tax							
2014-2018 Adopted CIP	11,000	11,000	11,000	11,000	11,000	N/A	55,000
2015-2019 FORECAST	19,000	16,000	13,000	12,000	12,000	12,000	65,000
Difference	8,000	5,000	2,000	1,000	1,000	N/A	10,000
Construction Excise Tax							
2014-2018 Adopted CIP	14,000	14,000	14,000	14,000	14,000	N/A	70,000
2015-2019 FORECAST	23,000	20,000	18,000	16,000	16,000	16,000	86,000
Difference	9,000	6,000	4,000	2,000	2,000	N/A	16,000
Municipal Water Advance System Design Fee							
2014-2018 Adopted CIP	50	50	50	50	50	N/A	250
2015-2019 FORECAST	50	50	50	50	50	50	250
Difference	-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee							
2014-2018 Adopted CIP	50	50	50	50	50	N/A	250
2015-2019 FORECAST	50	50	50	50	50	50	250
Difference	-	-	-	-	-	N/A	-
Municipal Water Service Connection Fee							
2014-2018 Adopted CIP	50	50	50	50	50	N/A	250
2015-2019 FORECAST	50	50	50	50	50	50	250
Difference	-	-	-	-	-	N/A	-
Residential Construction Tax							
2014-2018 Adopted CIP	175	175	175	200	200	N/A	925
2015-2019 FORECAST	325	225	200	175	175	175	950
Difference	150	50	25	(25)	(25)	N/A	25
Sanitary Sewer Connection Fee							
2014-2018 Adopted CIP	650	650	650	650	650	N/A	3,250
2015-2019 FORECAST	1,800	1,000	800	650	650	650	3,750
Difference	1,150	350	150	-	-	N/A	500
Storm Drainage Connection Fee							
2014-2018 Adopted CIP	150	150	150	150	150	N/A	750
2015-2019 FORECAST	125	150	150	150	150	150	750
Difference	(25)	-	-	-	-	N/A	-
TOTAL							
2014-2018 Adopted CIP	56,125	56,125	56,125	56,150	56,150	N/A	280,675
2015-2019 FORECAST	81,400	76,525	71,300	68,125	68,125	68,125	352,200
Difference	25,275	20,400	15,175	11,975	11,975	N/A	71,525
% Change from 2014-2018 CIP	45%	36%	27%	21%	21%	N/A	25%

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*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

Appendix A

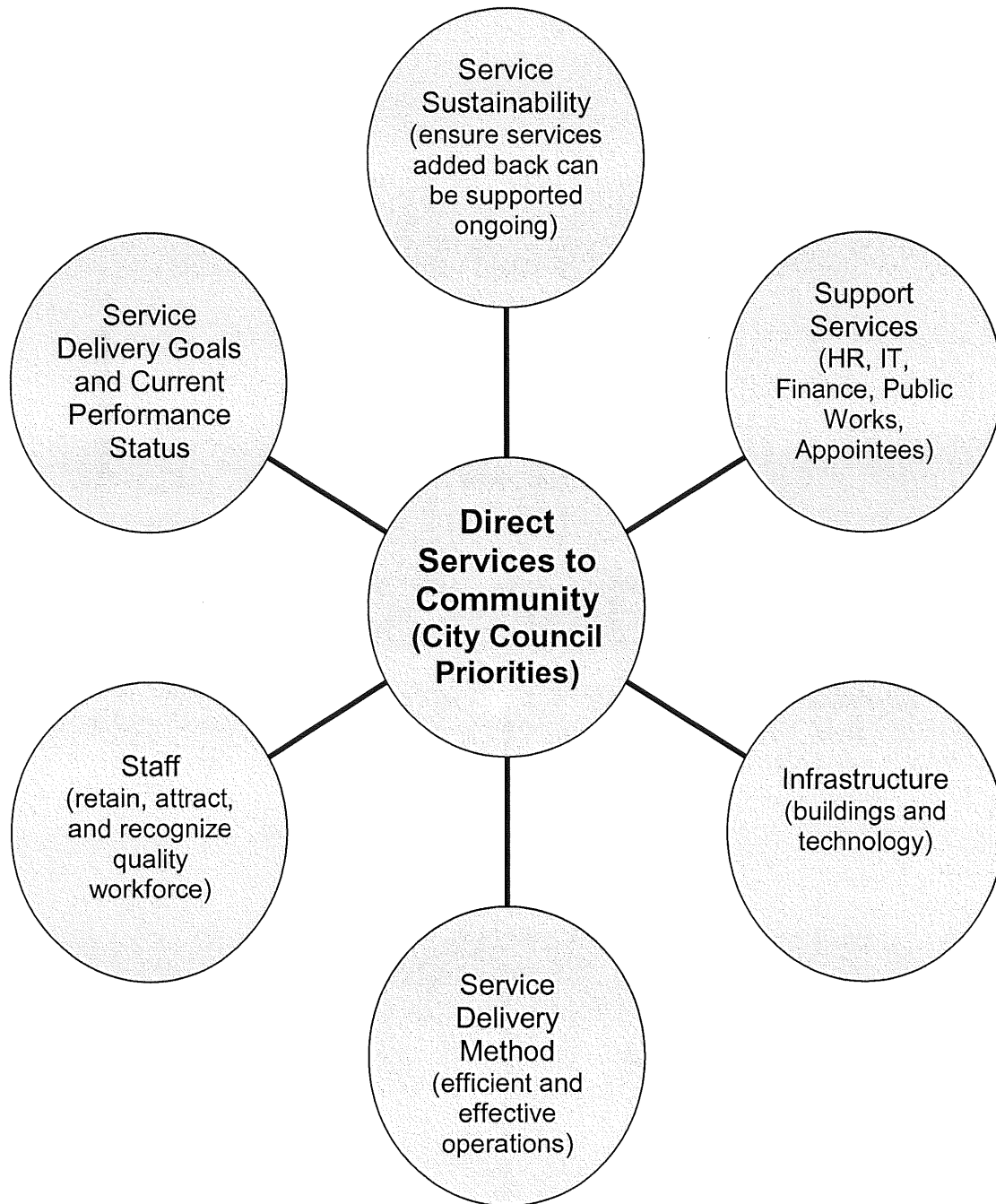
Service Restorations Previously Identified by City Council (January 1, 2011 Levels)
Service Restoration Decision Making Framework
Guiding Principles for Restoring City Service Levels
City of San José Budget Principles

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

Fire	<ul style="list-style-type: none"> • 33 Fire Stations open; • On average, Citywide, 82.6% of time, the initial responding fire unit arrives within 8 minutes after an emergency 9-1-1 call is received*; • On average, Citywide, 85.2% of time, the second response fire unit arrives within 10 minutes after an emergency 9-1-1 call is received*. <p>* Response time data under review</p>
Police	<ul style="list-style-type: none"> • On average, Citywide, average response time for Priority One police calls for service (present or imminent danger to life or major damage/loss of property) is 6.04 minutes; • On average, Citywide, average response time for Priority Two police calls for service (injury or property damage or potential for either to occur) is 12.74 minutes; • On average, overall, the clearance rate (number cleared / total cases) for Part 1 crimes is as follows: Homicide (65.00%), Rape (19.37%), Robbery (26.54%), Aggravated Assault (39.93%), Burglary (5.58%), Larceny (18.90%), and Vehicle Theft (8.85%).
Library	<ul style="list-style-type: none"> • On average, 18 library branches are open 39 hours per week; • On average, King Library (subject to future contractual arrangements with San José State University): <ul style="list-style-type: none"> • Hours open: 72 hours per week per academic semester; 58 hours per week otherwise; • Children's Room: 50 hours per week; • Third Floor General Collection and Reference Desks: 64 hours per week; • California Room: 20 hours per week; • Access Services: 72 hours per week; • Periodicals: 72 hours per week; • Second Floor Reference Desk: 72 hours per week.
Community Centers	<ul style="list-style-type: none"> • On average, 10 Hub Community Centers are open 63 hours per week; • On average, 9 Satellite Community Centers are open 40 hours per week; • On average, 8 Neighborhood Centers are open for 15 hours of programming per week.
Street Maintenance	<ul style="list-style-type: none"> • 72 miles of residential and arterial streets resealed and 6 miles of residential and arterial streets resurfaced with various Capital and Grant funds (no General Fund allocation). Maintaining this street maintenance level will be contingent upon receiving commensurate levels of regional, state, and federal funds annually.
Facilities Built or Under Construction/ Opening Deferred	<ul style="list-style-type: none"> • South San José Police Substation.

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Service Restoration Decision Making Framework



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Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

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

Choose Investments that Achieve Significant Outcomes

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

Improve the Efficiency and Effectiveness of Service Delivery

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

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CITY OF SAN JOSE BUDGET PRINCIPLES

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

1) STRUCTURALLY BALANCED BUDGET

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

2) PROPOSED BUDGET REVISIONS

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

3) USE OF ONE-TIME RESOURCES

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

4) BUDGET REQUESTS DURING THE YEAR

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

5) RESERVES

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

CITY OF SAN JOSE BUDGET PRINCIPLES

6) DEBT ISSUANCE

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

7) EMPLOYEE COMPENSATION

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

8) CAPITAL IMPROVEMENT PROJECTS

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

9) FEES AND CHARGES

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

10) GRANTS

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

11) GENERAL PLAN

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

12) PERFORMANCE MEASURES

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

13) FIRE STATION CLOSURE, SALE OR RELOCATION

The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.

*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

Appendix B

General Fund Revenue Descriptions

GENERAL FUND REVENUE DESCRIPTIONS

PROPERTY TAX

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

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

SALES AND USE TAX

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

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

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

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

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

TRANSIENT OCCUPANCY TAX

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

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (six percent of room rent) is restricted by Title 4 of the Municipal Code, Section 4.72, Ordinance number 23481 to the following uses:

- 1) Funding for the Convention and Visitors Bureau (approximately 25%).
- 2) Funding for the cultural grant program and fine arts division programs, including funding of cultural grants and expenses of the fine arts division, including, but not limited to, personal and non-personal/equipment expenses, fringe benefits, and overhead (approximately 25%).
- 3) Funding for the City's operating subsidy to the convention and cultural facilities of the City of San José (approximately 50%).

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

FRANCHISE FEES

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

FRANCHISE FEES

On July 1, 1996, commercial solid waste collection franchise fees (CSW) were converted to a volume basis. This revision amended the previous structure (which had been in effect since January 1, 1995) that assessed a franchise fee equal to 28.28% of gross receipts in excess of \$250,000. With that change, fees were set at \$1.64 per cubic yard per collection for cubic yards in excess of 43,000 (the cubic yard basis is tripled if the waste has been compacted) in a fiscal year, and were assessed on any commercial business engaged in the collection, transportation, or disposal of garbage and/or rubbish (solid waste) accumulated or generated in the City of San José. In December 1997, the City Council increased the rate to \$2.41 effective on January 1, 1998. In 1999-2000, this fee was increased to \$2.84 per cubic yard. In 2002-2003, a three year gradual shift in the revenue distribution between the CSW and AB 939 fees (also known as the "commercial source reduction and recycling fee" collected and deposited in the Integrated Waste Management Fund) was approved, that increased the amount collected for CSW to \$3.34 per cubic yard in 2004-2005. In 2005-2006, the City Council increased the fee by 4.5% (\$0.15 per cubic yard) to \$3.49 per cubic yard. In 2006-2007, an additional 5% increase was approved by the City Council, which brings the fee to \$3.67 per cubic yard. In 2009-2010, the elimination of the fee exclusion for the first 20,000 cubic yards hauled in the fiscal year was approved. On October 19, 2010, the City Council amended the CSW to a fee for franchises based on geographic collection districts rather than volume. The new fee of \$5 million per year for each of two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District became effective July 1, 2012, and is subject to an annual consumer price index (CPI) adjustment. The CSW is authorized by Title 9 of the Municipal Code, Chapter 9.08.

The City collects a Franchise Fee from any company that provides cable television (Ordinance number 22128). The current fee is five percent of gross receipts derived from subscriptions. Excluded from the gross receipts are amounts derived from installation, late charges, advertising, taxes, line extensions, and returned check charges.

The Water Franchise Fee was established in 1995-1996 (effective July 27, 1995, Title 15 of the Municipal Code, Section 15.40). The assessment of the fee is allowable under State law, which asserts that a city can collect a franchise fee from a water utility company for laying pipelines and operating them in public right-of-ways. The fee is equal to the greater of either: 1) two percent of the utility's gross annual receipts arising from the use, operation, or possession of facilities located in public streets within the City limits established on or after October 10, 1911, or 2) one percent of all gross receipts derived from the sale of water within the City limits. Those portions of the water company's system that are established in private right-of-ways or utility easements granted by private developers are exempted from the franchise fee assessment. It should be noted that the City is not assessing a Water Franchise Fee on the San Jose Water Company due to a Santa Clara Superior Court ruling that states San José cannot impose a franchise fee on that company.

GENERAL FUND REVENUE DESCRIPTIONS

UTILITY TAX

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (e.g., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). For the electricity, gas, and water categories, consumers pay 5% of their utility charges to the utility company that acts as a collection agent for the City. For the telephone utility tax, consumers pay 4.5% on all intrastate, interstate, and international communication services regardless of the technology used to provide such services. Private communication services, voice mail, paging, and text messaging are treated the same as traditional telephone services. In November 2008, voters approved Measure K that reduced the telephone utility rate from 5% to 4.5% and broadened the base for the tax and the definition of technologies covered by the tax. The tax is not applicable to State, County, or City agencies. Also, per State regulations, insurance companies and banks are exempted from the tax. This tax is authorized by Title 4 of the Municipal Code, Section 4.68.

TELEPHONE LINE TAX

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

BUSINESS TAXES

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

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

In addition to the rates listed above, City Ordinance number 21518 specifies the assessment of taxes by grouping taxed businesses (each at a different rate) in the following categories: Rental or Lease of Residential or Non-Residential property, Mobile Home Parks, and Water Companies. Rented or leased properties (if three or more residential rental units) are subject to the \$150 minimum tax, but are also assessed \$5/rental unit over 30 units for residential properties and \$0.01 per square foot in excess of 15,000 square feet for non-residential properties. Taxes for both residential and non-residential properties are limited to a maximum of \$5,000. Mobile home parks are treated as residential properties. Water companies are assessed by a schedule that assigns an amount (from \$200 to \$20,000) depending on the number of active metered connections. In November 1996, the

GENERAL FUND REVENUE DESCRIPTIONS

BUSINESS TAXES

rates were increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates (as reflected) were returned to the levels prior to November 1996.

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

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

LICENSES AND PERMITS

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

FINES, FORFEITURES, AND PENALTIES

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

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

USE OF MONEY AND PROPERTY

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

GENERAL FUND REVENUE DESCRIPTIONS

USE OF MONEY AND PROPERTY

and policies must be reviewed and approved by both the City Manager and City Council. Investment of funds is authorized by the City Charter, Section 8066. Revenue is also received from the rental of City-owned property.

REVENUE FROM LOCAL AGENCIES

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

REVENUE FROM THE STATE OF CALIFORNIA

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

REVENUE FROM THE STATE OF CALIFORNIA

State Constitution, Article 13, include vehicles owned by insurance companies and banks, publicly owned vehicles, and vehicles owned by certain veterans with disabilities. The tax is authorized by the State Revenue and Taxation Code. In late June 2011, the State legislature approved SB 89, which shifted over \$130 million in annual General Fund Motor Vehicle In-Lieu revenue from cities to support State law enforcement grants effective July 1, 2011. State legislative action in 1992-1993 eliminated local Trailer Coach In-Lieu Tax revenues. These funds were shifted to the State General Fund.

REVENUE FROM THE FEDERAL GOVERNMENT

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

DEPARTMENTAL CHARGES

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

OTHER REVENUE

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

GENERAL FUND REVENUE DESCRIPTIONS

TRANSFERS AND REIMBURSEMENTS

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

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

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

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

STATE GAS TAX

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

County Allocation : **a** No. of Registered Vehicles in County
 \div **b** No. of Registered Vehicles in State
 x c \$0.0104
 x d Gallons of Gas Sold

City Allocation: **a** Incorporated Assessed Value in County
 \div **b** Total Assessed Value in County
 x c County Allocation

Individual City Allocation: **a** Population in City
 \div **b** Population of all Cities in County
 x c City Allocation

GENERAL FUND REVENUE DESCRIPTIONS

STATE GAS TAX

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

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

*Five-Year Economic Forecast
and
Revenue Projections*

2015-2019

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2015-2019)



Prepared by:

**City of San Jose
Department of Planning, Building and Code Enforcement
February 2014**

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Development Activity Highlights and Five-Year Forecast (2015-2019)

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

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

Development Activity Highlights and Five-Year Forecast (2015-2019)

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Development Activity Highlights and Five-Year Forecast (2015-2019)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2015-2019)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves three important functions, as follows:

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

II. SUMMARY

Development in San Jose has clearly rebounded over the past few years alongside notable improvements in the local and regional economy. For example, recent news headlines reported that 80% of the employment gains throughout California in December 2013 occurred right here in the Bay Area. This job growth is creating the need for additional housing, and calendar years 2012 and 2013 taken together accounted for San Jose's highest rate of rental housing production in any 24-month period since 1980.

But this recovery has not yet translated into a comparable increase in non-residential activity that is commensurate with a full-fledged economic recovery. In particular, while in 2013 tenant improvements (alterations) reached their highest level since the "dot com" boom, aside from Samsung Semiconductor's 680,000-square foot headquarters in North San Jose there is yet to be built a significant amount of new retail or office space.

Fortunately, several high-profile economic development projects are now in the entitlement process, most notably the "First/Brokaw Campus" that proposes ten office buildings totaling two million square feet—the largest such project ever in San Jose. As well, a surge is clearly underway in the local hotel industry. Nonetheless, this forecast takes a conservative view of the future, estimating that activity levels beyond the current 2013/14 fiscal year will be moderate, amounting to an annual average of about \$850 million in construction valuation.

For context, this outlook differs from recoveries experienced during prior economic cycles over the past 15-20 years:

- Technology Boom (1996-2002), a robust era when annual construction valuation was generally in the \$1.5 to \$2.0 billion range (peaking at over \$2.2 billion in 2000); and,

- Housing Boom (2003-2008), a slower but steadier period when valuation averaged about \$1.0 billion per year, and strength in residential activity somewhat offset slack in non-residential activity.

The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2015-2019).

Residential Development

PAST: New housing production in San Jose exceeded 4,000 dwelling units per year during the late-1990's, and then declined to an average of just over 3,000 units per year from 2001-2006. With onset of the 2008/09 recession, activity dropped off sharply to an average of about 1,500 units per year. But in late-2010, apartment construction in particular began a strong rebound, returning activity to an overall average of 3,000 units per year, which pace has been sustained for the past several years.

PRESENT: In fiscal year 2013/14, staff forecasts that residential construction activity will peak at 3,250 units—the highest level in almost a decade. With considerable new rental supply coming to the market, the vacancy rate should rise and rent growth slow, tempering the appeal of additional near-term investment. Meanwhile, after five consecutive years of weakness, with the recent strong rebound in property values some for-sale development is beginning to reemerge.

FUTURE: Over the five-year forecast period, new construction activity is expected to continue at the relatively moderate pace of 2,500 units per year. High-density, multi-family housing should comprise roughly 90% of all units, and include more high-rise development in Downtown. With many reputable builders having used the recent downturn as an opportunity to position themselves for the future, it seems clear that momentum in new housing construction will continue over the near term.

Commercial Development

PAST: After a five-year-long boom in commercial construction activity that spanned the late-1990's to early 2000's, during which time total permit valuation averaged over \$500 million per year, activity since has generally averaged less than half that level. In fiscal year 2012/13, commercial construction activity amounted to approximately \$200 million, with new construction at its lowest level in almost 20 years. Meanwhile, tenant improvements (alterations) have been quite strong, amounting to double the value of new construction for the third consecutive year.

PRESENT: Staff forecasts that commercial construction activity in fiscal year 2013/14 will reach a decade-plus high of \$375 million in total permit valuation. This activity is

primarily being driven by construction of the San Jose Earthquakes soccer stadium on Coleman Avenue and new retail development at the “Hitachi site” (former IBM facility along Cottle Road). As well, tenant improvements activity should remain steady and strong.

FUTURE: For the five-year forecast period, commercial construction activity is forecast to average about \$275 million, a modest slowdown from the strong pace in fiscal year 2013/14 but above most years in the post-dot-com era. Most notably, hotels have emerged as the latest development trend, with a handful of projects in North San Jose, the Airport vicinity, and Downtown totaling over 1,500 rooms having been submitted for City approval in the last 6-8 months.

Industrial Development

PAST: Similar to commercial activity, industrial construction activity averaged nearly \$500 million per year in permit valuation over the five-year period of 1997-2001. Since that time, however, activity has registered just a small fraction of that figure, dipping to sub-\$100 million lows following the 2008/09 recession. In fiscal year 2012/13, industrial activity was mixed—new construction remained slow, yet tenant improvements (alterations) rose to a twelve-year high. Overall, activity amounted to nearly \$250 million.

PRESENT: With Samsung Semiconductor’s construction of a 680,000-square foot headquarters in North San Jose, industrial activity is in the midst of a very solid rebound in fiscal year 2013/14, with total permit valuation expected to reach \$475 million—its highest level since the “dot com” boom. However, this is essentially the only near term new construction project that is anticipated, with the remainder of activity concentrated in ongoing strength in tenant improvements.

FUTURE: Based on past trends, industrial construction will likely remain low over the forecast period. As previously mentioned, the most promising development proposal is the two million square-foot “First/Brokaw Campus.” However, since a prospective tenant has not yet been publicly identified, the project is considered speculative and the forecast conservatively assumes it will not move forward within the forecast timeframe. As such, beyond the current fiscal year, tenant improvements are expected to outpace new construction, a pattern more typical of recessionary periods.

III. FIVE-YEAR FORECAST (2015-2019)

The Department of Planning, Building and Code Enforcement’s five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction valuation is expected to surge over 50% from last year, totaling \$1.45 billion during fiscal year 2013/14. However, thereafter, activity is expected to moderate, amounting to an annual average of about \$850 million in construction valuation over the remainder of the forecast period.

Table 1
Construction Valuation: FY 08/09 to FY 18/19

Fiscal Year	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
	<u>Actual Valuation¹ (in millions)</u>					<u>Projected Valuation (in millions)</u>					
<u>New Construction</u>											
Residential	\$133	\$91	\$323	\$444	\$413	\$525	\$400	\$325	\$325	\$325	\$325
Commercial	\$92	\$156	\$76	\$78	\$70	\$200	\$150	\$100	\$75	\$75	\$75
Industrial	\$144	\$70	\$8	\$11	\$60	\$300	\$100	\$50	\$25	\$25	\$25
Subtotal	\$369	\$317	\$408	\$533	\$543	\$1025	\$650	\$475	\$425	\$425	\$425
<u>Alterations</u>											
Residential	\$67	\$69	\$83	\$87	\$84	\$75	\$75	\$75	\$75	\$75	\$75
Commercial	\$148	\$127	\$156	\$172	\$142	\$175	\$150	\$150	\$150	\$150	\$150
Industrial	\$110	\$53	\$87	\$129	\$187	\$175	\$125	\$125	\$125	\$125	\$125
Subtotal	\$325	\$249	\$326	\$388	\$413	\$425	\$350	\$350	\$350	\$350	\$350
GRAND TOTAL	\$694	\$566	\$733	\$921	\$956	\$1450	\$1000	\$825	\$775	\$775	\$775
<u>Tax Exemptions</u>											
Residential	*	*	*	*	*	\$(50)	\$(50)	\$(50)	\$(50)	\$(50)	\$(50)
Commercial	*	*	*	*	*	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)
Industrial	*	*	*	*	*	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)	\$(25)
Net Total (Taxable)						\$1350	\$900	\$725	\$675	\$675	\$675

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

¹Valuation figures adjusted to 2013 dollars, per Bureau of Labor Statistics Consumer Price Index (CPI), San Jose-San Francisco-Oakland, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 08/09 to FY 18/19

Fiscal Year	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
	<u>Actual¹</u>					<u>Projected</u>					
<u>Residential (Units)</u>											
Single-Family	160	103	66	140	284	250	250	250	250	250	250
Multi-Family	911	470	2,142	2,833	2,418	3,000	2,750	2,250	2,250	2,250	2,250
TOTAL	1,071	573	2,208	2,973	2,702	3,250	3,000	2,500	2,500	2,500	2,500
<u>Non-Residential (sq.ft. in thousands)</u>											
Commercial	1,000	750	500	500	250	750	500	500	500	500	500
Industrial	500	250	0	0	250	750	500	500	250	250	250
TOTAL	1,500	1,000	500	500	500	1,500	1,000	1,000	750	750	750

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

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

IV. CONSTRUCTION TAXES AND EXEMPTIONS

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

Building and Structure Construction Tax

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

Construction Excise Tax

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

Residential Construction Tax

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

Exemptions

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

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

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

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

V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. These data focus on recent “major” projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet. This data collection effort has identified over 26,000 dwelling units and approximately 19 million square feet of non-residential space submitted for Planning approval since January 1, 2008.

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
Projects Completed									
PDA07-006-03	12/12/08	Crescent Village Apts	097-33-113	SE/c Zanker & River Oaks	North	MF	1,750	MD	1/15/09
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	MF	704	JB	11/30/07
PD11-031	9/8/11	Domain Apts	097-52-028	W/s N. 1st, both sides Vista Montana	North	MF	444	JH	10/14/11
PD11-025	3/11/11	Rosemary Family/Senior Apts	235-05-012	SE/c N. 1st & Rosemary	North	MF	290	LX	8/26/11
PD07-088	10/9/07	Morrison Park Apts	261-01-054	SW/c Cinnabar & Stockton	Central	MF	250	LM	8/1/08
PDA05-066-01	11/3/11	Santana Row (Misora)	277-46-001	SE/c Winchester & Stevens Creek	West Valley	MF	220	LX	2/3/12
PD07-036	4/13/07	Enzo Apts	097-07-031	W/s Baypointe, 370' nly Tasman	North	MF	183	JB	11/30/07
PD08-023	3/11/08	121 Tasman Apts	097-07-072	NE/c Baypointe & Tasman	North	MF	174	JB	8/1/08
PDA08-039-01	7/7/09	University Villas Apts	230-14-026	N/s Campbell, 250' ely El Camino Real	West Valley	MF	138	LX	4/26/10
PD08-071	12/17/08	Santana Row (Levare)	277-40-011	NW/c Olin & Hatton	West Valley	MF	118	SZ	4/23/10
PD11-009	3/9/11	Vicino Townhomes	277-38-006	W/s S. Monroe, 450' nly Hwy 280	West Valley	SF	104	LX	9/30/11
PD09-033	10/21/09	Ford Apts	678-53-004	N/s Ford, 550' ely Monterey	Edenvale	MF	95	LX	7/16/10
PDA04-071-01	9/29/10	Mayfair Court Apts	481-18-013	W/s McCreery, 230' sly Alum Rock	Alum Rock	MF	93	JN	3/15/11
PD11-008	3/7/11	Westbury Homes	464-22-030	N/s Blossom Hill, 250' ely Cahalan	Edenvale	SF	86	LX	9/7/11
PD09-001	1/20/09	Brookwood Terrace Apts	472-05-075	S/s E. San Antonio, opp. S. 28th	Central	MF	84	SZ	6/15/09
PD10-026	11/5/10	Celadon Townhomes (Phase 2)	254-06-037	SW/c N. Capitol & Mabury	Alum Rock	MF	77	JN	6/10/11
PD11-026	7/28/11	The Meridian at Willow Glen	447-05-012	NE/c Hillsdale & Yucca	Willow Glen	SF	51	ME	11/18/11
Total							4,861		
Projects Under Construction									
PD07-090	10/23/07	Brandon Park Apts	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	1,579	JB	4/4/08
PD12-039	10/11/12	South Village (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	836	JB	12/20/12
PD08-056	8/29/08	Epic Apts	097-15-026	SE/c River Oaks & Seely	North	MF	769	ES	1/23/09
PDA12-035-01	3/18/13	Ascent Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	650	JB	5/3/13
PD11-030	9/8/11	Tasman Apts	097-52-013	NW/c Vista Montana & W. Tasman	North	MF	554	JH	10/14/11
PD12-007	2/16/12	River Oaks Apts (East)	097-33-102	N/s River Oaks, 200' ely Research	North	MF	438	LX	5/25/12
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	MF	371	RM	10/10/08
H07-008	2/16/07	Centerra Apts	259-35-007	SW/c N. Almaden & W. St. John	Central	MF	347	MS	12/7/07
H12-022	1/9/13	One South Market Apts	259-40-093	SW/c Market & Santa Clara	Central	MF	312	SD	3/1/13
PDA08-036-01	11/4/08	River Oaks Apts (West)	097-33-036	NE/c Zanker & River Oaks	North	MF	293	MD	12/19/08

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD12-002	1/17/12	Anton La Moraga Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	275	JB	5/4/12
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	MF	256	SM	3/21/08
PD08-027	4/4/08	Berryessa Crossing (Phase 1)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF	242	LX	12/15/10
PDA11-007-02	8/8/12	Orchard Park	237-03-070	SW/c E. Brokaw & Oakland	Berryessa	SF	240	LX	11/20/12
PD09-006	2/27/09	Meridian Mixed Use	277-20-006	SW/c W. San Carlos & Meridian	Central	MF	218	ES	6/8/09
PD12-040	9/14/12	Orvieto Family/Senior Apts ¹	455-09-064	W/s Monterey, 300' sly Umbarger	South	MF	198	LX	1/11/13
PD12-036	8/14/12	North Tenth Street Apts	249-08-004	W/s N. 10th, bet Vestal & E. Mission	Central	MF	166	JR	2/8/13
PD11-003	1/21/11	Cottages at Mirassou	659-57-010	SW/c Ruby & Aborn	Evergreen	SF/MF	104	LX	7/29/11
PDA04-076-02	12/16/11	Ajisai Gardens Apts	249-37-006	SE/c E. Taylor & N. 7th	Central	MF	103	LX	6/1/12
PD04-103	5/10/04	San Carlos Senior Apts	274-14-142	NW/c W. San Carlos & N. Willard	Central	MF	95	EM	8/25/04
PD11-023	7/21/11	Centered on Capitol Townhomes	589-19-063	NE/c N. Capitol & Sierra	Berryessa	MF	94	LX	11/18/11
PD10-024	11/2/10	Brookside Homes	575-02-027	W/s Guadalupe Mines, 2000' sly Camden	Almaden	SF	89	LX	9/16/11
PDA07-013-01	3/26/12	Parc 22 Townhomes	472-01-021	S/s William, 350' wly McLaughlin	Central	SF	67	LX	7/9/12
PD09-030	10/2/09	Westmount Homes	249-09-009	SE/c E. Mission & N. 10th	Central	SF	60	SZ	11/30/09

Total

8,356

Approved Projects (Construction Not Yet Commenced)

PDC09-006	1/27/09	Berryessa Crossing Mixed Use	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF/MF	2,082	LX	10/20/09
PDC07-015	2/15/07	Newbury Park Mixed Use	254-04-076	NE/c N. King & Dobbin	Alum Rock	SF/MF	742	AB	12/18/07
PD12-031	7/18/12	Berryessa Crossing (Phase 2)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	MF	494	LX	3/8/13
PDC05-101	10/14/05	Vendome Place	259-05-024	NW/c N. 1st & Taylor	Central	MF	433	LX	4/17/12
PDC08-036	6/20/08	Libitzky Mixed Use	249-09-001	NW/c N. 10th & E. Taylor	Central	MF	403	LX	1/25/11
PD12-009	3/1/12	Verona at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	277	SD	11/30/12
PDA08-029-01	9/13/12	Virginia Terrace Apts	472-18-051	SW/c E. Virginia & S. 6th	Central	MF	238	JR	4/19/13
H13-021	5/28/13	The Pierce Apts	264-32-087	SW/c S. Market & Pierce	Central	MF	234	RB	11/1/13
PD12-028	6/26/12	Cottle Station Mixed Use (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	234	JB	11/19/12
PD13-027	7/1/13	Vicenza at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	162	AA	11/22/13
H09-004	2/11/09	Donner Lofts	467-20-018	SE/c E. St. John & N. 4th	Central	MF	156	SZ	10/9/09
CP11-034	5/10/11	North San Pedro Apts	259-23-016	NE/c Hwy 87 & Bassett	Central	MF	135	LX	12/14/11
H13-023	6/7/13	San Jose Student Apts	467-57-080	E/s N. 6th, 100' nly Santa Clara	Central	MF	119	KT	11/22/13
PD11-011	3/14/11	Metropolitan Apts	477-23-021	E/s Monterey, 700' nly Tully	South	MF	102	LX	7/15/11
PDC09-033	12/17/09	Senter Road Family Apts	497-41-098	E/s Senter, 600' sly Tully	South	MF	102	LX	9/21/10

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	W/s Monterey, 300' sly Umbarger	South	SF	100	JR	6/7/13
PD08-015	2/11/08	Japantown Senior Apts	249-39-011	W/s N. 6th, 200' sly E. Taylor	Central	MF	85	SZ	5/7/10
PDC13-037	8/29/13	Race Street Terrace	261-42-072	Bet. Race & Grand, 300' sly Park	Central	MF	80	RB	12/17/13
PDC13-007	3/22/13	The Alameda Mixed Use	261-01-003	N/s The Alameda, 400' wly Stockton	Central	MF	70	JB	8/20/13
PD09-039	11/23/09	Edwards Mixed Use	264-37-060	SW/c Edwards & S. 1st	Central	MF	<u>50</u>	SZ	7/2/10

Total

6,298

Projects Pending City Approval

PDC13-009	3/15/13	Communications Hill (KB Home)	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	SF/MF	2,200	BR	---
PDC12-028	11/21/12	Great Oaks Mixed Use	706-08-008	NW/c Monterey & Hwy 85	Edenvale	SF/MF	720	JB	---
H13-041	10/31/13	Silvery Towers Apts	259-32-004	SW/c W. St. James & N. San Pedro	Central	MF	643	KT	---
PD13-044	10/25/13	Santa Teresa Transit Village	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	543	PK	---
PDC13-004	2/27/13	Ohlone Mixed Use	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	537	LX	---
PDC13-050	11/13/13	Santana Row (balance)	277-40-015	SE/c Winchester & Stevens Creek	West Valley	SF/MF	434	KT	---
H12-020	1/16/13	San Pedro Square	259-32-044	SE/c Bassett & Terraine	Central	MF	406	BR	---
PD13-048	12/11/13	Century Center Mixed Use	230-29-022	SW/c N. 1st & Century Center	North	MF	378	RB	---
PD12-013	3/29/12	Ohlone Mixed Use (Phase 1)	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	263	LX	---
PD13-023	6/25/13	Newbury Park Mixed Use	254-04-076	NW/c King & Dobbin	Alum Rock	MF	230	EL	---
PDC13-046	10/24/13	505 Lincoln Apts	264-09-063	W/s Lincoln, 500' sly Auzerais	Central	MF	190	KT	---
PDC13-012	4/9/13	Park Family/Senior Apts	261-36-062	N/s Park, 450' ely Sunol	Central	MF	181	KT	---
PRE13-189	9/30/13	Post/San Pedro Apts	259-40-088	NW/c San Pedro & Post	Central	MF	156	EL	---
PDC13-034	8/16/13	Almaden Apts	455-21-050	W/s Almaden, 660' sly Willow Glen	South	MF	124	EL	---
PDC13-027	7/17/13	Balbach Condos	264-30-067	S/s Balbach, 100' ely Almaden	Central	MF	<u>100</u>	AA	---

Total

7,105

GRAND TOTAL

26,620

Footnotes: (1) Includes PD08-061 (92 units)

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj. Mgr	Approval Date
<u>Projects Completed</u>									
CP08-071	8/29/08	Hyatt House	097-03-138	SE/c N. 1st & Hwy 237	North	116,000	160	CB	12/10/08
CP08-057	6/26/08	Brokaw Commons	237-03-074	NW/c Oakland & Brokaw	Berryessa	102,000		ES	10/22/08
CP10-059	11/9/10	Courtyard Marriott @ First	097-14-108	SE/c N. 1st & Hwy 237	North	99,000	157	JN	4/20/11
PD10-025	11/5/10	M8trix Casino/Hotel (Phase 1)	230-29-065	SE/c Airport & Old Bayshore	North	89,000		JH	3/18/11
PD08-054	8/12/08	Samaritan Medical Center	421-37-012	NE/c Samaritan & S. Bascom	Cambrian/Pioneer	75,000		ES	3/24/09
PD09-021	6/11/09	Bellarmine (Academic Building)	261-11-005	NE/c Elm & Emory	Central	55,000		SD	11/13/09
PD09-040	12/2/09	Valley Christian Schools	684-05-019	Ely term. Skyway	Edenvale	50,000		JC	8/25/10
PD09-018	5/7/09	Lincoln Office/Retail	429-06-070	SE/c Lincoln & Willow	Willow Glen	41,000		SZ	5/21/10
PD10-011	6/15/10	Bellarmine (Life Center/Gym)	261-11-005	NE/c Elm & Emory	Central	40,000		JN	1/14/11
PD07-055	6/6/07	SBIA Evergreen Center/Mosque	652-13-001	E/s Ruby, 250' nly Murillo	Alum Rock	28,000		JB	3/21/08
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	25,000		JB	11/30/07
Total						720,000	317		
<u>Projects Under Construction</u>									
PD12-015	4/13/12	Village Oaks (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	308,000		JB	9/27/12
SP09-057	9/16/09	Zero Waste Facility	015-38-005	N/s Los Esteros, term Grand	Alviso	283,000		RB	12/22/11
PDA07-049-01	12/28/11	Coleman Landings ¹	230-46-068	NW/c Coleman & Newhall	North	252,000		SD	2/3/12
PD11-002	1/20/11	Earthquakes Soccer Stadium	230-46-055	SW/c Coleman & Newhall	North	219,000		LX	2/22/12
PD08-062	6/23/08	Residence Inn/SpringHill Suites	230-29-109	SW/c N. 1st & Skyport	North	216,000	321	JD	2/10/09
H13-008	2/20/13	Orchard Supply Hardware	264-15-028	SW/c W. San Carlos & Royal	Central	49,000		RB	5/31/13
PD12-017	4/27/12	Whole Foods Market	261-01-098	NW/c The Alameda & Stockton	Central	33,000		JB	2/26/13
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	30,000		SM	3/21/08
PD10-027	11/22/10	Chinmaya Mission	612-53-046	NE/c Clayton & Hickerson	Alum Rock	26,000		JC	3/21/11
PD11-013	5/5/11	Foxworthy Retail	451-06-066	NW/c Almaden & Hillsdale	Willow Glen	25,000		JN	7/15/11

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj. Mgr	Approval Date
H10-018	9/17/10	First United Methodist Church	467-19-078	NE/c E. Santa Clara & N. 5th	Central	24,000		LX	4/8/11
Total						1,465,000	321		

Approved Projects (Construction Not Yet Commenced)

PDC12-019	7/24/12	M8trix Casino/Hotel	230-29-065	SE/c Airport & Old Bayshore	North	709,000	600	SY	8/28/12
PD12-019	7/19/12	Coleman Highline Office	230-46-062	NW/c Coleman & Newhall	North	683,000		JB	6/10/13
PD13-012	3/20/13	237@First	015-39-006	NW/c N. 1st & Hwy 237	Alviso	615,000		RB	12/4/13
PD08-030	4/22/08	Kaiser Permanente	230-29-056	W/s N. 1st bet Skyport & Sonora	North	558,000		JB	8/8/08
HA06-027-02	6/10/13	Valley Fair Shopping Center	274-43-035	NW/c Hwy 17 & Stevens Creek	West Valley	525,000		RB	10/30/13
PD11-024	7/20/11	Almaden Ranch	458-17-018	SE/c Almaden & Chynoweth	Cambrian/Pioneer	377,000		LX	5/19/12
PDC10-017	6/2/10	Harker School (Upper Campus)	303-25-001	NE/c Saratoga & Hwy 280	West Valley	316,000		JC	9/27/11
PDC09-006	1/27/09	Berryessa Crossing Mixed Use	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	262,000		LX	10/20/09
PD13-015	4/19/13	Sun Garden Retail Center	477-07-013	E/s Monterey, 300' sly E. Alma	Central	257,000		JB	5/17/13
PD12-014	4/4/12	Santana Row	277-33-004	SE/c Winchester & Olsen	West Valley	230,000		LX	10/26/12
PD09-016	4/23/09	Regional Medical Center (Phase 2A)	481-05-021	SW/c McKee & N. Jackson	Alum Rock	161,000		SD	11/4/09
PD08-069	11/26/08	Berryessa Crossing Retail (North)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	119,000		PK	11/6/13
PD12-048	12/20/12	Aloft Hotel	015-45-026	NW/c Hwy 237 & Gold	Alviso	82,000	175	SD	4/12/13
PD07-090	10/23/07	Brandon Park Commercial	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	45,000		JB	4/4/08
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	30,000		RM	10/10/08
Total						4,969,000	775		

Projects Pending City Approval

PDC13-050	11/13/13	Santana Row (balance)	277-40-015	SE/c Winchester & Stevens Creek	West Valley	639,000		KT	---
PDC12-028	11/21/12	Great Oaks Mixed Use	706-08-008	NW/c Monterey & Hwy 85	Edenvale	414,000		JB	---

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj. Mgr	Approval Date
PDC13-041	9/26/13	Skyport Plaza Hotel/Office	230-29-117	SE/c Skyport & Hwy 87	North	350,000	400	RB	---
PDC13-017	6/14/13	Bay 101 Casino/Hotel	235-01-019	SE/c N. 1st & Hwy 101	North	347,000	470	RB	---
H14-006	1/22/14	Hyatt House/Hyatt Place	101-05-002	Sly term. Karina	North	206,000	329	EL	---
PDC10-022	10/26/10	The Plaza at Evergreen	670-29-020	W/s Capitol, 1500' sly Quimby	Evergreen	200,000		JB	---
H13-048	12/16/13	Hampton Inn/Holiday Inn	237-17-067	E/s N. 1st, opp. Karina	North	173,000	284	PK	---
HA13-013-01	12/6/13	Hampton Inn	259-39-111	SE/c W. Santa Clara & Hwy 87	Central	128,000	208	RB	---
PDC13-009	3/15/13	Communications Hill (KB Home)	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	67,500		BR	---
Total						2,524,500	1,691		
GRAND TOTAL						9,678,500	3,104		

Footnotes: (1) Includes PDA08-040-01 (17,750 sq.ft.)

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
<u>Projects Completed</u>								
H09-002	1/14/09	Brocade (Phase 1)	097-03-139	SE/c N. 1st & Hwy 237	North	580,000	CB	10/9/09
SP08-046	8/14/08	Equinix (Phase 1)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	125,000	SD	10/9/09
SP11-046	11/29/11	Public Storage	477-22-028	SW/c Tully & Old Tully	South	115,000	JB	3/29/12
Total						820,000		
<u>Projects Under Construction</u>								
H13-001	1/3/13	Samsung Semiconductor	097-53-026	NW/c N. 1st & Tasman	North	680,000	SD	3/25/13
Total						680,000		
<u>Approved Projects (Construction Not Yet Commenced)</u>								
PD12-024	6/4/12	North First Campus	101-02-011	SW/c N. 1st & Component	North	2,350,000	JB	11/5/12
H12-008	5/17/12	101 Tech	101-03-007	Wly term. Atmel, 200' nly Hwy 101	North	666,000	SD	10/22/12
PD13-007	2/14/13	North First Campus (Phase 1)	101-02-011	SW/c N. 1st & Component	North	450,000	JB	12/4/13
H09-002	1/14/09	Brocade (Phase 2)	097-03-139	SE/c N. 1st & Hwy 237	North	420,000	CB	10/9/09
PD07-081	9/18/07	Legacy on 101 Office	101-02-015	W/s Orchard, 750' nly Charcot	North	398,000	JB	12/21/07
H13-024	6/17/13	A-1 Self Storage	477-49-026	SW/c Phelan & Senter	South	107,000	RB	10/30/13
Total						4,391,000		
<u>Projects Pending City Approval</u>								
H13-040	10/16/13	First/Brokaw Campus	237-16-073	SE/c N. First & Brokaw	North	2,025,000	RB	---
PD13-039	9/16/13	Midpoint at 237	015-39-006	Both sides N. First bet Hwy 237 & Grand	Alviso	1,120,000	RB	---
PD14-005	1/31/14	Hitachi Campus (Phase 1)	706-07-020	NE/c Cottle & Hwy 85	Edenvale	335,000	RB	---
PD13-046	10/29/13	Public Storage	462-19-013	N/s Capitol, 200' wly Snell	South	123,000	RA	---
Total						3,603,000		
GRAND TOTAL						9,494,000		

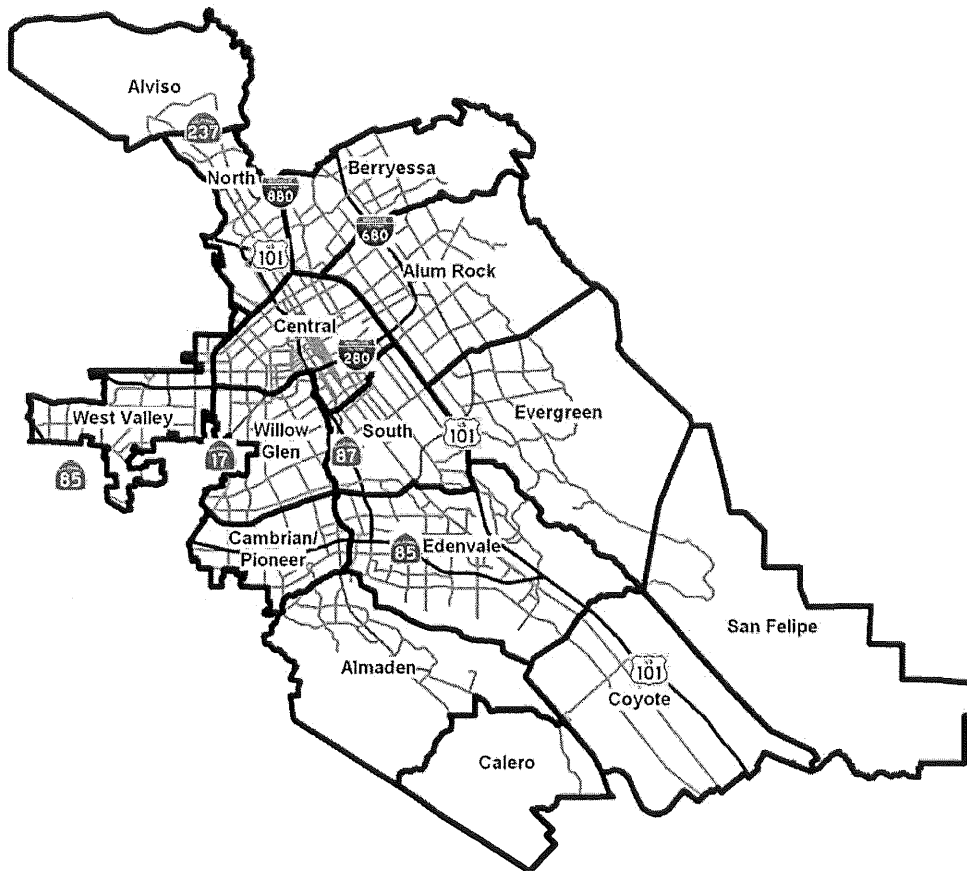
Footnotes:

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

VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

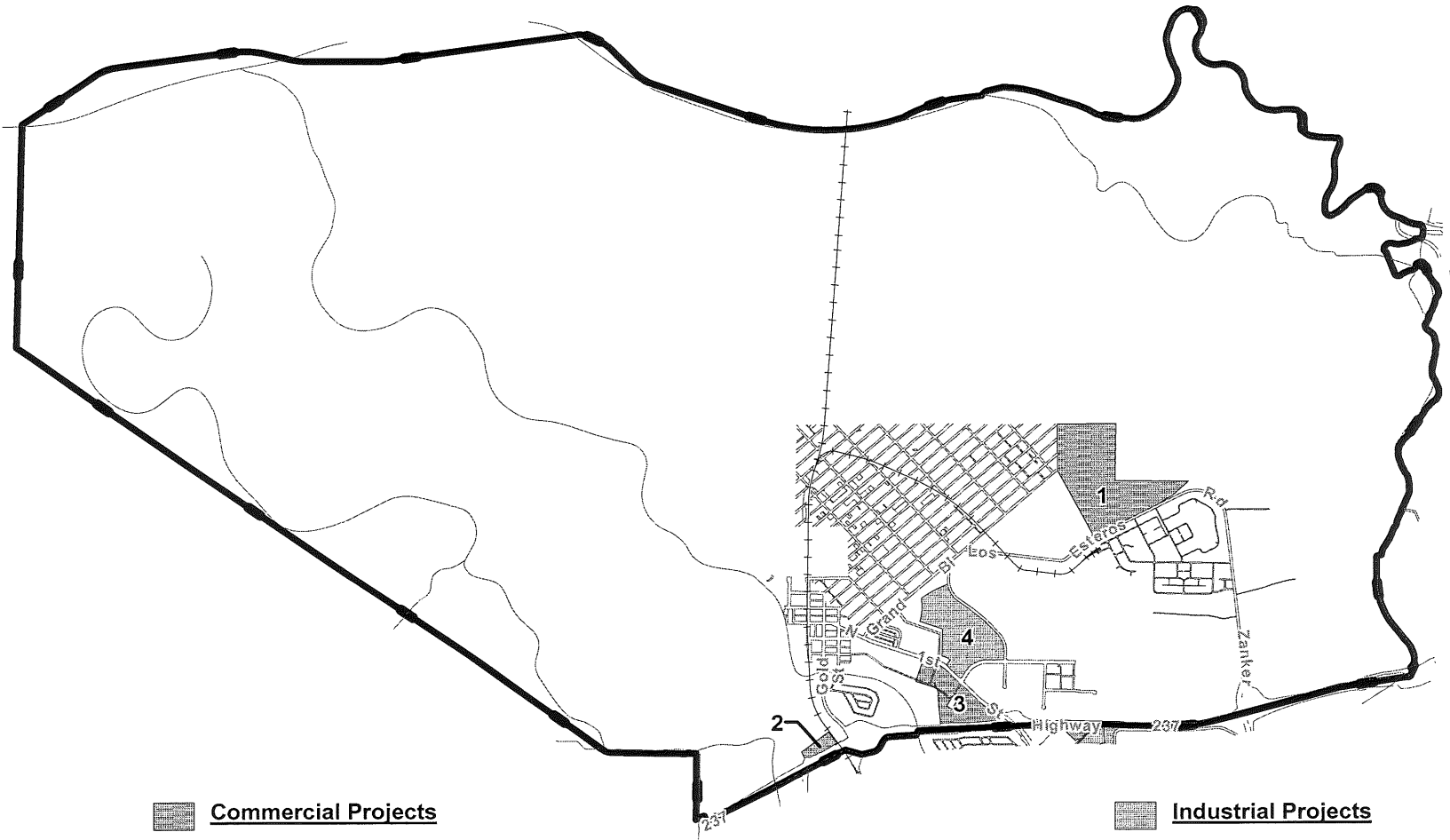
San Jose is divided into a total of fifteen (15) planning areas (see Figure 1, below). The individual planning area maps that follow include projects in all status categories submitted since January 1, 2008. These maps can be used in conjunction with the data contained in Section V of this report to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

Figure 1: San Jose Planning Areas



Alviso Planning Area Major Development Activity

A-15



 **Commercial Projects**

- 1 Zero Waste Facility
- 2 Aloft Hotel
- 3 237@First

Total Commercial Sq.Ft.= 980,000

 **Industrial Projects**

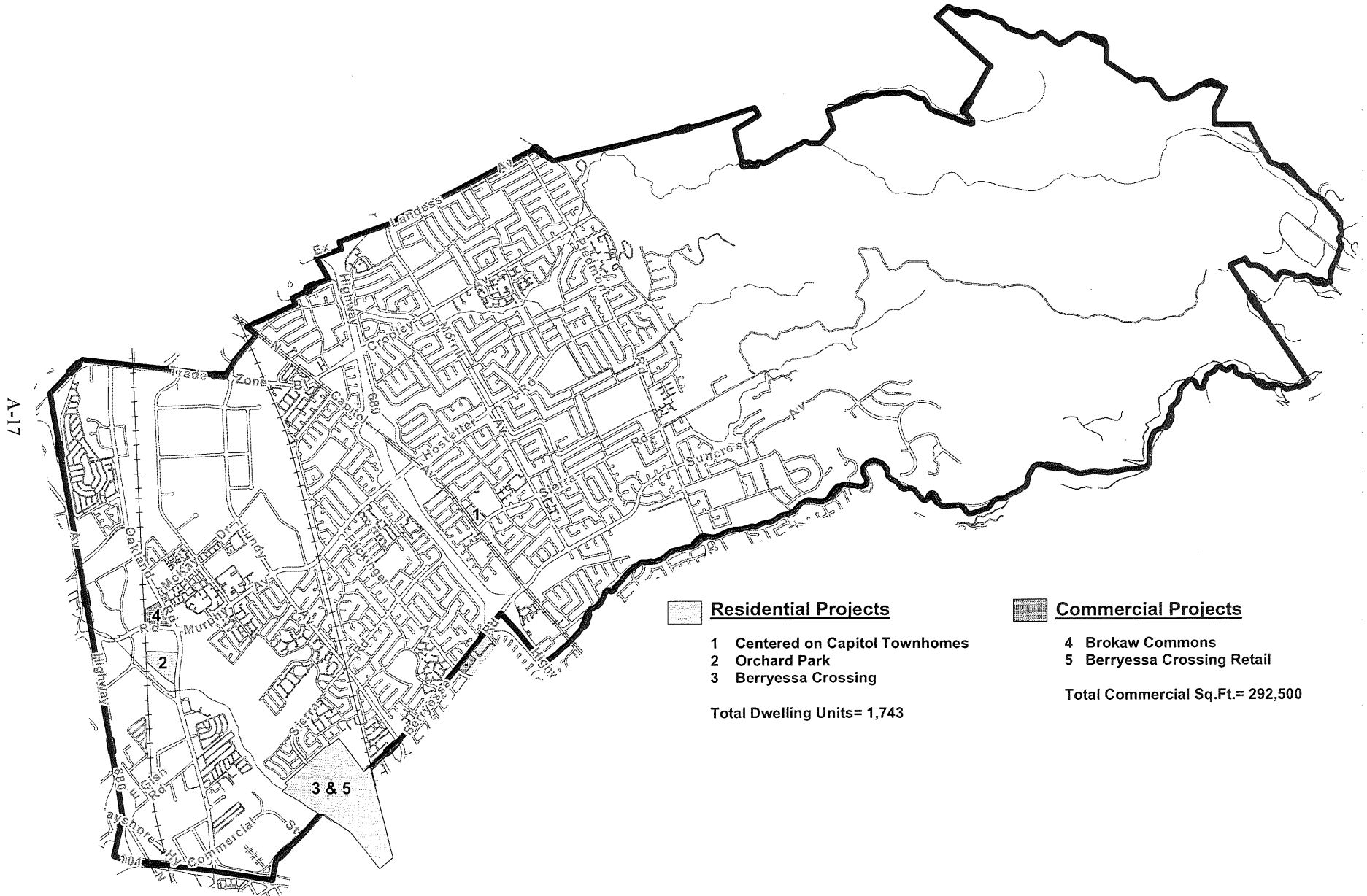
- 4 Midpoint at 237

Total Industrial Sq.Ft.= 1,120,000

North Planning Area Major Development Activity



Berryessa Planning Area Major Development Activity



A-17

Residential Projects

- 1 Centered on Capitol Townhomes
- 2 Orchard Park
- 3 Berryessa Crossing

Total Dwelling Units= 1,743


Commercial Projects

- 4 Brokaw Commons
- 5 Berryessa Crossing Retail


Total Commercial Sq.Ft.= 292,500

Central Planning Area Major Development Activity



 **Residential Projects**

- | | |
|---------------------------|----------------------------|
| 1 North Tenth Street Apts | 16 Post/San Pedro Apts |
| 2 Libitzky Mixed Use | 17 Brookwood Terrace Apts |
| 3 Westmount Homes | 18 Parc 22 Townhomes |
| 4 Vendome Place | 19 San Carlos Senior Apts |
| 5 Japantown Senior Apts | 20 Meridian Mixed Use |
| 6 Ajisai Gardens Apts | 21 Race Street Terrace |
| 7 North San Pedro Apts | 22 Park Family/Senior Apts |
| 8 San Pedro Square | 23 Ohlone Mixed Use |
| 9 Donner Lofts | 24 505 Lincoln Apts |
| 10 San Jose Student Apts | 25 Balbach Condos |
| 11 Silvery Towers Apts | 26 The Pierce Apts |
| 12 Centerra Apts | 27 Virginia Terrace Apts |
| 13 One South Market Apts | 28 Edwards Mixed Use |
| 14 Morrison Park Apts | |
| 15 The Alameda Mixed Use | |
- Total Dwelling Units= 6,181**

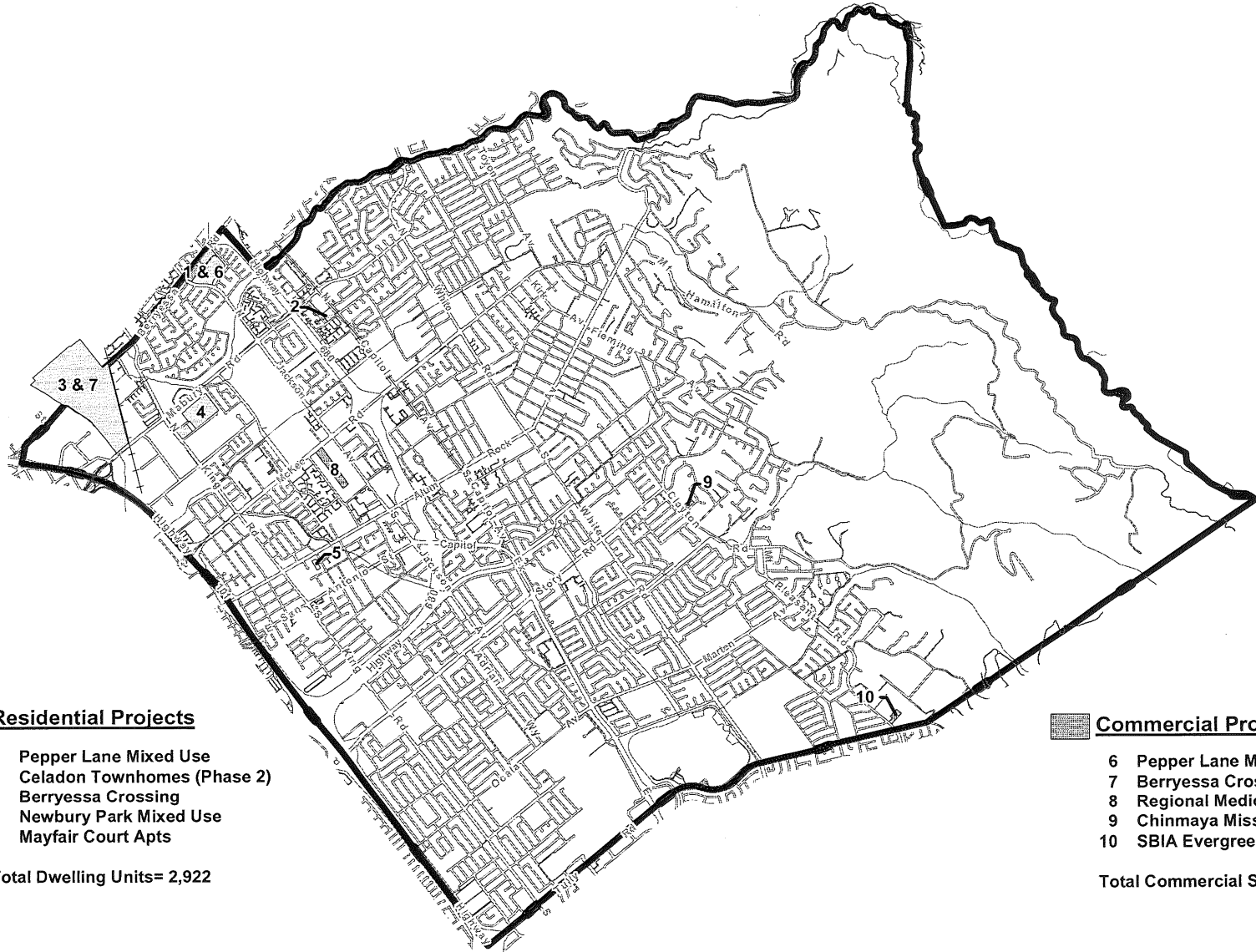
 **Commercial Projects**

- | |
|-----------------------------------|
| 29 Bellarmine College Preparatory |
| 30 First United Methodist Church |
| 31 Whole Foods Market |
| 32 Hampton Inn |
| 33 Orchard Supply Hardware |
| 34 Sun Garden Retail Center |

Total Commercial Sq.Ft.= 586,000

Alum Rock Planning Area Major Development Activity

A-19



Residential Projects

- 1 Pepper Lane Mixed Use
- 2 Celadon Townhomes (Phase 2)
- 3 Berryessa Crossing
- 4 Newbury Park Mixed Use
- 5 Mayfair Court Apts

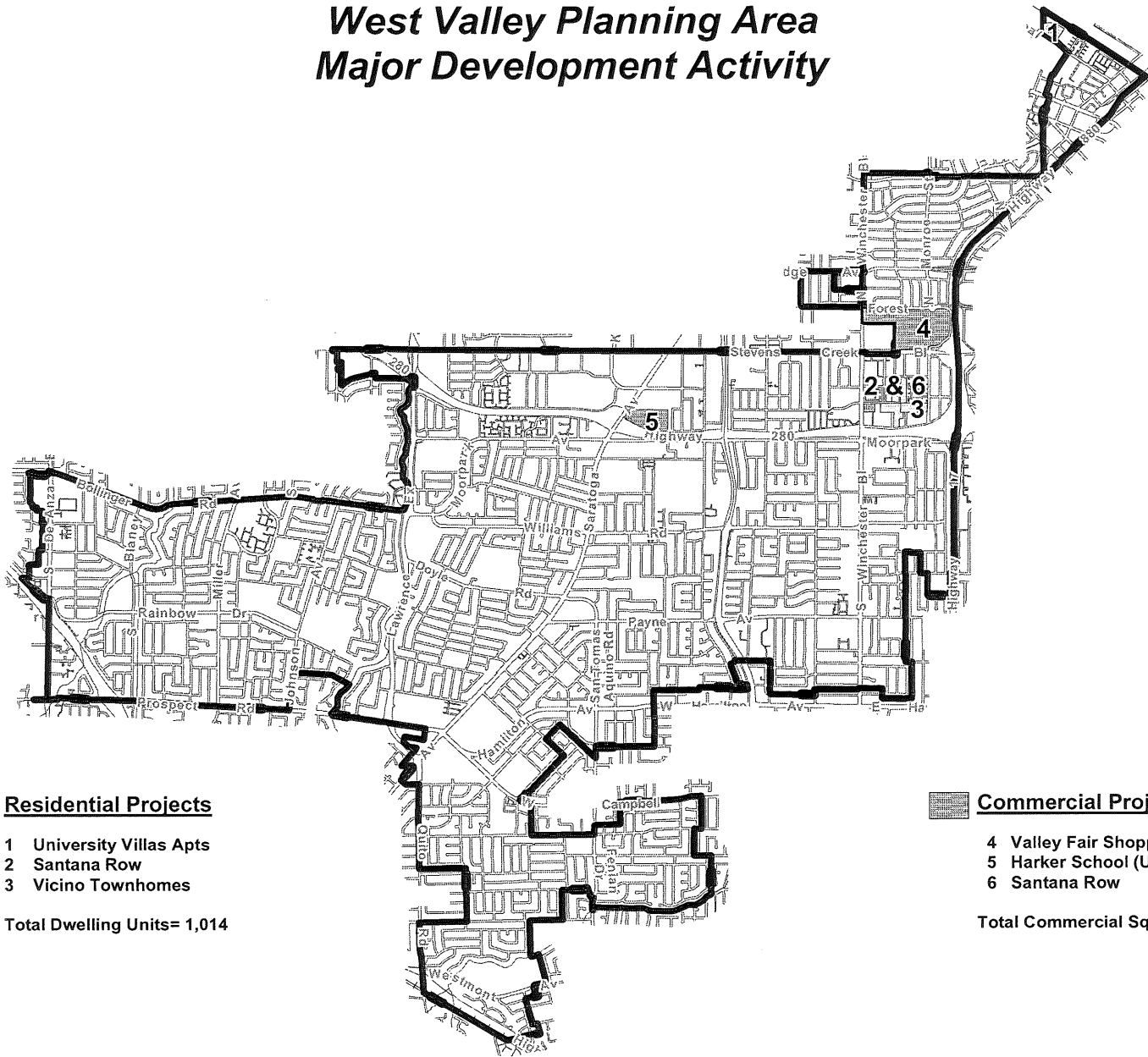
Total Dwelling Units= 2,922

Commercial Projects

- 6 Pepper Lane Mixed Use
- 7 Berryessa Crossing Retail
- 8 Regional Medical Center
- 9 Chinmaya Mission
- 10 SBIA Evergreen Center/Mosque

Total Commercial Sq.Ft.= 435,500

West Valley Planning Area Major Development Activity



Residential Projects

- 1 University Villas Apts
- 2 Santana Row
- 3 Vicino Townhomes

Total Dwelling Units= 1,014

Commercial Projects

- 4 Valley Fair Shopping Center
- 5 Harker School (Upper Campus)
- 6 Santana Row

Total Commercial Sq.Ft.= 1,710,000

Willow Glen Planning Area Major Development Activity



Residential Projects

- 1 Fruitdale Station (Phase 2)
- 2 The Meridian at Willow Glen

Total Dwelling Units= 307

Commercial Projects

- 3 Fruitdale Station (Phase 2)
- 4 Lincoln Office/Retail
- 5 Foxworthy Retail

Total Commercial Sq.Ft.= 96,000

South Planning Area Major Development Activity



Residential Projects

- 1 Almaden Apts
- 2 Metropolitan Apts
- 3 Senter Road Family Apts
- 4 Communications Hill (KB Home)
- 5 Montecito Vista Mixed Use
- 6 Orvieto Family/Senior Apts

Total Dwelling Units= 3,265

Commercial Projects

- 7 Communications Hill (KB Home)

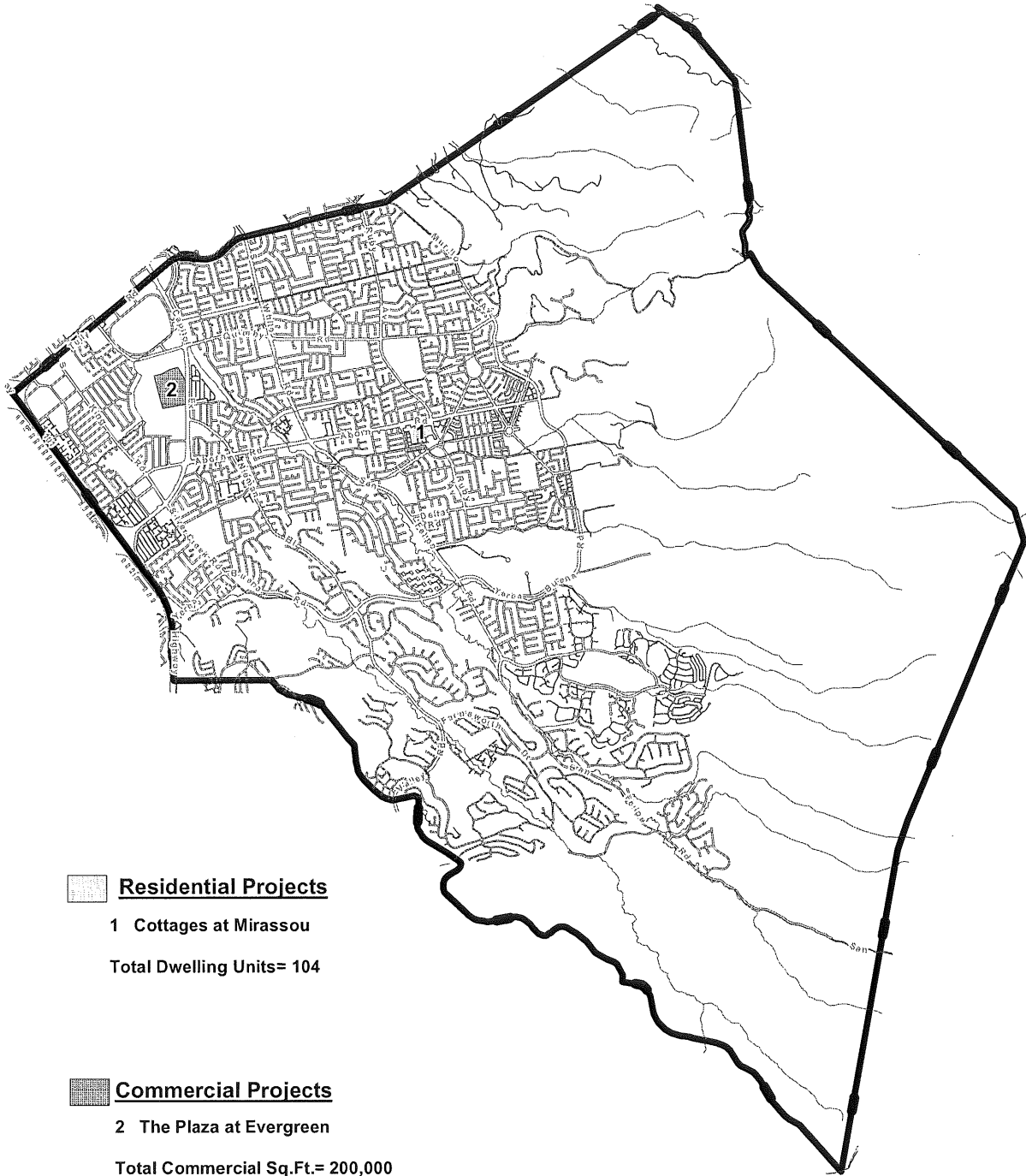
Total Commercial Sq.Ft.= 67,500

Industrial Projects

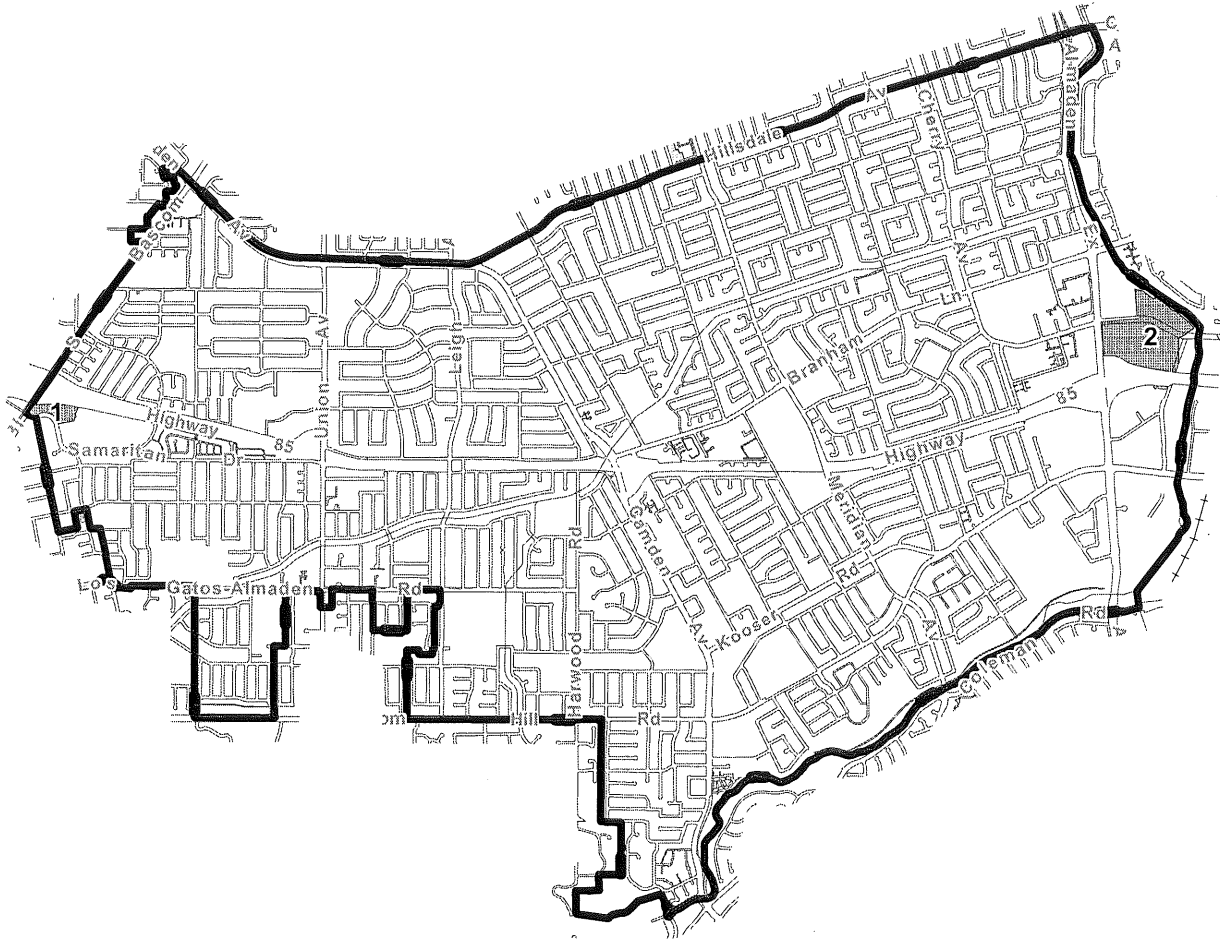
- 8 A-1 Self Storage
- 9 Public Storage
- 10 Public Storage

Total Industrial Sq.Ft.= 345,000

Evergreen Planning Area Major Development Activity



Cambrian/Pioneer Planning Area Major Development Activity

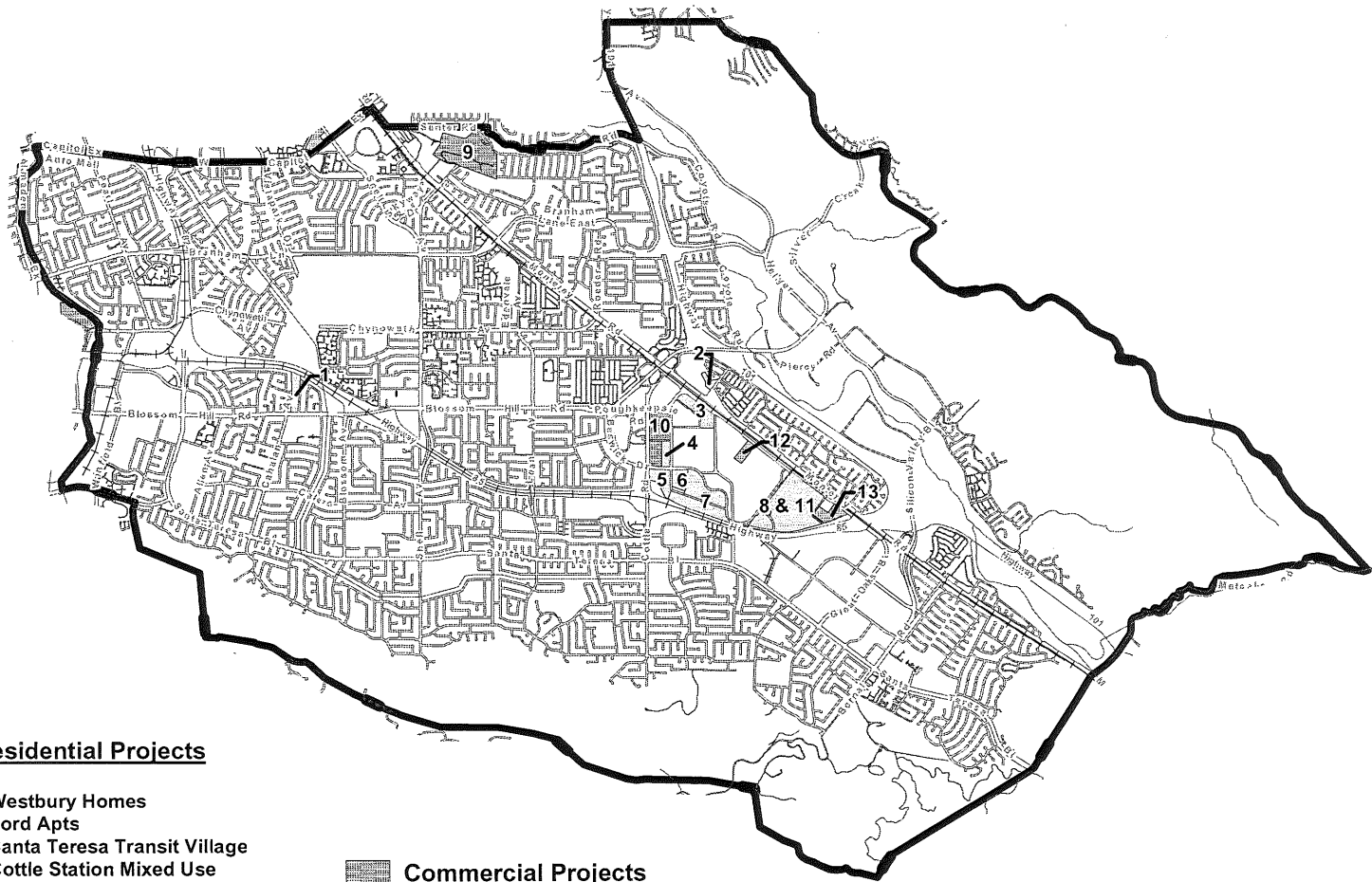


 **Commercial Projects**

- 1 Samaritan Medical Center
- 2 Almaden Ranch

Total Commercial Sq.Ft.= 452,000

Edenvale Planning Area Major Development Activity



A-25

Residential Projects

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

Total Dwelling Units= 3,439

Commercial Projects

- 9 Valley Christian Schools
- 10 Village Oaks (Hitachi)
- 11 Great Oaks Mixed Use

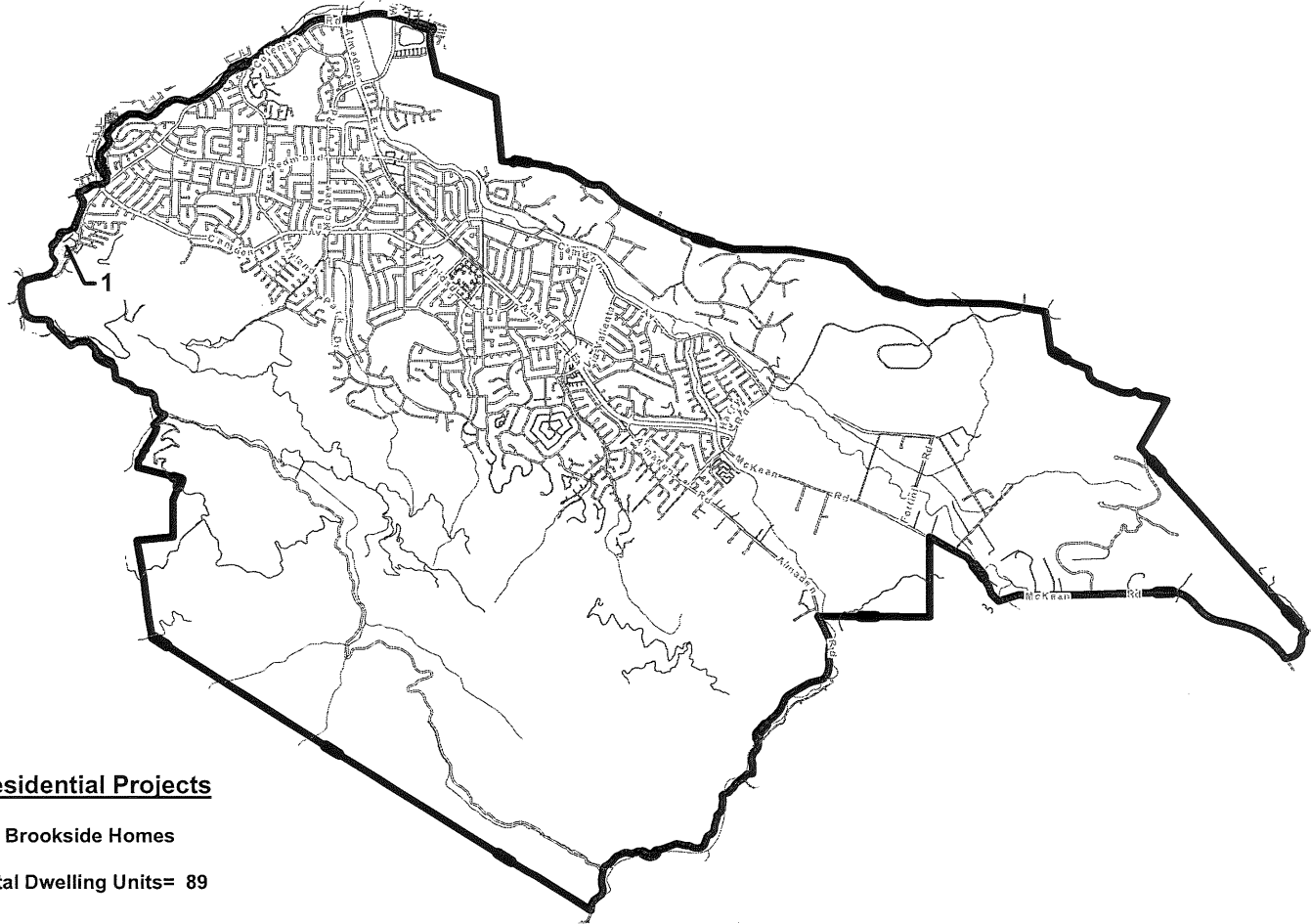
Total Commercial Sq.Ft.= 772,000


Industrial Projects

- 12 Hitachi Campus (Phase 1)
- 13 Equinix

Total Industrial Sq.Ft.= 460,000

Almaden Planning Area Major Development Activity



 **Residential Projects**

1 Brookside Homes

Total Dwelling Units= 89

VII. APPENDIX: SOURCES

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

Data Collection and Analysis

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

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

Review of Publications

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

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