

2021-2022
City Manager's Budget Request

&

2022-2026
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2021

2021-2022
CITY MANAGER’S BUDGET REQUEST
&
2022-2026
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS

For the
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Prepared by
Office of the City Manager
February 2021

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: David Sykes

**SUBJECT: 2021-2022 CITY MANAGER’S
BUDGET REQUEST AND
2022-2026 FIVE-YEAR FORECAST**

DATE: March 1, 2021

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council’s Adopted Budget process, this document provides both the recommended 2021-2022 City Manager’s Budget Request (2021-2022 Budget Balancing Strategy Guidelines) and the 2022-2026 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. Major highlights of this report follow.

As shown in the chart below, a significant General Fund shortfall of \$48.1 million is projected for 2021-2022, which constitutes almost 4% of the General Fund Base Budget. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved ongoing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. However, if the 2021-2022 shortfall is fully resolved with ongoing solutions, the remaining four years of the Forecast are essentially flat, with very small General Fund surpluses ranging from \$0.3 million to \$4.4 million (0.0% - 0.3%). Over the five-year period, a total net General Fund shortfall of \$38.2 million translates to an average annual shortfall of \$7.6 million, which equates to 0.6% of the projected General Fund Base Budget.

2022-2026 General Fund Forecast Incremental General Fund Surplus/(Shortfall)

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Incremental Surplus/(Shortfall)	(\$48.1 M)	\$3.3 M	\$0.2 M	\$4.4 M	\$1.9 M
% of Budget (Based on Expenditures)	(3.8%)	0.3%	0.0%	0.3%	0.1%

- This Forecast reflects the Administration's best estimates on projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2020-2021, including resources to support the City's COVID-19 pandemic response and recovery efforts; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.
- The Forecast is built on the assumption of the economy continuing to rebound after the sharp revenue declines experienced as a result of the pandemic. As with all forecasts, there is a level of uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. The City's two largest General Fund revenues, Property Tax and Sales Tax, are sensitive to changes in the local economy and may fluctuate to a significant degree depending on future conditions. Various cost elements can also vary from year to year. While retirement costs as a percentage of the General Fund have stabilized over the past several years, costs fluctuate and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards.
- Two alternative forecasts have been developed to model the range of budgetary 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". Over the five-year period, the Optimistic Case would generate a surplus of \$82.5 million, while the Pessimistic Case would result in a shortfall of \$116.6 million. It is important to note that due to the significant impact the pandemic has had on the local economy, it is challenging to forecast the economic recovery over the next five years.
- The chart on page 3 compares the 2021-2022 General Fund Forecast to the 2020-2021 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund shortfall of \$48.1 million. Of the \$77.6 million General Fund ongoing shortfall resolved by the City Council's approval of the 2020-2021 Adopted Operating Budget, \$25.7 million was resolved on a one-time basis, which is then carried forward as a starting point for 2021-2022. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by \$6.4 million, driven primarily by increases in the Sales Tax, Property Tax, and Real Property Transfer Tax revenue categories. Partially offsetting these increases are reductions to the Beginning Fund Balance revenue estimates (which primarily reflects one-time expenditures and reserve rebudgets), the Fees, Rates, and Charges (Parks, Recreation and Neighborhood Services Fee Activity), and the Fines, Forfeitures, and Penalties (Parking Fines) revenue estimates. When comparing expenditures (the third element), base costs are expected to increase by \$28.8 million from 2020-2021 ongoing budget levels, with the majority of the net increases for associated with employee general wage increases and retirement contributions.

**2021-2022 General Fund Forecast
Reconciliation from 2020-2021 Adopted Budget**

2021-2022 General Fund Forecast Components (Ongoing)	\$ in Millions
Carry-Over from 2020-2021 Adopted Budget	(\$ 25.70)
Revenue Changes	
- Sales Tax	37.70
- Property Tax	15.60
- Real Property Transfer Tax	10.00
- Business Taxes	3.60
- Fees, Rates, and Charges (PRNS Fee Activity)	(9.10)
- Fines, Forfeitures, and Penalties (Parking Fines)	(7.00)
- Revenue from Federal Government	(3.00)
- Beginning Fund Balance	(36.40)
- Other Net Revenue Changes	(5.00)
Total Revenue Changes (Increase)	\$ 6.40
Expenditure Changes	
- Employee General Wages	\$ 27.37
- Retirement Contributions	20.21
- Measure E Allocations – Housing and Homelessness Prevention	10.0
- Non-Personal/Equipment (Vehicle O&M, Electricity, Gas, and Police Fleet)	4.18
- Non-Management Step and Management-Pay-for-Performance Program	4.13
- Committed Additions: Operations and Maintenance	2.56
- Health Insurance Plans	1.97
- Community Center Operations Suspension Cost Savings	1.38
- Janitorial Services	0.83
- Software/Information Systems: Contracts/Licenses	0.82
- Living Wage/Minimum Wage Program	0.76
- Aquatics Program Suspension	0.63
- Family Camp Suspension	0.50
- Transfer to the Construction and Conveyance Tax Fund – Communications	0.45
- City Facilities Maintenance and Waste Collection	0.39
- Insurance Premiums	0.32
- Cultural Facilities Maintenance and Operations	0.30
- Revenue Enhancement Consulting Services	0.30
- Property Tax Administration Fee	0.21
- Workers’ Compensation Third-Party Administration Contract	0.11
- Transfers to Development Fee Program Funds and Small Cell Permitting Fee Program Fund	(39.38)
- Transfer to the Municipal Golf Course Fund	(9.66)
- Transfer to the City Hall Debt Service Fund	(1.93)
- Library Branch Hours and Operations	(1.04)
- Other Net Expenditure Changes	3.39
Total Expenditure Changes (Increase)	\$ 28.80
2021-2022 Projected General Fund Shortfall	(\$ 48.10)

- For the 2021-2022 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category is broken down into three major components: salaries and other compensation, retirement, and health and other fringe benefits. Of the \$961.7 million projected personal services total for 2021-2022, salary and other compensation costs total \$537.3 million (55.9% of projected personal services), retirement costs total \$356.2 million (37.0% of projected personal services), and health and other fringe benefits costs total \$68.2 million (7.1% of projected personal services). In the out years of the forecast, annual personal services growth ranging from 3.1% to 3.6% is projected.
- Committed Additions, expenses that address previous City Council direction, are included and total \$2.6 million in 2021-2022, rising to \$21.4 million by the end of the forecast period. The largest expenses in this category are the operating and maintenance costs for Measure T bond projects, approved by voters in November 2018, such as Fire Stations 32, 36, and 37, the Police Training Facility, and the full activation of South San José Police Substation.
- In approaching the 2021-2022 Proposed Budget, the Administration recommends the use of the budget balancing strategy guidelines outlined in this memorandum (2021-2022 City Manager's Budget Request). The *City of San José Budget Principles*, the *Service Delivery Framework*, and the *City Roadmap* (pending further City Council review) included in Appendix A, combined with City Council approval of the Mayor's March Budget Message will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2021-2022 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval process later in March.
- The anticipated shortfall for 2021-2022 is compounded by a range of existing service gaps that impact our community, the deficiencies of which are compounded by the impact of the pandemic. There are also unmet/deferred infrastructure and maintenance needs that will have a long-term impact on the City. Looking forward, the Administration's goal is to ensure multi-year fiscal stability while also addressing, to the extent possible, the continued impacts from the pandemic, the City's basic service delivery needs, and the backlog of unmet/deferred infrastructure and maintenance needs.
- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenue estimates of \$370.9 million are 16% higher than the estimate used to develop the 2021-2025 Adopted CIP (\$319.9 million), as the real estate and construction markets have remained relatively strong in spite of the pandemic's other impacts throughout the economy. When comparing the revenue estimates in this forecast to the 2021-2025 Adopted CIP, Construction and Conveyance (C&C) Tax projections increased by \$26.0 million or 16%, Building and Structure Construction revenue estimates grew by \$17.0 million or 21%, and Construction Excise Tax revenue estimates increased by \$8.0 million or 10%. These three revenue estimates combined total of \$366.0 million.
- Consistent with past practice, as part of the preparation for the 2021-2022 Proposed and Adopted Budgets, the Administration will bring forward revisions to both the revenue and expenditure estimates as new information becomes available.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the 2021-2022 City Manager's Budget Request and the 2022-2026 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 are critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program (CIP).

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends for use in developing the 2021-2022 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 budgetary status for 2021-2022 is an integral part of the Administration's proposed approach to preparing the 2021-2022 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2021-2022, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2021-2022 City Manager's Budget Request; an overview of the 2022-2026 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; and a description of the next steps in the 2021-2022 budget process.

2021-2022 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 2021-2022 Proposed Budget. These proposed guidelines were formulated in the context of General Fund projections that include a sizeable shortfall for 2021-2022 followed by four years of very small surpluses, and are mindful that the City needs to strategically allocate resources to both respond to the challenges of the pandemic and limit the impact of service reductions that could disproportionately impact those who count on our services the most.

The overarching goals of these guidelines are to continue operational and budget stability while minimizing any service delivery impacts to our community as well as impacts to our employees. These goals are accomplished by keeping General Fund revenues and expenditures in alignment over the long-term while acknowledging that transitional strategies may be appropriate in the short-term; seeking cost savings and revenue generation opportunities; and effectively allocating one-time funding. The potential uses of one-time funding include continuing, in some cases, services funded on a one-time basis in 2020-2021, addressing unmet/deferred infrastructure and maintenance needs, investing in technology that improves efficiency, and increasing funding in reserves to address potential future budget uncertainty. In a very limited number of cases, ongoing budget additions may be necessary to address key service needs identified by the City Council and Administration as priorities.

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

In accordance with the City Charter, the City is required to adopt a balanced budget each year, allocating any projected surplus or addressing any projected shortfall. In 2021-2022, a General Fund shortfall of \$48.1 million is projected, representing almost 4% of the General Fund Base Budget of \$1.3 billion. In the out years of the Forecast, very small General Fund shortfalls ranging from \$0.2 million to \$4.4 million are projected. While the 2021-2022 shortfall is a seemingly small 3.8%, given that the City is already a very lean organization that went through several rounds of General Fund budget cutting to resolve shortfalls of \$45.0 million at the end of 2019-2020 and \$77.6 million for 2020-2021, resolving an additional \$48.1 million shortfall on an ongoing basis for 2021-2022 would most certainly further negatively impact City service levels.

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

- The costs to continue services funded on a one-time basis in 2020-2021 in the General Fund that totaled over \$15 million. Major items funded on a one-time basis include the following: Digital Divide, Office of Racial Equity, Foot Patrol in High Needs Neighborhoods and Downtown, Police Department Public Records Requests Staffing, Beautify San José Street Landscape Maintenance Program, Diridon Station Area Development Planning, Transitional Jobs Program (San José Bridge), Climate Smart San José Plan Implementation, Project Hope Expansion, Neighborhood Center Partner Program, Police Activities League (PAL) Facility Support, Police Redistricting, and Outdoor Park Activation. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2020-2021. This analysis will be conducted during the 2021-2022 budget process and funding recommendations for these programs and services will be included in the 2021-2022 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.
- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were updated and presented to the Transportation and Environment Committee on March 1, 2021 at \$19.0 million annually in the General Fund (\$92.8 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling \$128.4 million in the General Fund (\$1.6 billion all funds).

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

With these considerations in mind, and given the continued uncertainty surrounding the pandemic and its lingering impacts, the Administration recommends using a combination of ongoing and one-time solutions to resolve the General Fund shortfall in 2021-2022 that balances the need to resolve the ongoing shortfall against the community and organizational impact of service level reductions in the short-term. Key to this strategy will be the explicit consideration of equity, remaining nimble during the budget development process to adapt budget development strategies to any additional pandemic relief or stimulus funding from the Federal government, and ensuring the allocation – or reallocation – of resources to meet City Roadmap objectives.

As in past years, the Administration also recommends that one-time funding identified in the budget process be strategically invested to address one-time needs, such as continuing services funded on a one-time basis in 2020-2021, as appropriate and discussed earlier in this section, addressing a portion of the City's unmet/deferred infrastructure and maintenance needs, providing for limited technology investments, and/or building reserves.

The City may also receive additional pandemic relief and stimulus funding from the Federal government. Depending upon the size and allowable uses for these resources, this funding could have a significant positive impact on the City's short-term budgetary position and provide resources to continue the City's pandemic response and recovery efforts that are not currently captured in this Forecast.

2021-2022 Budget Balancing Strategy Guidelines

The 2021-2022 Budget Balancing Strategy Guidelines, as shown below, provide recommended direction on the general approaches to use in the development of the 2021-2022 Proposed Budget.

2021-2022 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. While over the long term the City remains committed to balancing ongoing expenditures with ongoing revenues to maintain the City's high standards of fiscal integrity and financial management, given economic and public health uncertainty related to the COVID-19 pandemic, use a combination of ongoing and one-time solutions to resolve the General Fund shortfall in 2021-2022 that balances the need to resolve the ongoing shortfall against the community and organization impact of service level reductions in the short term.
4. Should additional Federal relief or stimulus funding become available to address the pandemic, allocate funding for response, recovery, and local assistance – with an emphasis on assisting our most vulnerable – and to help backfill lost revenue, as allowable under statutory restrictions and in context of other urgent needs.
5. To the extent possible, maintain or increase General Fund reserve levels to help address any unanticipated budgetary shortfall in the following year as a stopgap measure.
6. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to mitigate service delivery impacts, meet the objectives of the City Roadmap, generate new revenues, address truly significant community or organizational risks, fund services added on a one-time basis in 2020-2021, and/or respond to City Council direction and organizational risks. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in proposal development.
7. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
8. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out-or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively.
9. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
10. 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.
11. Explore expanding existing revenue sources and/or adding new revenue sources.
12. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
13. Focus any available one-time resources on investments that 1) continue high-priority programs funded on a one-time basis in 2020-2021 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
14. Engage employees in department and/or city-wide budget proposal idea development.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

Guiding Budget Principles, Service Delivery Framework, and City Roadmap

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

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

At a special meeting on February 25, 2021, the City Council approved a preliminary City Roadmap for 2021-2022 (included in *Appendix A*). Though a limited number of items are anticipated to be added during an upcoming City Council meeting, once finalized, the City Roadmap will represent the City's most important programs, strategies, and policies to enact significant organizational change. To the extent feasible and in context of maintaining basic City services and resolving the General Fund shortfall, the budget development process should identify new or reallocate existing funding as necessary to accomplish City Roadmap objectives.

2021-2022 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2021-2022 City Manager's Budget Request combined with the overall City of San José Budget Principles, the Service Delivery Framework, and City Roadmap to approach the 2021-2022 budget development process.

In December 2020, the Administration directed City departments to develop 2021-2022 budget proposals using a draft version of the 2020-2021 Budget Balancing Strategy Guidelines. At that time, with the anticipation that the City would face a General Fund shortfall of approximately \$50 million, departments were directed to submit proposals to achieve a net General Fund savings of \$20 million, with the anticipation that the Administration would recommend a mix of ongoing and one-time solutions to responsibly address the shortfall while still preserving organizational capacity to respond to urgent needs of our community, and in acknowledgment that there is still significant uncertainty regarding the longer-term economic impacts from the pandemic.

Given these considerations, departments were directed to submit both ongoing and one-time cost reduction proposals that were mindful of community and organizational impacts, generate new revenues, and/or restructure departmental operations and staff to effectively deliver services. Departments could also develop proposals that use one-time bridge funding to bring about ongoing reductions that may take time to implement so as to minimize and/or avoid community and employee impacts. In addition, departments were directed to evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to reduce costs, close service delivery gaps and/or adjust to shifting community needs. Budget proposals requesting a net addition of General Fund resources were to be limited to those that address truly significant community or organizational risks and/or respond to specific City Council direction. For special and capital funds, departments were directed to develop proposals that balance within the total resources of the fund, identify the impact on fees or rates and, to the extent possible, minimize fee and rate increases.

The City's short-term goal is to responsibly achieve a balanced budget that makes progress on reducing the ongoing General Fund shortfall while still positioning the City to respond to urgent community needs exacerbated by the pandemic and maintain essential services as the region begins its economic recovery. The Administration will also prepare strategies to allocate any upcoming emergency relief/stimulus funding from the Federal government as part of the development of the 2021-2022 Proposed Operating Budget. The long-term goal is to fully align ongoing expenditures to ongoing revenues, prioritizing organizational stability as we hopefully build back capacity to address our significant service delivery and infrastructure needs.

The Mayor is currently scheduled to issue a proposed March Budget Message on March 8, 2021, which will then be discussed, amended if necessary, and adopted by the City Council on March 16, 2021. The contents of that Message will provide guidance for the preparation of the City Manager's 2021-2022 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 26, 2021 and May 3, 2021, respectively. As part of the 2021-2022 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2021-2022 Budget Balancing Strategy Guidelines, with any desired revisions. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Proposed Budget Study Sessions and Public Hearings to discuss the budget proposals and the associated impacts on performance measures and service delivery. The Administration will also work with the City Council to provide informational meetings to the community on the Proposed Budget. Additional input by the City Council and community will be incorporated into the budget through these Proposed Budget Study Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2021.

2022-2026 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2022-2026 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: City Council-approved City of San José Budget Principles, the Service Delivery Framework, and City Roadmap. *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.

2022-2026 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 surpluses (assuming each preceding shortfall or surplus is addressed completely with ongoing solutions in the year it appears) for each year of the forecast is included. Because it is the City’s goal to remain in balance on an ongoing basis, the incremental figure is useful in that it shows the additional shortfall or surplus attributed to a particular fiscal year. To the extent that a shortfall is not resolved, or a surplus is not expended on an ongoing basis, it is important to understand that the remaining budget gap or surplus will carry over to the following year.

**2022-2026 General Fund Five-Year Forecast
(\$ in Millions)**

	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Projected Revenues	\$1,220.6	\$1,262.7	\$1,307.8	\$1,356.9	\$1,404.3
Projected Expenditures	\$1,268.7	\$1,307.5	\$1,352.4	\$1,397.1	\$1,442.5
Total Cumulative Surplus/(Shortfall)	(\$48.1)	(\$44.8)	(\$44.6)	(\$40.2)	(\$38.2)
Total Incremental Surplus/(Shortfall)	(\$48.1)	\$3.3	\$0.2	\$4.4	\$1.9
% of Budget (Based on Expenditures)	(3.8%)	0.3%	0.0%	0.3%	0.1%

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2020-2021; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

In the 2022-2026 Forecast, a significant General Fund shortfall of \$48.1 million is anticipated for 2021-2022, followed by very small incremental surpluses ranging from \$0.2 million to \$4.4 million over the next four years. While the shortfall margin for 2021-2022 will present significant challenges, the incremental margins in the following years are relatively negligible when put into context with the size of the projected General Fund budget, ranging from 0.0% to 0.3% of the projected annual budget of \$1.3 billion to \$1.4 billion. However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast, including programs funded on a one-time basis in 2020-2021 – including funding to continue the City’s pandemic response and recovery efforts – and unmet/deferred infrastructure and maintenance needs.

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

When reconciling next year's Forecast to the 2020-2021 Adopted Budget, the projected shortfall of \$48.1 million for 2021-2022 is the result of carrying forward the \$25.7 million shortfall resolved in 2020-2021 on a one-time basis, improved revenues of \$6.4 million, and increased costs of \$28.8 million. General Fund revenues are estimated to improve by a net of \$6.4 million when compared to the ongoing revenue performance assumed in the 2020-2021 Adopted Budget. The largest changes are increases in the Sales Tax, Property Tax, and Real Property Transfer Tax revenue categories. Partially offsetting these increases are reductions to the Beginning Fund Balance revenue estimates (which primarily reflects one-time expenditures and reserve rebudgets), the Fees, Rates, and Charges (Parks, Recreation and Neighborhood Services (PRNS) Fee Activity), and the Fines, Forfeitures, and Penalties (Parking Fines) revenue estimates.

In 2021-2022, several revenue categories are forecasted to grow year-over-year as the economy continues rebounding after the sharp declines experienced as a result of the pandemic. Revenue categories with the largest growth from estimated 2020-2021 revenue include Sales Tax (\$11.2 million), Business Taxes (\$11.1 million, primarily due to the Cardroom Business Taxes), Fees, Rates and Charges (\$8.3 million, primarily due to PRNS Fee Activity), and Transient Occupancy Tax (\$4.5 million). Additionally, Property Tax revenue is anticipated to grow in 2021-2022 due to the reinstatement of a one-time loss in 2020-2021 of tax increment associated with Successor Agency properties (\$7 million), and anticipated Secured Property Tax growth of 3.5%.

On the expenditure side, a number of upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of \$28.8 million in 2021-2022. As with General Fund revenues, the largest expenditure changes are associated with employee general wage increases (\$27.4 million) and retirement contribution costs (\$20.2 million) in accordance with existing labor agreements, estimation of future salary costs, and actuarial assumptions approved by the City's Retirement Boards. Other significant personnel-related cost changes are attributable to compensation related to non-management step and management pay-for-performance program (\$4.1 million), health insurance plans cost increases (\$2.0 million), and increases for living and minimum wage adjustments (\$760,000). Other large expenditure increases include: increases for the allocation Measure E revenues toward affordable housing and homelessness prevention Reserves and Program Administration (\$10.0 million); city-wide vehicle operations and maintenance, electricity, gas, and Police fleet replacements (\$4.2 million); operations and maintenance costs associated with capital projects anticipated to be completed in 2021-2022 (\$2.6 million); the restoration of one-time cost savings related to the partial suspension of community center operations realized in 2021-2022 (\$1.4 million); reinstatement of one-time program suspensions for Aquatics and Family Camp (\$1.1 million); contractual increases for city-wide janitorial services as previously approved by the City Council (\$832,000); and various contractual increases for information systems and software license agreements city-wide (\$816,000). A notable expenditure decrease includes the reinstatement of the reduction of Branch Library hours that were delayed in 2020-2021 using one-time funds (\$1.0 million).

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

General Fund Committed Additions

Cost estimates for specific “Committed Additions” that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2021-2025 Adopted Capital Improvement Program, or for projects approved by the City Council during 2020-2021. The costs of the additions total \$2.6 million in 2021-2022 and increase to \$21.4 million by the end of the forecast period.

**2022-2026 General Fund Committed Additions
Maintenance and Operations Costs**

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
New Parks and Recreation Facilities	\$384,000	\$901,000	\$1,362,000	\$1,848,000	\$1,947,000
New Traffic Infrastructure Assets	175,000	287,000	367,000	404,000	428,000
Fire Training Center and Fire Station 20 (Landside Operations)	19,000	156,000	240,000	247,000	256,000
Measure T Bond	1,977,000	4,195,000	9,455,000	14,378,000	18,777,000
Total	\$2,555,000	\$5,539,000	\$11,424,000	\$16,877,000	\$21,408,000

These Committed Additions are related to new parks and recreational facilities, new traffic infrastructure assets, the new Fire Training Center and the expanded Fire Station 20 at the Airport that will include landside (off-Airport) operations, and the new projects funded by Measure T Bond funds. A detailed listing of all committed additions with operating and maintenance costs are included in this 2022-2026 General Fund Forecast and can be found in *Section 3 - Committed Additions to the Base General Fund Forecast* of this document.

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

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

Alternative Forecast Scenarios

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the “Base Case.” “Optimistic” and “Pessimistic” cases model economic scenarios considered possible, but less likely to occur than the “Base Case.” These alternatives are presented in Section 4 of the report to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2021-2022 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

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

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Five-Year Surplus/ (Shortfall)
Base Case	(\$48.1 M)	\$3.3 M	\$0.2 M	\$4.4 M	\$ 1.9 M	(\$38.2 M)
Optimistic Case	(\$13.9 M)	\$17.9 M	\$13.1 M	\$28.2 M	\$37.2 M	\$82.5 M
Pessimistic Case	(\$78.1 M)	(\$8.7 M)	(\$9.9 M)	(\$9.7 M)	(\$10.2 M)	(\$116.6 M)

- Base Case* – The Base Case Forecast is built on the assumption of the economy solidly rebounding from the declines experienced from the COVID-19 pandemic. As this region continues to emerge from public health order restrictions, it is anticipated to continue benefitting from a high level of venture capital investment in the technology industry, employment growth, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to rebound from the declines experienced in 2020, resulting in City’s revenues exceeding pre-pandemic levels. Economically sensitive General Fund revenues such as Property Tax, Sales Tax, and Transient Occupancy Tax receipts will remain strong throughout the forecast period. In this scenario, the total General Fund shortfall over the five-year period totals \$38.2 million.
- Optimistic Case* – The Optimistic Case Forecast assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. Venture capital investments, the key driver of the technology sector of the economy, are extremely high in each year of the forecast in the Optimistic Case. As a result, the area’s largest technology employers are doing much better than in the Base Case. Local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Inflation is also expected to be higher than in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax. In this scenario, there is a General Fund surplus of \$82.5 million over the five-year period.

- Pessimistic Case* – The Pessimistic Case Forecast assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case, and is strongly influenced by the pandemic’s persistence as new variant transmission rates allows for a resurgence of the virus in the summer and fall of 2021-2022. Significantly lower growth is assumed for several of the key determinants of the City’s revenue; local employment, local housing prices and number of property sales, and local inflation are all lower than those of the Base Case. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, the City’s revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown. In this scenario, the total General Fund shortfall over the five-year period totals \$116.6 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 2021-2022 Capital Budget and the 2022-2026 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 [2022-2026])¹. 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 2021-2025 Adopted CIP. As shown below, revenues are anticipated to increase by 16% compared to the Adopted CIP, from \$319.9 million to \$370.9 million.

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

	2021-2025 Adopted	2022-2026 Forecast	Difference	% Change
Construction and Conveyance Tax	\$158,000	\$184,000	\$26,000	16%
Building and Structure Construction Tax	79,000	96,000	17,000	21%
Construction Excise Tax	78,000	86,000	8,000	10%
Municipal Water System Fees	375	375	0	0%
Residential Construction Tax	1,000	1,000	0	0%
Sanitary Sewer Connection Fee	2,500	2,500	0	0%
Storm Drainage Connection Fee	1,000	1,000	0	0%
TOTAL	\$319,875	\$370,875	\$51,000	16%

¹ <https://www.sanjoseca.gov/home/showpublisheddocument?id=69689>

Real estate activity (primarily housing sales) determines the collection level of the Construction and Conveyance Tax. After reaching a record setting high of \$49.0 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to \$20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and reached peak levels of \$48.1 million in 2017-2018 and \$47.2 million in 2018-2019, before decreasing to \$40.9 million in 2019-2020. C&C collections in 2020-2021 are projected to end the year at \$40.0 million. This collection level is 2% below the actual receipts received in 2019-2020 (\$40.9 million), which is reflective of the strong housing market despite the pandemic. Collections in this extremely volatile revenue category are conservatively forecasted to drop to \$38.0 million in 2021-2022 and 2022-2023, and then drop to \$36.0 million the remainder of the forecast period.

Construction activity valuation is anticipated to be higher than the prior year with \$2.0 billion in 2020-2021, a 10.0% increase compared to \$1.8 billion in 2019-2020. Construction valuation is projected to peak this fiscal year and then estimated to decrease by 40% to \$1.23 billion in 2021-2022, back to a level experienced prior to 2013-2014. For 2022-2023 and 2023-2024, construction activity valuation is expected to decrease by another 3.7% to \$1.18 billion and then increase to \$1.23 billion for the last two years of the five-year period due to declining activity levels for both new construction and alternations. While the pandemic led to some interruptions in the local construction sector, the market showed resilience last year and this year as projects already in progress re-started after the shutdown and other permits were pulled for the first time. Though these estimates may be conservative, they are reflective of the uncertain development environment in the future and an acknowledgement that the extremely high levels experienced over the last several years will likely not continue at the same level.

The five-year projection for the Building and Structure Construction Tax collections total \$96.0 million, \$17.0 million above the estimate included in the 2021-2025 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2020-2021 estimate of \$28 million to \$20 million in 2021-2022 and to \$19 million for the remainder of the forecast period as projects are completed and activity levels decrease. Construction Excise Tax collections are projected to total \$86.0 million over the forecast period, \$8.0 million above the estimate included in the 2021-2025 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2020-2021 estimate of \$21.0 million to \$18.0 million in 2021-2022 and to \$17.0 million for the remainder of the forecast period as projects are completed and activity levels decrease.

NEXT STEPS IN THE 2021-2022 BUDGET PROCESS

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

March 2021

- 2021-2022 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2021

- 2021-2022 Proposed Capital Budget and 2022-2026 Capital Improvement Program Released

May 2021

- 2021-2022 Proposed Operating Budget and 2021-2022 Proposed Fees and Charges Released
- 2021-2022 Community Budget Meetings
- City Council Study Sessions and Initial Public Hearing on 2021-2022 Proposed Operating Budget, 2021-2022 Proposed Capital Budget and 2022-2026 Proposed Capital Improvement Program, and 2021-2022 Proposed Fees and Charges

June 2021

- 2021-2022 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2021-2022 Operating Budget, 2021-2022 Capital Budget and 2022-2026 Capital Improvement Program, and 2021-2022 Fees and Charges Adopted by City Council

CONCLUSION

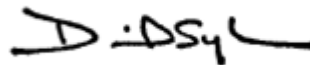
This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. A significant General Fund shortfall of \$48.1 million, almost 4% of the General Fund budget, is projected in 2021-2022, followed by very small surpluses ranging from \$0.2 million to \$4.4 million. These margins are narrow when considering the size of the General Fund budget that totals \$1.3 billion to \$1.4 billion annually over the forecast period (0.0% - 0.3% of the budget).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. This is even more true for this Forecast, as the status of the pandemic, the pace of vaccine rollout, the influence that the new COVID-19 virus variants may have on infection rates and vaccine efficacy, and how people and businesses respond and adapt after the pandemic subsides will all have enormous influences on the City's budget. It is also important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2020-2021, including resources to support the City's pandemic response and recovery efforts; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

The revenue and expenditure projections for 2021-2022 will continue to be refined over the next several months as additional information becomes available. This includes additional Property Tax roll growth data that is updated each month, or any new economic data that would substantially alter assumed revenue growth across economically sensitive categories. The City may also receive news regarding additional pandemic relief and stimulus funding from the Federal government that could have a significant positive impact on the City's short-term budgetary position and provide resources to continue the City's pandemic response and recovery efforts. Based on this additional data, any necessary adjustments will be incorporated into the 2021-2022 Proposed and Adopted Operating Budgets, as appropriate.

This document also provides the recommended 2021-2022 City Manager's Budget Request (Budget Balancing Strategy Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. The over-arching goals of these guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner.

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



David Sykes
City Manager

*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three 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 2021-2022 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 that affect the City's revenue collections.

- ❑ **Base Case** – The Base Case Forecast is built on the assumption of the economy rebounding from the declines experienced from the COVID-19 pandemic. As this region continues to emerge from public health order restrictions, it is anticipated to continue benefitting from a high level of venture capital investment in the technology industry, employment growth, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to rebound from the declines experienced in 2020, resulting in City's revenues exceeding pre-pandemic levels. Economically sensitive General Fund revenues such as Property Tax, Sales Tax, and Transient Occupancy Tax receipts will remain strong throughout the forecast period.
- ❑ **Optimistic Case** – The Optimistic Case Forecast assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. Venture capital investments, the key driver of the technology sector of the economy, are extremely high in each year of the forecast in the Optimistic Case. As a result, the area's largest technology employers are doing much better than in the Base Case. Local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Inflation is also expected to be higher than in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.
- ❑ **Pessimistic Case** – The Pessimistic Case Forecast assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case, and is strongly influenced by the pandemic's persistence as new variant transmission rates allows for a resurgence of the virus in the summer and fall of 2021-2022. Significantly lower growth is assumed for several of the key determinants of the City's revenue; local employment, local housing prices and number of property sales, and local inflation are all lower than those of the Base Case. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

As with all forecasts, this General Fund Forecast is based on a series of assumptions regarding the overall economic environment, both now and in the future. These assumptions were reached after reviewing the projections included in a number of economic forecasts. The economic conditions and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the City Manager's 2021-2022 Proposed Operating Budget, scheduled for release on May 3, 2021.

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

Current National Economic Conditions

Prior to the pandemic, the United States was experiencing the longest economic expansion in United States history. However, in spring 2020, as a result of the pandemic, the United States economy suddenly plunged into a recession, which lasted until summer 2020. After a very difficult 2020, the economy is anticipated to continue rebounding in 2021, even with the continued public health restrictions. Additionally, several crucial United States economic sectors are performing well, which is bolstering the United States economy, including the housing construction and technology sectors.

Housing, one of the most critical sectors in the United States economy is thriving. New home sales are continuing to rise, home prices are experiencing significant growth, and new home construction is strong. One of the primary drivers of the robust housing sector are low mortgage rates. In addition, the housing sector is performing well due to home purchasers leaving large urban centers to relocate in outlying areas, which is spurring new construction demand in those areas. These relocations are driven in part by the rising number of employees working from home due to shelter-in-place mandates, plus homeowner's desire to relocate to areas perceived as less vulnerable to problems facing big cities.

The technology sector is another very rapidly growing area of the economy. Both existing technology businesses and newly minted IPOs are driving the technology sector's rapid expansion. E-commerce and associated web experiences and related businesses are thriving, with their stocks outperforming all other sectors. In addition, the emergence of the electric cars industry will further elevate this sector in the near-term future, as electric cars are heavily technology dependent mostly in the form of software. While not yet in full production mode, electric vehicles are continuing to increase production, therefore the much-needed software for these cars will continue to be in great demand. Other areas of technology that are also becoming increasingly important include artificial intelligence, biotech, and environmental technologies, which are all growing rapidly.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Venture capital, the driving force of the technology sector, remained resilient in 2020, despite the COVID-19 pandemic. 2020 set new records in total deal values, exit value, and capital raised for venture capital funds; finishing the year with \$156.2 billion invested. There was a total of 321 mega deals (deals over \$100 million) in 2020, which represented an astonishing 35% increase over the previously historic 2019 level. However, first-time financing activity fell sharply, providing a more challenging fundraising environment for newer entrepreneurs. Female founders and entrepreneurs in the middle of the country, who have traditionally been under-represented in venture capital funding, also felt the impact of investors largely allocating capital to existing portfolio companies or known relationships. In addition, 2020 seemed to mark a turning point in the search for more feasible alternatives for going public. Bobby Franklin, President and Chief Executive Officer of the National Venture Capital Association stated “Despite facing macro headwinds from the COVID-19 pandemic for most of 2020, the US VC industry remained resilient on a broad level. Overall, 2020 posted record investment into high-growth startups, record capital raised by VC funds, and the second-highest year for VC-backed exit value. However, underneath the surface of those topline stats exists an increasingly concentrated industry with divergent outcomes for established players and newcomers.”¹ Looking forward, the venture capital market will continue to be heavily influenced by outcomes related to the pandemic and the new presidential administration.

Another key driver to the U.S. economy is energy production. The energy sector is one of the backbones of the United States economy, with petroleum accounting for approximately one-third of the nation’s energy production. While oil production had been generally decreasing for many years, beginning in 2009, more cost-effective drilling and production technologies helped boost oil production.² United States crude oil and petroleum product net imports fell for many years, and beginning in September 2019 the United States became a net exporter (instead of a net importer) of crude oil and petroleum products for the first time since the 1940’s.

The average crude oil price experienced sharp declines in 2015-2016, with the average Brent price per barrel dropping from \$96 in 2014 to \$41 in 2016. Beginning in 2017, production decreases and healthy economic growth resulted in oil prices increasing to an average Brent price per barrel of \$54 in 2017 and \$72 in 2018. In 2019, the Brent crude oil prices totaled an average \$64 per barrel and based on production and demand at that time, it was anticipated that the average Brent crude oil price would average \$65 per barrel in 2020 and \$68 per barrel in 2021. However, due to the weakened demand as a result of the pandemic, the average Brent crude oil price in 2020 was less than \$42. In early 2021, the Brent crude oil price was forecasted to remain between \$52-\$56 per barrel in 2021³; however, due to the colder than normal weather experienced in the many states in February 2021, crude oil prices may rise over \$60 per barrel. It is important to note that crude oil prices are consistently monitored and the forecasted price per barrel can change many times throughout the year.

¹ National Venture Capital Association and PitchBook, Venture Monitor, 4th Quarter 2020

² U.S. Energy Information Administration, U.S. Energy Facts Explained, Updated May 7, 2020

³ U.S. Energy Information Administration, Short-Term Energy Outlook, February 2021

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

National Economic Outlook

Prior to the pandemic that began in late February/early March 2020, the United States economy had been steadily expanding for almost a decade. The pandemic created not only a public health crisis, but an economic crisis as well. As a result of the pandemic, employment levels fell, the Gross Domestic Product (GDP) experienced its steepest quarterly drop on record, and several economic sectors such as entertainment, leisure, hospitality, travel, and recreation were decimated. However, after a difficult 2020, the outlook is cautiously optimistic for 2021, which is based on assumptions regarding several key economic indicators, including GDP, unemployment, inflation, and consumer confidence.

Following extremely high annualized GDP growth in the 3rd quarter of 2020, weak growth is anticipated in the 4th quarter of 2020 and the 1st quarter of 2021. However, as the vaccinations become more widely available for the general public in 2021, robust GDP growth is anticipated in the 2nd quarter of 2021, followed by consistent positive growth into 2023.

Unemployment levels hit record highs in 2020 as the COVID-19 pandemic shut down the national economy. However, in 2021 the unemployment rate is anticipated to decline as the economy continues to improve and more people are able to re-enter the labor market. Additionally, as many schools transitioned to distant learning due to the pandemic, many women were forced to leave the labor market in order to homeschool or provide childcare for their children. As schools continue to re-open, these women will once again enter the labor market, which will drive unemployment figures down as well.

Inflation is anticipated to average 1.8% for 2020 and remain at levels near 2.1-2.2% through 2023. Low inflation is anticipated due to excess capacity in the economy absorbing the surge in consumer demand, without leading to an increase in prices.⁴ This low inflation level means the Federal Reserve will likely leave the fed funds rate (which determines the course of all other interest rates) at very low levels through the end of 2023.

On a national level, consumer confidence improved in January and February, but continues to remain below pre-pandemic levels. According to Lynn Franco, Senior Director of Economic Indicators at The Conference Board, “After three months of consecutive declines in the Present Situation Index (consumers’ assessment of current business and labor market conditions), consumers’ assessment of current conditions improved in February. This course reversal suggests economic growth has not slowed further. While the Expectations Index (consumers’ short-term outlook for income, business, and labor market conditions) fell marginally in February, consumers remain cautiously optimistic, on the whole, about the outlook for the coming months. Notably, vacation intentions – particularly plans to travel outside the U.S. and via air – saw an uptick this month, and are posted to improve further as vaccination efforts expand.”⁵

⁴ UCLA Anderson Economic Forecast, December 2020

⁵ The Conference Board, Consumer Confidence Survey, February 2021

ELEMENTS OF THE GENERAL FUND FORECAST

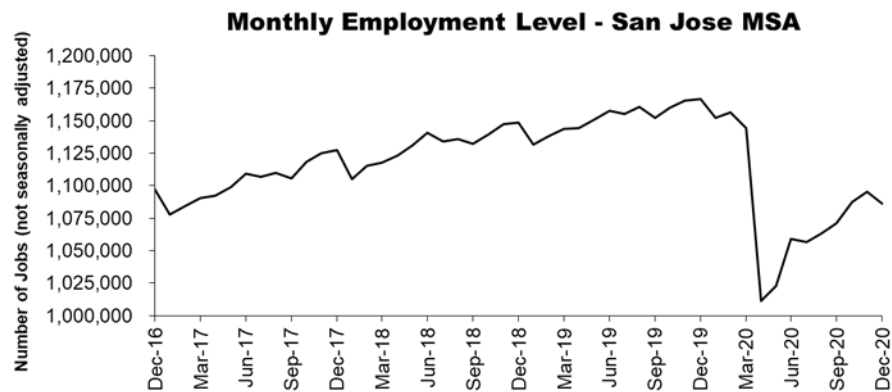
ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Current City of San José Economic Conditions

Economic conditions in the Silicon Valley significantly changed in Spring 2020 as a result of the pandemic. Due to uncertainty regarding the timing of when a vaccine will be widely distributed, a steep rise in COVID-19 cases during the fall and winter months, and ongoing social distancing requirements, economic conditions are anticipated to continue to be suppressed during the remainder of 2020-2021.

The December 2020 employment level of 1.09 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) dropped by 80,300 jobs, or 6.9%, from the December 2019 level of 1.17 million. This decrease includes leisure and hospitality jobs dropping by 33,400



jobs; manufacturing declining 10,900 jobs, and the information industry declining by 10,300 jobs.⁶ However, as shown in the chart above, since the initial sharp employment decline at the beginning of the shelter-in-place, employment levels have increased by 75,100 jobs, or 7.4%, from April 2020 through December 2020.

After topping at 12.0% in April, the local unemployment rate has significantly dropped. In December 2020, the local unemployment rate was 6.0%, which is significantly lower than April 2020 (12.0%) and July 2020 (9.5%). Additionally, while local unemployment figures have risen since the shelter-in-place mandate began, the unadjusted rates continue to be lower than the State and the national levels.

Unemployment Rate (Unadjusted)				
	Dec. 2019	April 2020	July 2020	Dec. 2020**
San Jose Metropolitan Statistical Area*	2.3%	12.0%	9.5%	6.0%
State of California	3.7%	16.2%	13.9%	8.8%
United States	3.4%	14.4%	10.5%	6.5%
* San Benito and Santa Clara Counties Source: California Employment Development Department. ** December 2020 estimates are preliminary and may be updated.				

⁶ State of California Employment Development: Labor Market Information Division Press Release, January 22, 2021

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Overall construction activity through December 2020 increased 17.2% from prior year levels. The increase is primarily due to extremely strong commercial activity occurring in the first quarter of the fiscal year. The 2020-2021 Adopted Budget was developed with the expectation that private development activity would remain strong, but would be significantly weaker than previous years.

Through December 2020, residential permit valuation has decreased 12.5% from prior year levels (\$203.6 million through December 2020; \$232.8 million through December 2019). Residential activity through December included 585 multi-family units and 271 units for single-family construction for a total of 856 units.

Commercial valuation through December experienced growth of 108.1% from the prior year level (\$921.7 million through December 2020; \$442.9 million through December 2019). Extremely strong commercial activity in the first quarter of the fiscal year (\$741.8 million) was followed by more typical valuation in the second quarter (\$179.8 million). The permit for one large new commercial office building in downtown San José accounted for more than half the valuation in the first quarter (\$415.0 million). The months of November and December were a modest \$39.6 million, with additions/alterations (\$24.7 million) accounting for most of the commercial activity.

Industrial construction valuation through December was 46.6% lower than prior year levels, with receipts totaling \$278.6 million through December 2020 and \$552.0 million through December 2019, which was an historically high figure. The current fiscal year, however, is 33.7% higher than the 2018-2019 valuation level through December (\$208.4 million). Similar to the same period for last year, a spike in permit valuations in July drove the strong valuation level thru December of this fiscal year. Industrial activity for November and December was similar for both new construction and additions/alterations (new construction of \$14.6 million; alterations of \$15.3 million).

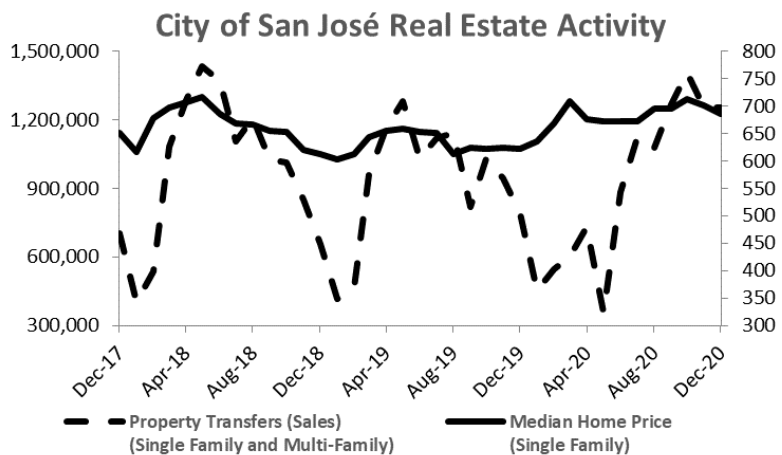
Private Sector Construction Activity (Valuation in \$ Millions)			
	YTD December 2019	YTD December 2020	% Incr eas e
Residential	\$ 232.8	\$ 203.6	(12.5%)
Commercial	\$ 442.9	\$ 921.7	108.1%
Industrial	\$ 552.0	\$ 278.6	(46.6%)
TOTAL	\$ 1,197.7	\$ 1,403.9	17.2%

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Real estate activity was anticipated to be sluggish in 2020-2021 due to higher unemployment rates coupled with lower consumer confidence. According to data from the Santa Clara County Association of Realtors, the number of property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranged from 10%-54% between the beginning of the shelter-in-place through June. However, beginning in September, the local real estate market once again began to experience year-over-year gains. Through December, there were a total of 4,099 property transfers for all residences, which represents growth of approximately 18% from December 2019 levels. In addition, median single family home prices remain strong. As of December 2020, the median single family home price totaled \$1.23 million, which represents a 14.4% increase from the December 2019 price of \$1.07 million.



City of San José Economic Outlook

Similar to the cautiously optimistic outlook regarding the national economy, the local economy is anticipated to experience growth in 2021, which will continue over the five-year forecast. While unemployment levels rose sharply in spring 2020, they have remained consistently well below national levels. However, while venture capital investment, a key determinant of employment levels in Silicon Valley, is still strong, the pace of investment may slightly slow over the next five-year period, which would negatively impact employment growth. The local real estate market is also anticipated to remain strong over the course of the forecast, including home prices and property sales.

Many policies and decisions made at the national level significantly influence the local economy. Near-term economic conditions are anticipated to improve if the stimulus package currently being considered in Washington D.C. passes. Additionally, foreign investment, primarily in technology and real estate, are vital to the local economy, which is anticipated to remain strong during the forecast period.

Taken together, after experiencing sharp declines in 2020, the City of San José is anticipated to rebound over the first few years of the forecast period among economically sensitive revenues such as Sales Tax, Business Tax, and Transient Occupancy Tax receipts.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Optimistic Case Forecast

The Optimistic Case Forecast assumes somewhat faster economic growth than anticipated in the Base Case. There is, however, one key economic variable for this scenario which increases at a faster rate than what would occur even in a higher economic growth scenario – the inflation rate. Higher inflation is a tonic for the City’s revenue streams since higher inflation rates will tend to increase almost all of its tax revenues except for the Gas Tax.

Both the higher inflation and the higher economic activity of the Optimistic Case are distributed across the forecast period. A higher near-term inflation is assumed in the case as the result of large stimulus measures passed by Congress this calendar year. This higher inflation begins in the 2021-2022 summer and extends through most of next year and then declines but still remain above the inflation rates of the entire base case.

Sales Tax revenues benefit greatly from higher inflation, with higher prices at the retail level which translates directly into higher tax collections. Revenue from the Transient Occupancy Tax rise the fastest in the Optimistic Case compared to any other City revenues. The higher inflation assumption promotes increases in room rates while the increased levels of economic activity in this case increases occupancy rates. Rising room prices and occupancies lead directly to higher revenues for hotels and so higher tax collections. The number of hotel rooms coming online during the forecast period also causes this revenue to rise even faster. Utility Tax and Franchise Fees rise only moderately above the Base Case. These increases arise from the higher of rate inflation which increase utility rates and the increasing levels of economic activity which increase usage. Most affected are the electricity related revenues which rise faster than the other utilities such as natural gas and water and usage. The Gas Tax revenue is actually lower in the high case because the rising inflation increases gasoline prices which lowers gasoline consumption. The Gas Tax is a per gallon tax so lower consumption results in lower tax revenues. The Gas Tax is the only City revenue to decline in the Optimistic Case.

Pessimistic Case Forecast

The Pessimistic Case Forecast assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case Forecast, and these lower growth rates persist through the duration of the five-year projection. In this case, the COVID-19 resurges even with the vaccination of much of the population. The new virus variant transmission rates are so much higher than current COVID-19 that these new variants transmissions overcome the progress from vaccinations. This resurgence of the virus occurs in the summer and fall of 2021-2022 for this case.

Revenue from Sales Tax are much lower than the Base Case with the next two years having negative growth rates, with 2021-2022 in particular is hard hit. This sharp decline in 2021-2022 is in contrast to the very strong positive growth rate for sales taxes in the Base Case. Property Tax revenue is lower in this case, though this revenue is not as impacted by COVID-19 related

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Pessimistic Case Forecast

restrictions as other revenues. Median home prices and number of home resales are lower in the Pessimistic Case. One aspect of the Property Tax, which sets it apart from other revenues, is that it is much slower to recover from declines than other revenues – there is a long lead time from when real estate conditions actually improve to when these improvements are translated to higher assessments and then actually show up as property tax collections in the City’s revenues. Another cause for the slow recovery is Proposition 8 appeals, which tend to drag down growth even after conditions have improved in the real estate markets as homeowners appeal previous assessments.

In the Pessimistic Case, the Transient Occupancy Tax revenues only grow by a miniscule 3% in 2021-2022 and recovers much more slowly than it does in the Base Case. This relatively slow recovery is because of overall lower economic activity, lower inflation which lowers room rates, and a slightly lower number of new hotel rooms coming online than for the Base Case. Utility Tax and Franchise Fees are much lower compared to Base Case for the next several years as well. These taxes, particularly for electricity, decline with the lower levels of economic activity expected in this scenario. Like many of the City’s revenues, these utility related taxes begin a long climb back to normal levels after 2021-2022 but in this scenario, they never recover to the levels of the Base Case. Gas Tax revenues are actually higher in this scenario than in the base case due to the decline of oil prices. Lower oil prices reduce gas prices, which leads people to consume greater quantities of gasoline in this scenario. The Gas Tax is collected on a per gallon basis, so more gallons sold means higher tax collections.

Impact of Forecasted Economic Conditions on Revenue Collections

The economic conditions discussed above are the primary drivers for the economically sensitive revenues, with the most significant impacts in the Property Tax and Sales Tax categories. Performance in other areas, however, is primarily driven by other factors. For example, the Franchise Fee and Utility Tax categories, while certainly influenced by the economy, 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 2021-2022 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2020-2021 and build upon those projections to develop the 2021-2022 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 2021-2022 Proposed Operating Budget scheduled to be released on May 3, 2021.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown to increase from \$1.31 billion in 2020-2021 to \$1.34 billion in 2025-2026, for an average growth rate of 4% per year.

General Fund 2022-2026 Forecast Revenue Summary

General Fund Revenue Category	Modified Budget	Forecast				
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
General Revenues						
Property Tax	361,500,000	386,100,000	405,984,000	428,273,000	450,329,000	471,945,000
Sales Tax	262,500,000	280,200,000	294,490,000	307,065,000	322,142,000	335,253,000
Transient Occupancy Tax	5,500,000	10,000,000	15,000,000	17,130,000	18,483,000	19,444,000
Real Property Transfer Tax	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Franchise Fees	45,921,096	44,501,000	45,173,000	45,954,000	46,979,000	48,168,000
Utility Tax	95,800,000	97,060,000	98,312,000	99,905,000	102,143,000	104,819,000
Telephone Line Tax	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Business Tax	63,900,000	74,500,000	75,945,000	76,553,000	77,165,000	77,783,000
Licenses and Permits	19,894,447	19,542,643	20,331,000	21,079,000	21,823,000	22,565,000
Fees, Rates, and Charges	8,575,702	14,590,339	15,179,000	15,738,000	16,293,000	16,846,000
Fines, Forfeitures and Penalties	9,730,100	8,676,000	8,863,000	9,073,000	9,235,000	9,345,000
Revenue from Money and Property	11,769,800	9,304,000	9,341,000	9,453,000	9,652,000	9,845,000
Revenue from Local Agencies	23,291,739	15,490,023	15,943,000	16,446,000	16,945,000	17,435,000
Revenue from the State	15,137,455	12,130,000	12,130,000	12,130,000	12,130,000	12,130,000
Revenue from Federal	7,859,131	-	-	-	-	-
Other Revenue	200,910,694	8,420,324	8,444,000	8,472,000	8,509,000	8,552,000
Gas Tax	15,000,000	16,000,000	14,965,000	14,275,000	13,852,000	13,736,000
Total General Revenues	1,207,290,164	1,056,514,329	1,100,100,000	1,141,546,000	1,185,680,000	1,227,866,000
Transfers & Reimbursements						
Overhead Reimbursements	69,197,893	66,185,738	68,857,000	71,390,000	73,909,000	76,420,000
Transfers	36,578,485	28,360,478	28,972,000	29,416,000	30,073,000	30,843,000
Reimbursements for Services	745,997	788,507	820,000	851,000	881,000	910,000
Total Transfers & Reimbursements	106,522,375	95,334,723	98,649,000	101,657,000	104,863,000	108,173,000
Total General Fund Revenues	1,313,812,539	1,151,849,052	1,198,749,000	1,243,203,000	1,290,543,000	1,336,039,000
Beginning Fund Balance	400,283,991	68,785,000	63,899,000	64,473,000	66,296,000	68,151,000
Grand Total Sources	1,714,096,530	1,220,634,052	1,262,648,000	1,307,676,000	1,356,839,000	1,404,190,000

Understanding the basis for the revenue estimates included in this Forecast requires a discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2022-2026 General Fund Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. In 2020-2021 Property Tax receipts of \$370.2 million are projected, which is slightly above the modified budget estimate (\$361.5 million; 2.4%) and the 2019-2020 actual collection level (\$369.5 million; 0.2%). In 2021-2022, Property Tax receipts are anticipated to grow overall by approximately 4% from estimated 2020-2021 levels to \$386.1 million. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Taxes account for over 90% of the revenues in this category. The Secured Property Tax category includes general Secured Property Tax, Educational Revenue Augmentation Fund (ERAF) revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax. In 2020-2021, Secured Property Tax receipts are anticipated to total \$344.4 million, including \$315.1 million in general Secured Property Taxes, \$18.0 million in ERAF revenue, and \$11.3 million from SARA Residual Property Tax receipts. In 2021-2022, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2021, are expected to increase by approximately 5.5% to \$363.5 million. This increase reflects underlying growth of 3.5% for secured receipts, plus an additional \$7.0 million in SARA Residual Property Tax receipts, which is further described below.

The general Secured Property Tax receipts are estimated at \$315.1 million in 2020-2021, which is 5.1% above the 2019-2020 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2%, and increased valuation due to changes in ownership or new construction. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. On a County-wide basis, the 2020-2021 roll growth was driven primarily by changes in ownership (48.3%), change in the CCPI (27.3%), and new construction (24.0%).

In 2021-2022, the general Secured Property Tax receipts are estimated to grow by 3.5%, reflecting a 1% CCPI and 2.5% increased valuation. Due to impacts related to the COVID-19 pandemic, the CCPI adjustment for the 2021-2022 tax roll is 1%, which is below the prior year level (which is typical of most years) of 2%. In addition, while high residential property sale prices are anticipated to continue being a positive factor driving growth in this category, the COVID-19 pandemic is estimated to continue negatively impacting commercial real estate activity. Therefore, while general Secured Property growth has ranged from 5% to 8% since 2014-2015, growth of only 3.5% is anticipated in 2021-2022.

In addition to the changes in assessed value, Secured Property Tax collections are impacted by excess ERAF revenue. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

obligations, the remainder is to be returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. Due to a State-required change regarding the calculations of ERAF, 2020-2021 revenues are estimated at \$18.0 million, which reflects a 22% decline from 2019-2020 actual receipts and a 40% decline from collections that would have been received in 2020-2021 if the calculations were not revised. In 2021-2022, ERAF receipts are anticipated to grow by 3.5% to \$18.6 million. After the City receives an official ERAF estimate from the County later in March, these figures may be revised with the release of the 2021-2022 Proposed Operating Budget.

The final component of the Secured Property Tax category is the SARA Residual Property Tax receipts. As a result of the SARA bond refunding that occurred in December 2017, the City receives a residual property tax distribution. In 2019-2020, SARA Residual Property Tax receipts totaled \$21.1 million, but are anticipated to drop to \$11.3 million in 2020-2021. This decrease is the result of a State of California Appellate Court decision, which revised the distribution formula related to all California residual property tax revenue from former Redevelopment Agencies, resulting in a loss of approximately \$10 million in 2020-2021 to the City of San José. Of this amount, approximately \$7 million reflected a one-time reduction for the payback of prior years, and \$3 million reflected an ongoing decrease. In 2021-2022, SARA Residual Property Tax receipts are estimated at \$18.9 million, which reflects the reinstatement of the one-time payback of \$7 million and underlying growth of 3.5%.

It should be noted that final data on the actual tax levy for 2021-2022 is not yet available as adjustments are made through June 30, 2020. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Some of the adjustments, however, are not reflected until the latter months of a given fiscal year, such as the reassessments of commercial property. Due to the COVID-19 pandemic, larger adjustments to commercial property than normally occur is anticipated. As updated information becomes available, refinements to the Property Tax estimates may be brought forward during the 2021-2022 budget process.

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases or decreases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through January and information provided by Santa Clara County, Unsecured Property Tax receipts are estimated at \$15.8 million in 2020-2021, which is slightly above the prior year collection level of \$15.5 million. In 2021-2022, due to COVID-19 pandemic's impact on local businesses, Unsecured Property Taxes are estimated to drop 15% and total \$13.5 million.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

For the other Property Tax categories, 2020-2021 collections are estimated at \$10.0 million in 2020-2021 and \$9.1 million in 2021-2022. **SB 813 Property Tax** receipts are estimated at \$6.0 million in 2020-2021 and \$5.1 million in 2021-2022; **Aircraft Property Tax** receipts are estimated at \$3.1 million in 2020-2021 and 2021-2022; and **Homeowners Property Tax Relief** revenue are anticipated to total approximately \$900,000 in 2020-2021 and 2021-2022.

In the out-years of the Forecast, annual Property Tax receipts are projected to increase approximately 4.8% to 5.5% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

Sales Tax

As shown in the following table, the City receives 1.25% of the 9.25% Sales Tax collected for items sold in San José. The distribution percentage includes a 0.25% local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years). The City also receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected State-wide.

Agency	Distribution Percentage
State of California	5.500%
City of San José	1.000%
City of San José (Local Tax)	0.250%
Public Safety Fund (Proposition 172)	0.500%
Santa Clara County (Including VTA)	2.000%
Total	9.250%

In March 2020, as the COVID-19 pandemic rapidly accelerated, the County of Santa Clara instituted a shelter-in-place order, which severely restricted economic activity. The shelter-in-place and subsequent public health orders have impacted almost all sectors of Sales Tax revenue, including retail sales, transportation, and business-to-business. Information related to Sales Tax payments are distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity), February (representing October-December activity), May (representing January-March activity), and August (representing April-June activity). Based on information received through February 2021 (which reflects two quarters of Sales Tax activity; from July 2020 through December 2020), it is anticipated that 2020-2021 Sales Tax revenue will total \$269.0 million. In 2021-2022, receipts are estimated at \$280.2 million, which reflects overall growth of approximately 4%. Additional information about each of the Sales Tax sub-categories is provided below.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

General Sales Tax is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 2020 and February 2021, respectively. When excluding revenue associated with the Revenue Capture agreement with eBay, Inc. (which was not received in the first quarter of 2019-2020), receipts in 2020-2021 have declined approximately 9% from the 2019-2020 collection level. However, 3rd and 4th quarter receipts (January through June activity) are anticipated to experience growth of 5%-6% compared to 2019-2020 levels, which had significant declines due to the strict shelter-in-place mandates that began in March 2020. Based on these assumptions, General Sales Tax collections are anticipated to total \$219 million in 2020-2021, which reflects a decrease of 3% from the 2019-2020 collection level (excluding the Revenue Capture Agreement, which was only received in three quarters of 2019-2020).

Most General Sales Tax categories have experienced significant declines from the prior year, with the exception of Construction and the County Pool. The first quarter General Sales Tax payment reflected growth of 3.7% in Construction and 42.0% growth for the County Pool, while reflecting negative growth within the transportation, general retail, business-to-business, and food products sectors ranging of -17.5% to -26.2%. The County Pool's significant growth is attributable to the surge in online purchases during the pandemic, and facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 40% - 50% of the total County Pool.

In 2021-2022, as the COVID-19's vaccine rollout continues and shelter-in-place mandates are continued to be eased, General Sales Tax activity is anticipated to improve. The 2021-2022 General Sales Tax revenue is anticipated to experience underlying growth of 7%; however, it is also estimated that collections associated with the Revenue Capture Agreement may decrease slightly as people shift some online spending to general retail (brick and mortar) shopping. Therefore, the 2021-2022 General Retail Sales Tax estimate of \$228 million reflects underlying growth of 7%, but overall growth of only 4% from the prior year collection level.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 40% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

Similar to General Sales Tax, Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and for the second quarter (sales tax activity from October-December) were received in November 2020 and February 2021, respectively. Receipts through the first two quarters reflect a decline of approximately 5% from the prior year. However, 3rd and 4th quarter receipts (January through June activity) are anticipated to have growth of 10% compared to 2019-2020 levels, which had significant declines due to the strict shelter-in-place mandates that began in March 2020. Based on these assumptions, Local Sales Tax collections are anticipated to total \$44 million in 2020-2021, which is fairly consistent with the prior year level. In 2021-2022, Local Sales Tax revenue is anticipated to grow approximately 5% to \$46.0 million. This increase reflects improvements due to the anticipation of shelter-in-place mandates easing and the economy continuing to improve.

Proposition 172 Sales Tax collections (representing the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total \$6.0 million in 2020-2021 and grow approximately 4% to \$6.2 million in 2021-2022.

In the out-years of the Forecast, annual Sales Tax performance is expected to show growth of 4.1% to 5.1% annually.

Transient Occupancy Tax

In 2020-2021, Transient Occupancy Tax (TOT) receipts in the General Fund (which represent 40% of the total tax) are estimated to reach \$5.5 million, reflecting a 61% drop from the 2019-2020 collection level of \$14.1 million, and a 73% decline from the 2018-2019 collection level of \$20.5 million. The drastic decline in TOT receipts beginning in spring 2020 illustrate the contraction in hotel activity in response to the COVID-19 pandemic. Through December 2020, the average hotel occupancy rate reported for the San José market was 36.7%, a steep drop from the same period in 2019-2020 (74.1%). Average room rates also decreased by 46.9%, from \$191.50 to \$101.70, and the year-to-date average revenue-per-available room (RevPAR) decreased 73.7%, from \$141.96 to \$37.33, relative to the same period in 2019-2020.

Beginning in 2021-2022, as vaccines become more widely available and travel restrictions are lifted, hotel activity is anticipated to steadily rebound. The 2022-2026 General Fund Forecast projects TOT receipts will increase by approximately 82%, to \$10.0 million in 2021-2022, and increase an additional 50% to \$15.0 million in 2022-2023. In the remaining out-years of the Forecast, growth ranging from 5.2% to 14.2% are anticipated. These figures incorporate the City's internal review of available data along with information received from the City's consultants, forecasted economic and convention performance, and other correlated economic variables. However, the growth assumptions used in the development of this Forecast are more conservative than those assumed by the City's consultant, Tourism Economics, which projected potential annual growth ranging from 127% to 5% over the forecast period.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, City-Generated Tow, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at \$45.8 million in 2020-2021, which is approximately 3% above the prior year receipts of \$44.4 million. In 2021-2022, Franchise Fees are expected to decrease approximately 3% to \$44.5 million, which primarily reflects drops in the Electric, Gas, and Cable Franchise Fees.

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 2020-2021 are based on calendar year 2020 and revenues in 2021-2022 will be based on calendar year 2021). Year-end estimates are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories. The reconciliation of annual receipts from PG&E for 2020-2021 will be received in April 2021.

In the **Electricity Franchise Fee** category, collections in 2020-2021 are anticipated to reach \$18.8 million, reflecting growth of approximately 9% from the 2019-2020 receipts. This estimate takes into consideration the actual collection patterns for electricity utility tax receipts in calendar year 2020. Due to the COVID-19 pandemic and the resulting stay-at-home orders, electricity usage increased in late 2019-2020 through 2020-2021, which will result in higher Electricity Franchise Fee receipts. However, as stay-at-home orders are lifted and the COVID-19 vaccine becomes more widely available, people will return to work and school, which may negatively impact fee receipts in 2021-2022. Therefore, in 2021-2022, Electricity Franchise Fee collections are projected to decrease by approximately 5% to \$17.9 million

In the **Gas Franchise Fee** category, the 2020-2021 estimated collections of \$6.2 million reflects a 5% increase from prior year receipts of \$5.9 million. This estimate takes into consideration the actual collection patterns for gas utility tax receipts in calendar year 2019. Similar to the Electric Franchise Fee, gas usage increased in late 2019-2020 through 2020-2021 due to more people staying at home. However, in 2021-2022 Gas Franchise Fee collections are projected to decrease by approximately 5% to \$5.9 million as more people return to work and school. It is important to note, however, that receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach \$12.3 million in 2020-2021, 1.8% above the prior year collections, which is due to the 2020-2021 CPI-based increase. Collections reflect the revised methodology for assessing this fee that became effective July 1, 2012. On October 19, 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure is a base of \$5 million per year for each of two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District. This revised structure is subject to an annual increase based on the percentage change in the CPI rate during the prior two calendar years. It should be noted that this increase is not automatic, and is subject to City Council approval each year. Therefore, the 2021-2022 estimate of \$12.3 million

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

is consistent with the 2020-2021 estimate and does not automatically assume a CPI adjustment. This adjustment will be brought forward as a proposed change in the 2021-2022 Proposed Operating Budget.

In the **Cable Franchise Fee** category, the estimated 2020-2021 collections of \$8.3 million is 5% below the prior year receipts of \$8.7 million. In addition, revenue in 2021-2022 is anticipated to drop an additional 2% to \$8.1 million. As people continue to move from cable to less expensive streaming options (that do not include a Franchise Fee), this revenue source is anticipated to continue to decline.

Remaining franchise fees include the **City Generated Tow, Great Oaks Water, and Nitrogen Gas Pipeline** categories. City Generated Tow receipts are estimated at \$0 in 2020-2021 and \$50,000 in 2021-2022 (these low levels are associated with the pandemic's impact on the Tow program), Great Oaks Water receipts are estimated at \$210,000 in 2020-2021 and \$216,000 in 2021-2022, and Nitrogen Gas Pipeline receipts are estimated at \$65,000 in 2020-2021 and 2021-2022.

In the out-years of the Forecast, Franchise Fee revenues are anticipated to increase by 1.5% to 2.5%. However, it is important to keep in mind that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels.

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2020-2021 are anticipated to total \$100.2 million, which is slightly above the 2019-2020 collection level of \$99.5 million. In 2021-2022, Utility Tax collections are projected to decrease approximately 3% to \$97.1 million. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases; however, it does take into account changes already approved. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

The **Electricity Utility Tax** is anticipated to generate \$51.1 million in 2020-2021, a 5% increase from prior year levels. Due to the COVID-19 pandemic and the resulting stay-at-home orders, electricity usage increased in late 2019-2020 through 2020-2021, which is driving up the Electricity Utility Tax receipts. However, as stay-at-home orders are lifted and the COVID-19 vaccine becomes more widely available, people will return to work and school, which may result in less Electricity Utility Tax receipts in 2021-2022. Therefore, the 2021-2022, Electricity Utility Tax revenues are estimated to decrease 5% to \$48.5 million.

The **Gas Utility Tax** is anticipated to generate \$12.3 million in 2020-2021, a 9.6% increase from the 2019-2020 collection level. Similar to the Electricity Utility Tax, gas usage increased in late 2019-2020 through 2020-2021, due to the stay-at-home orders. Additionally, gas rates have risen,

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Utility Tax

which increases collection levels. In 2021-2022, as more people return to work and school, Gas Utility Tax receipts are anticipated to decrease by approximately 5% to \$11.7 million. It is important to note, however, that receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

Based on current year collection levels, **Water Utility Tax** receipts of \$16.5 million are anticipated to be received in 2020-2021; a decrease of approximately 2% from the 2019-2020 collection levels. In 2021-2022, water rates are anticipated to rise, therefore Water Utility Tax receipts are estimated at \$17.6 million, which reflects a 6.5% increase from the 2020-2021 anticipated collection level.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Receipts (excluding compliance revenue) in 2020-2021 are projected at \$20.3 million, an 11% drop from the 2019-2020 collection level. In 2021-2022, receipts are projected to decrease an additional 5% to \$19.3 million. The decline in this revenue category is the result of wireless consumers shifting to less expensive prepaid wireless plans, competition with cellular companies that keep prices down, and that the data component of wireless plans is not taxable.

In the out-years of the Forecast, conservative growth ranging from 1.3% to 2.6% annually is projected overall in the Utility Tax category. There is significant volatility and uncertainty regarding the performance in this category based on potential changes in rates and consumption levels. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts (excluding compliance revenue) in 2020-2021 and 2021-2022 are estimated to total \$20.0 million, which is consistent with the 2019-2020 actuals. Given the steady nature of collections in this category, receipts are anticipated to remain flat in the out-years of the Forecast as well.

Business Taxes

This category includes General Business Tax, Cardroom Business Tax, Cannabis Business Tax, and Disposal Facility Tax. Business Taxes are estimated to reach \$63.4 million in 2020-2021, a 10.5% drop from prior year levels, which is primarily due to decreased Cardroom and General Business Tax revenues. In 2021-2022, Business Taxes revenues are anticipated to increase 17.5% to \$74.5 million.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Business Taxes

Beginning in 2017-2018, **General Business Tax** collections reflect the modernization of the San José business tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017. The adjustments to the business tax included increasing the base tax, increasing the incremental tax and making it more progressive, increasing the cap (the maximum amount of the tax affecting large businesses), updating the application of the tax to more classes of business, and adding inflation-based adjustments for future tax rates. In 2020-2021, **General Business Tax** proceeds are anticipated to reach \$25.7 million, which is approximately 11% below the 2019-2020 collection level. This decrease reflects the COVID-19 pandemic's impact on local businesses. In 2021-2022, General Business Tax revenue is anticipated to remain flat as a result of a moderate annual inflation rate change, offset by reduced activity levels.

Cardroom Business Tax receipts are estimated at \$9.4 million, a 30% drop from the 2019-2020 collection level, and a 50% drop from the 2018-2019 collection level. As a result of the shelter-in-place mandate, cardrooms suspended operations in March 2020 and remained closed through August 2020. In September, public health orders were modified to allow cardrooms to begin outdoor operations with social distance requirements. However, cardrooms were only open for a limited period of time, before further health orders by Santa Clara County and then subsequently the State of California resulted in the closure of cardrooms from November 30 through January 27. As of the writing of this report, Cardrooms are once again operational, under modified restrictions. In 2021-2022, as health orders restrictions continue to ease, Cardroom Tax receipts are anticipated to increase to \$20.0 million. The estimates for Cardroom Tax receipts are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021.

Cannabis Business Tax collections began after the November 2016 California Marijuana Legalization Initiative (Proposition 64) was approved by voters and recreational marijuana use was legalized in California. As a result, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. Based on current collection trends, it is anticipated Cannabis Business Tax receipts will total \$17.0 million in 2020-2021, which is 6.8% above the prior year collections. In 2021-2022 receipts are projected to grow by approximately 3% to \$17.5 million.

Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream can vary due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. Based on current collection trends, 2020-2021 DFT collections are estimated at \$11.3 million, representing a 10% drop from 2019-2020 collection levels. In 2021-2022, receipts are anticipated to remain flat at \$11.3 million.

In the remaining years of the forecast, overall, the Business Tax category is expected to experience changes ranging from 0.8% to 1.9% per year.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Licenses and Permits and Fees, Rates, and Charges

The Licenses and Permits and Fees, Rates, and Charges categories contain fees and charges collected by various departments. Historically, a significant portion of the revenue captured in these categories were associated with development-related fees. However, beginning in 2020-2021, all revenue and expenditures related to the Development Fee Programs are no longer captured in the General Fund, and are instead allocated to specific Development Fee Program Funds.

Remaining non-development fees are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. The Licenses and Permits category is estimated to total \$19.2 million in 2020-2021 and grow slightly to \$19.5 million in 2021-2022.

Fees, Rates, and Charges revenue has been significantly impacted by the shelter-in-place mandate, especially Parks, Recreation and Neighborhood Services (PRNS) Departmental Charges. PRNS program delivery and revenue generation has been impacted in all fee categories, including: Happy Hollow Park and Zoo; Fee Activity (classes, camps, and after-school activities); Facility Rentals; Sports Facilities Reservations; Lake Cunningham Action Sports Park; Gym and Fitness; Parking; Park Permits; Arcadia Ball Park; Family Camp; and Aquatics Program. In 2020-2021, PRNS Fee Revenue is estimated at \$1.1 million, which is vastly below the 2019-2020 actual collection level of \$14.2 million and the 2018-2019 actual collection level of \$21.7 million. In 2021-2022, PRNS Fee revenue is anticipated to grow to \$9.0 million as health orders restrictions are eased. Overall, the Fees, Rates and Charges revenue category is estimated at \$6.3 million 2020-2021 and \$14.6 million in 2021-2022.

In the out-years of the Forecast, both the Licenses and Permits and Fees, Rates, and Charges categories are expected to experience annual growth ranging from 3.4% to 4.0%. The growth rates in the out-years are tied to the expected increases in personnel costs, which the fees are designed to recover, including salary, retirement, and health costs.

Fines, Forfeitures and Penalties

The Fines, Forfeitures and Penalties category is expected to generate \$5.8 million in 2020-2021 and \$8.7 million in 2021-2022. The largest component of this revenue category is Parking Fines, which are expected to generate approximately \$3.5 million in 2020-2021 and \$6.0 million in 2021-2022. These levels are far below historical Parking Fine collections of approximately \$11 million - \$12 million annually. Parking Fines activity has been significantly impacted by the COVID-19 pandemic as the Transportation Department have only been performing limited citations related to meter violations. Beginning in January 2021 enforcement of posted street sweeping restrictions restarted, which is anticipated to increase revenue generation. However, at this time there is no set timeline to begin to fully activate citations for meter violations or to resume enforcement of other types of violations. In the out-years of the Forecast, annual growth of approximately 1.2% to 2.4% is projected in this revenue category.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue from the Use of Money and Property

The Revenue from the Use of Money and Property category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, interest income, and small cell lease revenue. Overall revenue in this category is anticipated to generate \$9.6 million in 2020-2021 and reduce slightly to \$9.3 million in 2021-2022.

In the out-years of the Forecast, growth of 0.4% to 2.1% annually is assumed in the Money and Property category.

Revenue from Local Agencies

In 2020-2021, revenue of \$23.3 million is projected from other local agencies, such as the Central Fire District payment for fire services provided to County residents by the San José Fire Department, the County of Santa Clara payments for the Paramedic Program and Senior Nutrition, and the Valley Transportation Authority reimbursement for police services at the Berryessa BART station. In 2021-2022, revenue in this category is projected at \$15.5 million, which is \$7.8 million below the 2020-2021 estimate. The decrease in 2021-2022 revenue is primarily due to reimbursements and grants that are not secured on an ongoing basis being eliminated.

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on information provided by the Central Fire District, payments of \$8.1 million are anticipated in 2020-2021 and 2021-2022.

The Forecast assumes reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program), which totals \$3.0 million in 2020-2021 and 2021-2022. Funding for the Paramedic Program includes the equipment reimbursement component (Annex B, Category A funds; \$1.45 million) and service-related component (Annex B, Category B funds; \$1.55 million). In addition, the Forecast assumes reimbursement from the Valley Transportation Authority for police services at the Berryessa BART station, which totals \$2.2 million in 2020-2021 (which includes one-time costs associated with vehicle purchases) and \$2.1 million in 2021-2022.

In the out-years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by 2.9% to 3.2%.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach \$12.1 million in 2021-2022 and remain flat through the out-years of the Forecast. Tobacco

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue from the State of California

Settlement payments account for the majority of revenue in this category and are estimated at \$10.2 million in 2021-2022, which is consistent with the amount projected for 2020-2021.

The remaining State grants and reimbursements total \$1.9 million in 2021-2022, with the largest reimbursements for the Auto Theft program (\$800,000), Vehicle License Fees Collection in Excess (\$500,000), and Abandoned Vehicles Abatement program (\$500,000). Vehicle License Fees Collection in Excess account for the Vehicle License Fee revenues that are collected by the Department of Motor Vehicles as a result of certain compliance procedures that are equally apportioned to counties and cities on a population basis.

Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues. In 2021-2022 and the out-years of the Forecast, there is no funding assumed for this revenue category.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including cost reimbursements for the Investment Program, payments from Comcast and AT&T required under the Franchise Agreement, and payments for Sidewalk Repairs. In 2020-2021, this category is expected to generate \$198.2 million, which includes one-time revenue of \$130.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension benefits that are brought forward for City Council approval in June of each year along with the associated expenditure. Additionally, one-time funding of \$26.0 million is anticipated for the refunding of City Hall lease-revenue, and \$23.4 million is anticipated from commercial paper proceeds related to the construction of the Fire Training Center and Emergency Operations Center.

In 2021-2022, the Other Revenue estimate of \$8.4 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2021-2022 costs or agreements and the elimination of one-time funding sources. In 2021-2022, payments from Comcast and AT&T are estimated at \$1.6 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities; associated City-Wide Expenses appropriations are also allocated for this purpose. Sidewalk repair services are estimated at \$2.0 million (which has an expenditure offset in City-Wide Expenses). In addition, the cost reimbursement for the Investment Program as administered by the Finance Department is estimated at \$1.1 million based on the current allocation of staff to this function.

In the out-years of the Forecast, annual collections are expected to experience growth ranging from 0.3% to 0.5% annually.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2020-2021 are projected to reach \$15.5 million, which is consistent with the prior year actuals. Several factors impact collections, including falling gas prices that would support increased consumption and, as an offsetting factor, the move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In 2021-2022, as the shelter-in-place mandate is lifted, it is anticipated driving will increase, which will result in higher gas tax collections. Therefore, 2021-2022 collections are estimated at \$16.0 million, a 3% increase from current year levels. In the out-years of the Forecast, due to a combination of rising fuel prices, increased use of fuel-efficient or hybrid vehicles, and the increased use of electric vehicles, annual collections are expected to experience declines ranging from -0.8% to -6.5% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2021-2022, a total of \$66.2 million in overhead reimbursements are projected based on 2021-2022 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2021-2022 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual growth ranging from 3.4% to 4.0% is assumed, reflecting increases in costs, which the overhead rate is designed to recover, including increased personal services costs.

Transfers

The Transfers category is projected at \$28.4 million in 2021-2022. The largest component of the Transfers category is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs (\$18.6 million). Additional large transfers programmed for 2021-2022 include the Construction and Conveyance Tax Fund transfer (\$3.7 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer (\$1.75 million) for general use and pavement maintenance activities; the General Purpose Parking Fund (\$707,000); and the transfer from the Convention and Cultural Affairs Fund (\$348,000) for reimbursement of City oversight of the fund.

In the remaining years of the Forecast, annual increases range from 1.5% to 2.6%. The reimbursement from the Airport Maintenance and Operation Fund for police and fire services is expected to increase in the out-years based on the increased costs for those services.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program, Voluntary Employee Beneficiary Association (VEBA) Fund, and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2021-2022 of \$789,000. In the remaining years of the Forecast, annual growth ranging from 3.4% to 4.0% is anticipated to recover the projected costs.

Beginning Fund Balance

The \$68.8 million forecast estimate of available 2021-2022 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of \$40.0 million is carried forward at the current level based on the assumption that this amount will not be used in 2020-2021 and will be available for use in 2021-2022. The current funding level is enough to cover General Fund payroll costs for approximately two weeks in an emergency. (On the expenditure side, the Contingency Reserve is set at \$40.0 million in 2021-2022 and increases in the out-years of the forecast to \$42.5 million by 2025-2026 to comply with the City Council policy to set aside at least 3% of General Fund operating expenditures in this Reserve.
- A total of \$20.0 million in fund balance will be achieved in 2020-2021 for use in 2021-2022 from a combination of excess revenues and expenditure savings, as well as the liquidation of prior-year carryover encumbrances. Consistent with past practice, the Administration will closely monitor actual General Fund performance through the remainder of the year and may bring forward adjustments to this estimate as appropriate later in the budget process.
- An additional \$8.8 million reflects the anticipated liquidation of reserves. The current year reserves that will be used to support base costs programmed in 2021-2022 include the Police Sworn Hire Ahead Program Reserve (\$7.0 million), Community Service Officer Program Reserve (\$700,000), Solid Waste Code Enforcement Program Reserve (\$600,000), and SAFER Grant Reserve (\$485,000).

In the out-years of the Forecast, the Beginning Fund Balance estimates assume that excess revenue and expenditure savings, including liquidations of carryover encumbrances will increase slightly each year from \$23.0 million in 2022-2023 to \$26.5 million in 2025-2026. In addition, it is assumed that the Contingency Reserve will be carried over each year and will grow slightly from \$40.0 million in 2021-2022 to \$42.5 million in 2025-2026. In total, the Beginning Fund Balance totals \$68.8 million in 2021-2022 (of which \$8.8 million reflects the liquidation of reserves discussed above) and \$68.2 million in 2025-2026.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

General Fund expenditure categories were analyzed in depth to develop the 2021-2022 expenditure estimates in this Forecast. These estimates will be re-examined and updated during the preparation of the 2021-2022 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from \$1.3 billion in 2021-2022 to \$1.4 billion in 2025-2026, representing an average annual growth rate of 3.3%.

2022-2026 General Fund Forecast Expenditure Summary

Expenditure Category	Modified Budget	Forecast				
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Personal Services						
Salaries and Other Compensation	511,530,578	537,329,767	548,436,309	567,631,580	587,498,685	608,061,139
Retirement	314,958,406	356,168,241	375,696,891	387,705,507	400,191,020	414,966,394
Health and Other Fringe Benefits	61,135,910	68,152,595	70,689,274	73,320,370	76,049,397	78,880,000
	887,624,894	961,650,603	994,822,474	1,028,657,457	1,063,739,102	1,101,907,533
Non-Personal/Equipment	131,876,514	122,804,000	123,649,000	126,900,000	129,295,000	130,885,000
City-Wide						
City-Wide Expenses	315,047,917	73,169,140	74,836,528	75,590,759	76,338,999	77,390,816
Capital Projects	110,023,656	5,270,000	5,250,000	5,200,000	5,200,000	5,200,000
Transfers	88,049,604	22,968,524	23,762,750	23,918,245	23,976,339	24,042,593
Earmarked Reserves	141,473,945	40,314,000	39,064,000	39,064,000	39,064,000	39,064,000
Contingency Reserve	40,000,000	40,000,000	40,500,000	41,500,000	42,500,000	42,500,000
	694,595,122	181,721,664	183,413,278	185,273,004	187,079,338	188,197,409
Committed Additions						
New Parks and Recreation Facilities Maintenance and Operations		384,000	901,000	1,362,000	1,848,000	1,947,000
New Public Safety Facilities Maintenance and Operations		19,000	249,000	407,000	423,000	440,000
New Traffic Infrastructure Assets Maintenance and Operations		175,000	287,000	367,000	404,000	428,000
Measure T (Emergency Operations Center Relocation)		-	31,000	56,000	59,000	61,000
Measure T (Fire Station 8 Relocation)		-	-	9,000	36,000	37,000
Measure T (Fire Station 32)		-	-	1,053,000	4,338,000	4,468,000
Measure T (Fire Station 36)		-	-	-	-	3,953,000
Measure T (Fire Station 37)		1,977,000	4,071,000	4,193,000	4,319,000	4,449,000
Measure T (Police Air Support Hangar)		-	-	71,000	75,000	77,000
Measure T (Police Substation Activation)		-	-	2,359,000	3,239,000	3,336,000
Measure T (Police Training Center Relocation)		-	-	1,547,000	2,136,000	2,212,000
		2,555,000	5,539,000	11,424,000	16,877,000	21,408,000
Total Base Expenditures (w/Committed Additions)	1,714,096,530	1,268,731,267	1,307,423,752	1,352,254,461	1,396,990,441	1,442,397,942
		% Growth		3.0%	3.4%	3.3%
				3.3%		3.3%

Adjustments are made to this Forecast to account for one-time additions/deletions included in the 2020-2021 Adopted Budget, and to annualize partial-year allocations. Various one-time additions totaling over \$15 million – excluding funding committed for capital projects, equipment purchases, and pay down of debt obligations that are truly one-time in nature – are scheduled to expire in June 2021 and may need to be re-evaluated for inclusion in 2021-2022. Notable one-time allocations include the following: Digital Divide, Office of Racial Equity, Foot Patrol in High Needs Neighborhoods and Downtown, Police Department Public Records Requests Staffing, Beautify San José Street Landscape Maintenance Program, Diridon Station Area Development Planning, Transitional Jobs Program (San José Bridge), Climate Smart San José Plan Implementation, Project Hope Expansion, Neighborhood Center Partner Program, Police Activities League (PAL) Facility Support, Police Redistricting, and Outdoor Park Activation.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Many of these programs and services will be re-evaluated for continued funding beyond the 2020-2021 fiscal year, with recommendations included in the 2021-2022 Proposed Operating Budget as appropriate, and in the context of other budgetary needs.

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

Personal Services

As is the usual practice, the first year (2021-2022) projection for personal services costs in this Forecast has been calculated at a detailed level, using a January 2021 extract from the City's payroll system as the starting point. This included the most recent salary, retirement plan, and health plan information for each position. The individual position-level information was then reviewed, corrected, and updated to ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Further, 2020-2021 ongoing position additions (cost increases) and reductions (cost savings), as appropriate, were annualized and all categories of benefit costs in the coming year were projected.

For the 2021-2022 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the \$961.7 million projected personal services total for 2021-2022, salaries and other compensation costs amount to \$537.3 million (55.9% of projected personal services), retirement costs amount to \$356.2 million (37.0% of projected personal services), and health and other fringe benefits costs amount to \$68.2 million (7.1% of projected personal services).

Following is a discussion of the factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. The out-years are projected to inflate at an average annual rate of approximately 3.5%.

Salaries and Other Compensation:

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

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Personal Services

Salaries and Other Compensation:

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

A Salaries and Benefits Reserve funding is included in each year of this Forecast that sets aside funds to: 1) account for potential pay increases and other compensation beyond the expiration date of the various bargaining unit agreements; 2) allocate funding for pay for performance for management employees; and 3) to reserve resources for anticipated increases to employee benefits such as health and dental. For 2021-2022, this reserve totals \$32.9 million and would require City Council action before any form of distribution could be made. As contracts in the out-years of the forecast are determined, subsequent Forecast documents will be updated to reflect the latest information at that time. The out-years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

The Overtime budget in the General Fund totals \$41.1 million for 2021-2022, with most of these funds allocated to Police Department (\$28.4 million) and Fire Department (\$11.1 million) operations. The Police Department overtime budget includes the second year of the \$7.0 million Hire Ahead program approved by the City Council in the 2020-2021 Adopted Operating Budget. The out-years of the Forecast removes this one-time funding allocation beginning in 2022-2023 and continues the ongoing base level costs, with small adjustments using salary and step growth as the inflationary factor.

Retirement:

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

Employees represented by SJPOA and IAFF, Local 230 are members of the Police and Fire Department Retirement Plan and have different retirement benefits with the corresponding different City contributions and rates. Within the Police and Fire Department Retirement Plan, effective August 4, 2013, the City provides for a lower defined benefit plan (Tier 2) for new and rehired Police members. Effective January 2, 2015, a lower defined benefit plan (Tier 2) was implemented for new and rehired Fire members. With the passage of Measure F in 2016, former Tier 1 members previously or newly rehired to the City are placed within the Tier 1 defined benefit plan.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Personal Services

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

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

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

For 2021-2022, retirement costs total \$356.2 million for the General Fund, an increase of \$41.2 million from the 2020-2021 Modified Budget of \$315.0 million. It is important to note that, in addition to the increased actuarial contribution levels and assumption changes authorized by the Retirement Boards, the relatively large increase between 2020-2021 to 2021-2022 is also attributable to a portion of anticipated retirement costs that still remain within the 2020-2021 Salaries and Benefits Reserve that were previously set aside for potential salary increases that have not yet been approved or have otherwise been absorbed within existing department budgets, and position costs that were reallocated to the Coronavirus Relief Fund to support the City's emergency response efforts. After accounting for these factors, the increment of change in retirement costs between 2020-2021 and 2021-2022 is similar to the out-years of the Forecast.

Retirement costs in 2021-2022 represent 28.1%, a similar level to previous years, of the total General Fund base expenditure budget with committed additions and reflect the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. These assumptions included a reduction in the discount rate for both pension system from 6.75% to 6.625%, which is held flat throughout the Forecast period.

ELEMENTS OF THE GENERAL FUND FORECAST

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Personal Services

To generate budgetary savings, retirement contributions assume the pre-payment of Tier 1 pension costs related to the Federated Retirement System and the Police and Fire Department Retirement Plan. For 2020-2021, net budgetary savings from the pre-payment, including short-term borrowing costs, and foregone interest earnings, are estimated at approximately \$12.6 million in the General Fund (\$20.2 million in all funds). While pre-payment is assumed to continue in the out-years of the Forecast, the Administration will continue to evaluate the cost effectiveness of pre-payment as part of the annual budget development process.

A portion of the City's retirement contributions (\$38.3 million in the General Fund and \$49.9 million in all funds) are associated with retiree healthcare. Prior to Measure F, these contributions were frozen at certain levels for Federated and Police and Fire systems. Subsequent to the passage of Measure F, each board adopted annual contribution amounts for retiree health care, subject to various actuarial assumptions that are evaluated each year.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, Table 1 details the General Fund's retirement costs and for the Federated Retirement System and the Police and Fire Department Retirement Plan. These amounts are broken out by Tier 1 contributions (normal cost), Tier 2 contributions, the UAL, and retiree healthcare.

Prior to 2019-2020, retirement contributions were also expressed as a percentage rate of salary for Tier 1 and Tier 2 employees. However, as Tier 1 is now a closed system, spreading the UAL cost across a shrinking pool of Tier 1 employees distorted the apparent cost of a Tier 1 employee. For reference, Tier 1 normal cost contributions and Tier 2 contributions are also displayed in the tables below as a rate, illustrating the long-term cost savings the City will achieve with the transition of its workforce from Tier 1 to Tier 2. Over this Forecast, the General Fund retirement costs are expected to grow from \$356.2 million (\$468.8 million in all funds) in 2021-2022 to \$415.0 million (\$540.1 million in all funds) in 2025-2026.

Though these amounts are increasing, it is important to note that retirements contributions as a percentage of ongoing General Fund expenditures changes only slightly across the forecast period, from 28.1% in 2021-2022 to 28.8% in 2025-2026.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution amounts for 2021-2022 and the Cheiron-projected amounts for the out-years of the Forecast. It should be noted that the City budgetary amounts differ from the Federated and Police and Fire Retirement Board approved amounts due to the budgetary spread across vacant, as well as filled, positions. Cheiron applies retirement contributions to an assumed level of filled positions.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

**TABLE 1 – 2022-2026 CITY RETIREMENT BUDGETED CONTRIBUTION AMOUNTS
GENERAL FUND
(\$ in Millions)***

Retirement Plan	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	\$13.5	\$14.0	\$16.0	\$15.0	\$14.7	\$14.7
<i>Tier 1 Pension (Normal Cost) Rate</i>	<i>18.0%</i>	<i>19.6%</i>	<i>19.7%</i>	<i>19.9%</i>	<i>20.0%</i>	<i>20.2%</i>
Tier 2 Pension*	\$7.8	\$8.5	\$9.6	\$11.4	\$12.5	\$13.3
<i>Tier 2 Pension Rate</i>	<i>7.9%</i>	<i>8.2%</i>	<i>8.2%</i>	<i>8.3%</i>	<i>8.3%</i>	<i>8.4%</i>
Unfunded Actuarial Liability	\$69.7	\$74.3	\$77.5	\$80.8	\$84.0	\$86.8
Retiree Health Care	\$9.5	\$9.2	\$9.4	\$9.9	\$10.0	\$10.1
Total Federated Contributions	\$100.5	\$106.0	\$112.5	\$117.1	\$121.2	\$124.9
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	\$35.6	\$36.8	\$35.9	\$35.1	\$34.0	\$35.9
<i>Tier 1 Pension (Normal Cost) Rate</i>	<i>31.8%</i>	<i>31.4%</i>	<i>31.8%</i>	<i>32.3%</i>	<i>32.9%</i>	<i>33.6%</i>
Tier 2 Pension*	\$8.4	\$9.5	\$12.2	\$15.0	\$18.2	\$18.7
<i>Tier 2 Pension Rate</i>	<i>14.2%</i>	<i>14.4%</i>	<i>14.5%</i>	<i>14.6%</i>	<i>14.7%</i>	<i>14.8%</i>
Unfunded Actuarial Liability	\$80.0	\$78.4	\$80.6	\$78.5	\$81.5	\$82.6
Retiree Health Care	\$15.3	\$17.2	\$18.4	\$19.9	\$20.7	\$21.5
Total Police Contributions	\$139.3	\$141.9	\$147.1	\$148.5	\$154.4	\$158.7
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	\$25.8	\$24.8	\$26.8	\$27.9	\$29.2	\$30.5
<i>Tier 1 Pension (Normal Cost) Rate</i>	<i>33.2%</i>	<i>32.6%</i>	<i>32.7%</i>	<i>33.0%</i>	<i>33.3%</i>	<i>33.6%</i>
Tier 2 Pension*	\$2.6	\$3.0	\$3.2	\$3.4	\$3.5	\$3.6
<i>Tier 2 Pension Rate</i>	<i>15.5%</i>	<i>15.3%</i>	<i>15.4%</i>	<i>15.5%</i>	<i>15.6%</i>	<i>15.7%</i>
Unfunded Actuarial Liability	\$61.2	\$68.6	\$73.6	\$77.6	\$78.1	\$82.8
Retiree Health Care	\$10.1	\$11.0	\$11.6	\$12.4	\$12.9	\$13.4
Total Fire Contributions	\$99.7	\$107.4	\$115.2	\$121.3	\$123.7	\$130.3
Other Retirement Contributions	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$1.0
Total General Fund	\$340.4	\$356.2	\$375.7	\$387.7	\$400.2	\$415.0
Total All Funds	\$454.3	\$485.6	\$506.2	\$523.6	\$541.0	\$560.2

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

* City budgetary amounts differ from the Federated and Police and Fire Retirement Boards approved amounts due to the budgetary spread of retirement contributions across vacant, as well as filled positions. Cheiron, the Boards' actuary, applies retirement contributions to an assumed level of filled positions. Figures for 2020-2021 are from the 2020-2021 Forecast and are provided only for reference; these amounts differ from the adjusted amounts currently included in the 2020-2021 Modified Budget.

Source: Cheiron Letters dated January 13, 2021 (Federated) and January 27, 2021 (Police and Fire).

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**TABLE 2 – 2022-2026 BOARD APPROVED CITY CONTRIBUTION AMOUNTS
ALL FUNDS
(\$ in Millions)**

Retirement Plan	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	\$25.5	\$26.9	\$25.0	\$23.2	\$21.4	\$19.8
<i>Tier 1 Pension (Normal Cost) Rate</i>	18.0%	19.6%	19.7%	19.9%	20.0%	20.2%
Tier 2 Pension*	\$14.3	\$17.5	\$19.3	\$21.0	\$22.8	\$24.5
<i>Tier 2 Pension Rate</i>	7.9%	8.2%	8.2%	8.3%	8.3%	8.4%
Unfunded Actuarial Liability	\$148.5	\$155.6	\$162.4	\$169.3	\$176.0	\$181.7
Retiree Health Care	\$21.0	\$19.9	\$19.8	\$20.7	\$20.9	\$21.1
Total Federated Contributions	\$209.3	\$219.9	\$226.5	\$234.2	\$241.1	\$247.1
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	\$29.0	\$26.5	\$24.2	\$22.0	\$20.2	\$18.5
<i>Tier 1 Pension (Normal Cost) Rate</i>	31.8%	31.4%	31.8%	32.3%	32.9%	33.6%
Tier 2 Pension*	\$8.3	\$9.7	\$11.5	\$13.4	\$15.1	\$16.7
<i>Tier 2 Pension Rate</i>	14.2%	14.4%	14.5%	14.6%	14.7%	14.8%
Unfunded Actuarial Liability	\$80.0	\$78.4	\$80.6	\$78.5	\$81.5	\$82.6
Retiree Health Care	\$15.3	\$17.2	\$18.4	\$19.9	\$20.7	\$21.5
Total Police Contributions	\$132.6	\$131.8	\$134.7	\$133.8	\$137.5	\$139.3
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	\$23.6	\$23.4	\$22.2	\$20.9	\$19.7	\$18.6
<i>Tier 1 Pension (Normal Cost) Rate</i>	33.2%	32.6%	32.7%	33.0%	33.3%	33.6%
Tier 2 Pension*	\$3.2	\$3.7	\$4.8	\$6.0	\$7.1	\$8.2
<i>Tier 2 Pension Rate</i>	15.5%	15.3%	15.4%	15.5%	15.6%	15.7%
Unfunded Actuarial Liability	\$61.2	\$68.6	\$73.6	\$77.6	\$78.1	\$82.8
Retiree Health Care	\$10.1	\$11.0	\$11.6	\$12.4	\$12.9	\$13.4
Total Fire Contributions	\$98.1	\$106.7	\$112.2	\$116.9	\$117.8	\$123.0
Total City Contributions	\$440.0	\$458.4	\$473.4	\$484.9	\$496.4	\$509.4

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

Source: Cheiron Letters dated January 13, 2021 (Federated) and January 27, 2021 (Police and Fire).

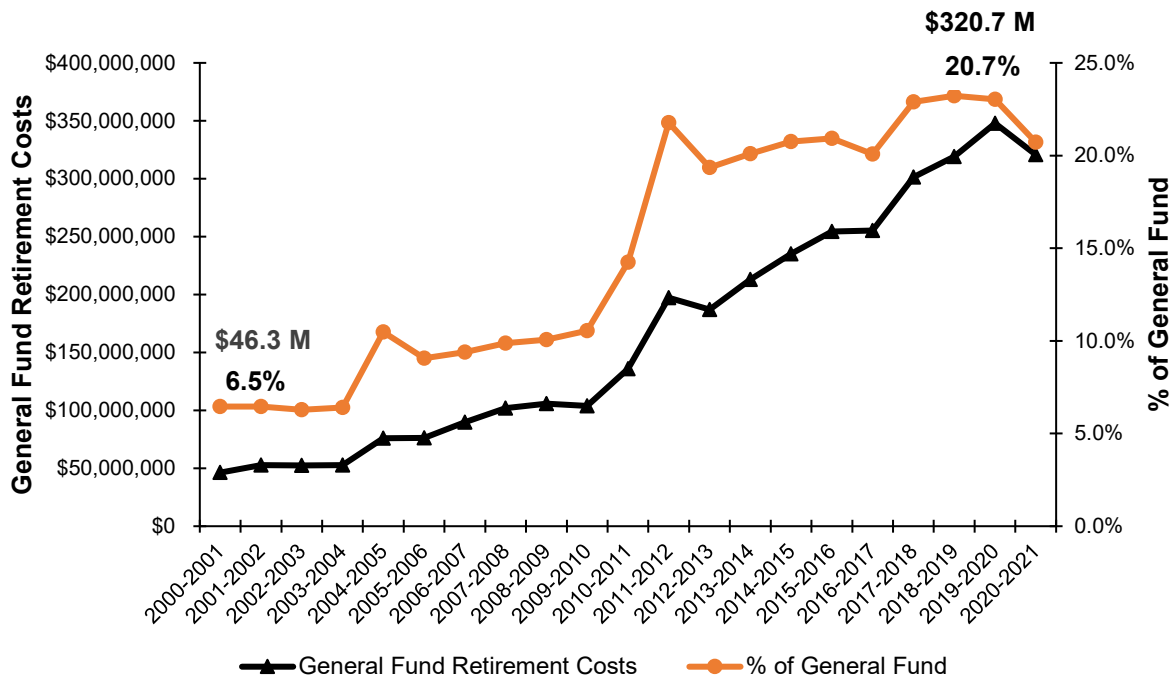
ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Personal Services

The chart below describes the history of retirement costs as a share of the total General Fund Adopted Budget. In 2001-2002, retirement costs of \$46.3 million accounted for 6.5% of the General Fund, while in 2020-2021, those costs totaled 20.7% of the General Fund Adopted Budget. It is important to note that, because adopted budgets include carryover costs from the previous year, fund balance, and other one-time elements, this percentage is lower than the ongoing average contribution of approximately 28% reflected in the Forecast.

**General Fund Retirement Costs Comprised
20.7% of 2020-2021 Adopted Budget**



Health and Other Fringe:

A projected health rate increase of 8.0% is included in the 2021-2022 Forecast effective January 2022 based on national and City trend information received from the City's Human Resources Department benefits consultant. The annual health increase assumptions are held constant at 4.0% annually for the out-years of the forecast.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, a dental rate decrease of 17% is assumed in 2021-2022. These relatively lower levels of contributions are expected to continue into 2022-2023, as the savings from previously accumulated fund balance in the Dental Insurance Fund will be used to equally offset contributions from the City, current employees, and retirees. For the out-years, the Forecast assumes annual dental rate increases of 3% based on City trends and actuarial analysis.

ELEMENTS OF THE GENERAL FUND FORECAST

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Personal Services

An increase of 0.58% to the unemployment insurance rate is included in this Forecast based on projected future claims. There are no changes to the life insurance rates in this Forecast based on projected provider charges.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total \$122.8 million in 2021-2022. To determine this ongoing funding level, the City Manager's Budget Office: comprehensively reviews all budgetary actions approved for funding solely in 2020-2021 and decreases or increases corresponding funding levels to account for these one-time additions/deletions; annualizes all partial-year reductions or increases that were approved for 2020-2021; and, analyzes historical usage, rate adjustments, contractual obligations, fleet management, and overall expenditures to project future needs for key non-personal/equipment allocations – utilities, vehicle replacement, vehicle maintenance and operations, contractual services, and data processing (software/information system maintenance). The resulting 2021-2022 estimate represents a decrease of \$9.1 million from the 2020-2021 Modified Budget level of \$131.9 million, primarily due to the removal of rebudgeted funds for initiatives or projects continuing into 2020-2021 from the prior year.

Departmental funding levels for utilities (\$22.7 million), including gas, electricity, and water, for 2020-2021 increase by \$1.4 million in this Forecast to reflect projected rate increases, the prorated or annualized costs of new facilities coming online, and estimated changes in consumption. Vehicle maintenance and operations costs in the General Fund, including fuel, inventory, and fleet staffing, are also increased by \$195,000, primarily due to increased consumption, fuel, and parts costs for the maintenance of vehicles recently added to the City's fleet. The 2020-2021 non-personal/equipment base also includes \$2.5 million of additional funding for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles based on the current replacement schedules and projected costs for these vehicles. Police vehicle replacement costs are expected to fluctuate over remaining years of the Forecast based on anticipated replacements, totaling \$27.2 million through 2025-2026. Additional non-personal/equipment increases are included in this Forecast, primarily for: increases for city-wide janitorial services resulting from a competitive procurement (\$832,000); various contractual increases for information systems and software license agreements city-wide (\$716,000); cost increases for City facilities general maintenance services and supplies (\$259,000) and waste collection (\$135,000); contractual increases for third-party administration of Workers' Compensation claims (\$114,000); and, video redaction software to support the Police Department's response to Public Records Act requests (\$100,000).

Growth rates ranging from 0.69% to 2.63% are assumed in the out-years of the Forecast, relative to non-personal/equipment base levels in each of the preceding four years, largely varying due to the projected Police vehicle replacement costs in those years. Excluding these adjustments for vehicle replacements, the average growth rate for the non-personal/equipment category is estimated at 2% annually.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

City-Wide

City-Wide Expenses in the first year of the Forecast (2021-2022) total \$73.2 million, a decrease of \$241.8 million from the 2020-2021 Modified Budget of \$315.0 million, largely due to the removal of TRANS Debt Service related to the 2020-2021 pre-payment of retirement contributions (\$131.5 million), removal of one-time General Fund resources that directly support to the City's pandemic response (\$43.5 million), removal of one-time allocations from 2019-2020 that were rebudgeted into 2020-2021 (\$33.4 million) and removal of one-time budget actions from 2020-2021 that are subject to re-evaluation (\$31.1 million), and various technical adjustments to ongoing allocations (\$2.3 million).

The line-items in this category are primarily made up of cross-departmental, large grant, and general city-wide expenditures. Forecast funding levels for 2021-2022 include cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2021-2022 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims (\$18.2 million); San José BEST and Safe Summer Initiative Programs (\$6.3 million); General Liability Claims (\$6.0 million); Sick Leave Payments Upon Retirement (\$5.0 million); Elections and Ballot Measures (\$2.1 million); Property Tax Administration Fee (\$2.1 million); Homeless Rapid Rehousing (\$2.0 million); Measure E 5% Program Administration (\$2.0 million); Sidewalk Repairs (\$2.0 million); Property Leases (\$1.8 million); Homeless Response Team (\$1.6 million); Insurance Premiums (\$1.5 million); San José Works – Youth Jobs Initiative (\$1.5 million); TRANS Debt Service (\$1.5 million); Tech Museum of Innovation Subsidy (\$1.4 million); Digital Inclusion Program (\$1.3 million); Public, Educational and Government Access Facilities – Capital (\$1.2 million); and, Senior Nutrition Program (\$1.2 million).

For continuing initiatives authorized in 2021-2022, City-Wide Expenses are projected to decrease overall by approximately \$2.3 million, largely due to reduced ESCO Debt Service (\$2.1 million) for the recent pay-off of a portion of the debt obligation, lower Banking Services costs (\$1.0 million) due to the pending implementation of a merchant card transaction fee, reduced revenues available to support the Digital Inclusion Program (\$928,000), and lower projected Workers' Compensation Claims payments (\$179,000) in 2021-2022. These decreases are partially offset by various base budget increases, including: Measure E 5% Program Administration cost changes to align with anticipated Real Property Transfer Tax revenue levels (\$500,000); an increase to Insurance Premiums (\$319,000) that reflects changes in premium rates and growth in the insured value of City assets; Senior Nutrition Program increase for the addition of the Northside site bringing the total number of Senior Nutrition Program sites to 14; and various cost-of-living adjustments for Revenue Enhancement Consulting Services (\$297,000), Elections and Ballot Measures (\$293,000), and Property Tax Administration Fee (\$212,000).

While the majority of City-Wide Expenses are expected to remain at 2021-2022 levels during the Forecast period, some categories are expected to experience modest growth over the next five years, including the: Arena Authority (\$241,000 to \$272,000); Children's Discovery Museum (\$337,000 to \$380,000); Hammer Theater Center Operations and Maintenance (\$318,000 to

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

City-Wide

\$358,000); History San José (\$876,000 to \$986,000); Homeless Response Team (\$1.6 million to \$1.9 million); Mexican Heritage Plaza Maintenance and Operations (\$465,000 to \$523,000); Property Leases (\$1.8 million to \$2.1 million); San José Museum of Art (\$557,000 to \$627,000); Sports Authority (\$416,000 to \$468,000); Tech Museum of Innovation (\$1.4 million to \$1.6 million); Sanitary Sewer Fees (\$567,000 to \$689,000); San José BEST and Safe Summer Initiative Programs (\$6.3 million to \$7.0 million); Insurance Premiums (\$1.5 million to \$2.0 million); and, Property Tax Administration Fee (\$2.1 million to \$2.6 million).

Overall, Workers' Compensation Claims payments are projected to continue to gradually decrease over the Forecast period, from \$18.2 million to \$17.4 million.

The General Fund **Capital Projects** category totals \$5.3 million in 2021-2022, decreasing by \$20,000 in 2022-2023 and remaining at this level in each following year of the Forecast. The largest item in this category is fire apparatus replacement (\$3.75 million), which assumes that the Fire Construction and Conveyance Tax Fund will contribute \$400,000 annually for these costs over the five-year period. Capital Projects funding also includes the continuation of annual allocations for: the unanticipated maintenance of City facilities (\$750,000); fuel tank and methane monitoring control and replacement (\$470,000); closed landfill compliance (\$450,000); annual capital requirements to maintain power backup for the City Hall and the 9-1-1 Police Communications Building (\$200,000); and for Arena Repairs (\$100,000). Due to the planned closure of the Las Plumas site, fuel tank monitoring costs (\$20,000) are expected to decrease in 2022-2023.

The **Transfers** category totals \$23.0 million in 2021-2022 and averages \$23.9 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 the construction of City Hall is the largest recurring line-item in this category at \$16.3 million in 2021-2022, increasing to \$17.0 million by 2025-2026. Other transfers include: funding for capital rehabilitation and enhancements at the SAP Center in accordance with the San José Arena Management Agreement with Sharks Sports and Entertainment (\$2.3 million); funding to support the Silicon Valley Regional Interoperability Authority in the Construction and Conveyance Tax Fund – Communications (\$1.7 million through 2022-2023, increasing to \$1.8 million in 2023-2024) as revenues are insufficient to cover required costs; funding for the Vehicle Maintenance and Operations Fund for general fleet replacement (\$1.25 million); and, payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas (\$1.0 million to \$1.2 million annually).

Transfers from the General Fund to the Municipal Golf Course Fund cease in 2021-2022 due to increasing operating revenues, and payoff of remaining debt obligations for the Rancho del Pueblo Golf Course in 2019-2020 and subsequent payoff for the Los Lagos Golf Course in 2020-2021. Similarly, due to forecast Construction and Conveyance Tax performance throughout the Forecast, the planned transfer (\$750,000) to the Construction and Conveyance Tax Fund – Service Yards

ELEMENTS OF THE GENERAL FUND FORECAST

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City-Wide

ceases in 2021-2022, since revenues are anticipated to be sufficient to cover debt service payments associated with the Central Service Yard.

The **Earmarked Reserves** category totals \$40.3 million in 2021-2022 and decreases to \$39.1 million in 2022-2023 and throughout the Forecast. This category includes \$38.0 million in reserves to be expended on homeless prevention and affordable housing in accordance with Measure E, approved by San José voters on March 3, 2020. Other reserves include the: Deferred Infrastructure and Maintenance Reserve of \$1.3 million to fund critical capital maintenance or address urgent technology needs, which will be allocated during development of the 2021-2022 Proposed Budget; and, annual funding of \$214,000 for the Artificial Turf Replacement Reserve to set aside funding for the cost of replacing artificial turf fields in various neighborhood parks. These funds are available from the projected field reservation revenues collected above the estimated costs to reserve and maintain the fields and reflect decreased operations due to the impacts of COVID-19. Additionally, the annual allocation to the Cultural Facilities Maintenance Reserve is maintained at \$850,000 throughout the Forecast to address the growing deferred infrastructure rehabilitation needs at these facilities.

The Forecast does not include several Earmarked Reserves that may remain unspent in 2020-2021 and later recommended for rebudget or use in 2021-2022. Some of the larger current Earmarked Reserves include the: Budget Stabilization Reserve; Salaries and Benefits Reserve; Measure E – 45% Extremely Low Income Reserve; Workers’ Compensation/General Liability Catastrophic Reserve; Measure E – 35% Low Income Reserve; Sick Leave Payments Upon Retirement Reserve; Measure E – 10% Moderate Income Reserve; Google Parking Lots Option Payment Reserve; Information Technology Sinking Fund Reserve; Code Enforcement Permit System Reserve; Business Tax System Replacement Reserve; Measure E – 10% Homelessness Prevention Reserve; and, City Attorney’s Office Outside Litigation Reserve.

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

Committed Additions to the Base General Fund Forecast

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

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Committed Additions to the Base General Fund Forecast

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.

Committed Additions total \$2.6 million in 2021-2022 and increase to approximately \$21.4 million by 2025-2026, primarily due to the anticipated projects from the passage of Measure T – The Disaster Preparedness, Public Safety and Infrastructure Bond. Several Measure T facilities are anticipated to come online within the five-year forecast period and include Fire Stations 32, 36 and 37. The Police Training Facility, expected to come online in 2023-2024, will trigger the phased activation of the South San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility. Land acquisition for the new Police Training Facility is in progress, with maintenance costs of \$2.1 million representing an early look at potential ongoing impacts of this facility. All estimates will be further refined once a site is selected and fully scoped, the results of which will be brought forward for City Council consideration. Additional maintenance and operations funding were factored for other Measure T projects including the new Emergency Operations Center, Office of Emergency Management relocation, Fire Station 8 Relocation, and the Police Air Support Unit Hangar expansion. In total, the maintenance and operations funding for Measure T facilities coming online will increase from \$2.0 million in 2021-2022 to approximately \$18.8 million by 2025-2026.

The Committed Additions also include maintenance and operations costs associated with non-bond projects such as new parks and recreation facilities, new traffic infrastructure assets, and the Fire Training Center relocation from its current location on Montgomery Street. The non-bond projects committed additions costs in the Forecast range from \$578,000 in 2021-2022 to \$2.6 million by 2025-2026.

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 2021-2022, a General Fund deficit of \$48.1 million is projected. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. General Fund surpluses are projected in the remaining years of the Forecast; 2022-2023 (\$3.3 million), 2023-2024 (\$0.2 million), 2024-2025 (\$4.4 million), and 2025-2026 (\$1.9 million). These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from 0.1% to 0.2% of the projected annual budget. In the first year of the Forecast, a deficit is anticipated, however, in the remaining years the five-year period, a total surplus of \$9.9 million are anticipated, which equates to approximately \$2.5 million annually. This average shortfall figure equates to 0.02% of the projected General Fund annual budget, which ranges from \$1.3 billion to \$1.4 billion.

The following table shows how the projected surpluses and shortfalls have changed in the most recent forecasts. It is assumed that each preceding surplus or shortfall is addressed completely with ongoing solutions in the year it appears. Each year of the February 2021 Forecast is compared to the corresponding year in the February 2020 Forecast.

2022-2026 General Fund Forecast Changes in Operating Margin (\$ in Millions)

	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
February 2020 Incremental Surplus/(Shortfall)	(\$11.1)	\$14.0	(\$2.2)	\$1.0	N/A
June 2020* Incremental Surplus/(Shortfall)	(\$25.7)	N/A	N/A	N/A	N/A
February 2021 Incremental Surplus/(Shortfall)	(\$48.1)	\$3.3	\$0.2	\$4.4	\$1.9

* Of the \$77.6 million General Fund shortfall resolved by the 2020-2021 Adopted Operating Budget, \$25.7 million was resolved on a one-time basis, resulting in the carry-forward of that shortfall amount into 2021-2022.

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2020-2021; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

For the February 2021 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2021-2022 and the remaining four years of the forecast period. The 2021-2022 projected deficit of \$48.1 million is primarily the result of impacts related to the COVID-19 pandemic that significantly affected General Fund revenue. The numerous revenue and expenditure changes anticipated in 2021-2022 are described in this document.

In the out-years of this Forecast, the General Fund has an operating margin ranging from a surplus of \$0.2 million to a surplus of \$4.4 million annually, reflective of the fact that future year growth of expenditures and revenues are closely aligned. These margins are extremely narrow when put into context of the size of the projected General Fund budget of over \$1.3 billion.

*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

BASE CASE

February Forecast REVENUE SUMMARY	MODIFIED BUDGET	FEBRUARY FORECAST				
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
PROPERTY TAX	361,500,000	386,100,000	405,984,000	428,273,000	450,329,000	471,945,000
		6.80%	5.15%	5.49%	5.15%	4.80%
SALES TAX	262,500,000	280,200,000	294,490,000	307,065,000	322,142,000	335,253,000
		6.74%	5.10%	4.27%	4.91%	4.07%
TRANSIENT OCCUPANCY TAX	5,500,000	10,000,000	15,000,000	17,130,000	18,483,000	19,444,000
		81.82%	50.00%	14.20%	7.90%	5.20%
FRANCHISE FEES	45,921,096	44,501,000	45,173,000	45,954,000	46,979,000	48,168,000
		-3.09%	1.51%	1.73%	2.23%	2.53%
UTILITY TAX	95,800,000	97,060,000	98,312,000	99,905,000	102,143,000	104,819,000
		1.32%	1.29%	1.62%	2.24%	2.62%
TELEPHONE TAX	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
		0.00%	0.00%	0.00%	0.00%	0.00%
BUSINESS TAX	63,900,000	74,500,000	75,945,000	76,553,000	77,165,000	77,783,000
		16.59%	1.94%	0.80%	0.80%	0.80%
REAL PROPERTY TRANSFER TAX	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
		0.00%	0.00%	0.00%	0.00%	0.00%
LICENSES AND PERMITS	19,894,447	19,542,643	20,331,000	21,079,000	21,823,000	22,565,000
		-1.77%	4.03%	3.68%	3.53%	3.40%
FEES, RATES, AND CHARGES	8,575,702	14,590,339	15,179,000	15,738,000	16,293,000	16,846,000
		70.14%	4.03%	3.68%	3.53%	3.39%
FINES, FORFEITURES & PENALTIES	9,730,100	8,676,000	8,863,000	9,073,000	9,235,000	9,345,000
		-10.83%	2.16%	2.37%	1.79%	1.19%
USE OF MONEY & PROPERTY	11,769,800	9,304,000	9,341,000	9,453,000	9,652,000	9,845,000
		-20.95%	0.40%	1.20%	2.11%	2.00%
REVENUE FROM LOCAL AGENCIES	23,291,739	15,490,023	15,943,000	16,446,000	16,945,000	17,435,000
		-33.50%	2.92%	3.15%	3.03%	2.89%
REVENUE FROM THE STATE OF CALIFORNIA	15,137,455	12,130,000	12,130,000	12,130,000	12,130,000	12,130,000
		-19.87%	0.00%	0.00%	0.00%	0.00%
REVENUE FROM THE FEDERAL GOVERNMENT	7,859,131	0	0	0	0	0
		-100.00%	N/A	N/A	N/A	N/A
OTHER REVENUE	200,910,694	8,420,324	8,444,000	8,472,000	8,509,000	8,552,000
		-95.81%	0.28%	0.33%	0.44%	0.51%
GAS TAX	15,000,000	16,000,000	14,965,000	14,275,000	13,852,000	13,736,000
		6.67%	(6.47%)	(4.61%)	(2.96%)	(0.84%)
TOTAL GENERAL REVENUES	1,207,290,164	1,056,514,329	1,100,100,000	1,141,546,000	1,185,680,000	1,227,866,000
		-12.49%	4.13%	3.77%	3.87%	3.56%

BASE CASE

February Forecast	MODIFIED	FEBRUARY						
	BUDGET	FORECAST	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
REVENUE SUMMARY								
TRANSFERS & REIMBURSEMENTS								
OVERHEAD REIMBURSEMENTS	69,197,893	66,185,738	68,857,000	71,390,000	73,909,000	76,420,000		
TRANSFERS	36,578,485	28,360,478	28,972,000	29,416,000	30,073,000	30,843,000		
REIMBURSEMENTS FOR SERVICES	745,997	788,507	820,000	851,000	881,000	910,000		
TOTAL TRANSFERS & REIMBURSEMENTS	106,522,375	95,334,723	98,649,000	101,657,000	104,863,000	108,173,000		
		-10.50%	3.48%	3.05%	3.15%	3.16%		
TOTAL GENERAL FUND REVENUES	1,313,812,539	1,151,849,052	1,198,749,000	1,243,203,000	1,290,543,000	1,336,039,000		
		-12.33%	4.07%	3.71%	3.81%	3.53%		
BEGINNING FUND BALANCE	400,283,991	68,785,000	63,899,000	64,473,000	66,296,000	68,151,000		
GRAND TOTAL SOURCES	1,714,096,530	1,220,634,052	1,262,648,000	1,307,676,000	1,356,839,000	1,404,190,000		
		(28.79%)	3.44%	3.57%	3.76%	3.49%		

BASE CASE

February Forecast

EXPENDITURE SUMMARY

	MODIFIED BUDGET	FEBRUARY FORECAST	2022-2023	2023-2024	2024-2025	2025-2026
	2020-2021	2021-2022				
PERSONAL SERVICES						
Salaries and Other Compensation	511,530,578	537,329,767	548,436,309	567,631,580	587,498,685	608,061,139
Retirement	314,958,406	356,168,241	375,696,891	387,705,507	400,191,020	414,966,394
Health and Other Fringe Benefits	61,135,910	68,152,595	70,689,274	73,320,370	76,049,397	78,880,000
TOTAL PERSONAL SERVICES	887,624,894	961,650,603	994,822,474	1,028,657,457	1,063,739,102	1,101,907,534
		8.34%	3.45%	3.40%	3.41%	3.59%
TOTAL NON-PERSONAL/EQUIPMENT	131,876,514	122,804,000	123,649,000	126,900,000	129,295,000	130,885,000
	9,072,514.00	(6.88%)	0.69%	2.63%	1.89%	1.23%
CITY-WIDE						
CITY-WIDE EXPENSES	315,047,917	73,169,140	74,836,528	75,590,759	76,338,999	77,390,816
CAPITAL PROJECTS	110,023,656	5,270,000	5,250,000	5,200,000	5,200,000	5,200,000
TRANSFERS	88,049,604	22,968,524	23,762,750	23,918,245	23,976,339	24,042,593
EARMARKED RESERVES	141,473,945	40,314,000	39,064,000	39,064,000	39,064,000	39,064,000
CONTINGENCY RESERVE	40,000,000	40,000,000	40,500,000	41,500,000	42,500,000	42,500,000
TOTAL CITY-WIDE	694,595,122	181,721,664	183,413,278	185,273,004	187,079,338	188,197,409
		(73.84%)	0.93%	1.01%	0.97%	0.60%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,714,096,530	1,266,176,267	1,301,884,752	1,340,830,461	1,380,113,441	1,420,989,943
		(26.13%)	2.82%	2.99%	2.93%	2.96%

OPERATING MARGIN

	MODIFIED BUDGET	FEBRUARY FORECAST	2022-2023	2023-2024	2024-2025	2025-2026
	2020-2021	2021-2022				
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)						
GRAND TOTAL REVENUE	1,714,096,530	1,220,634,052	1,262,648,000	1,307,676,000	1,356,839,000	1,404,190,000
GROWTH RATE		(28.79%)	3.44%	3.57%	3.76%	3.49%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,714,096,530	1,266,176,267	1,301,884,752	1,340,830,461	1,380,113,441	1,420,989,943
GROWTH RATE		(26.13%)	2.82%	2.99%	2.93%	2.96%
OPERATING MARGIN CHANGE	0	(45,542,215)	6,305,463	6,082,291	9,880,020	6,474,000
<i>From Prior Year</i>						

BASE CASE

February Forecast

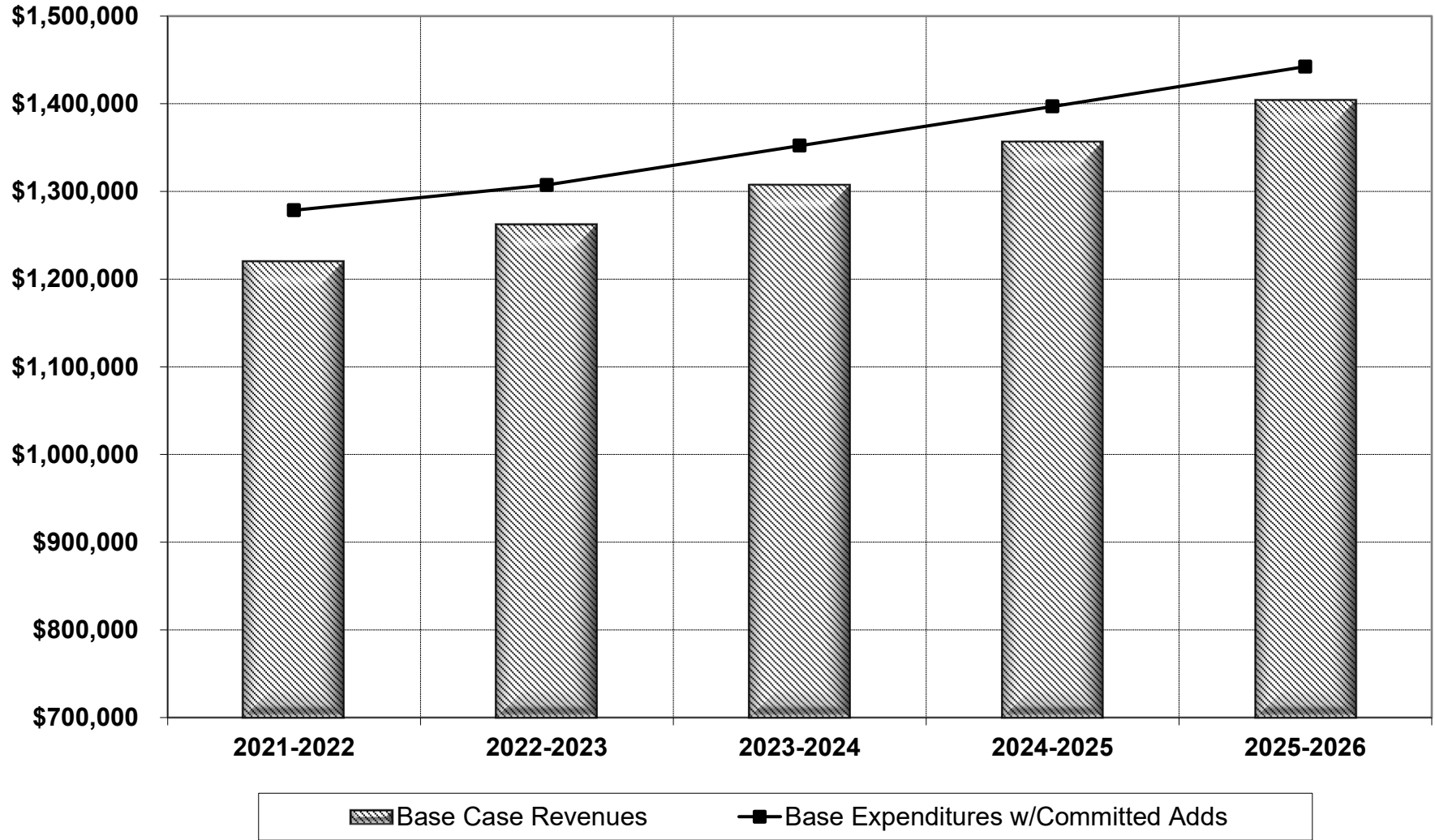
EXPENDITURE SUMMARY

	MODIFIED BUDGET	FEBRUARY FORECAST	2022-2023	2023-2024	2024-2025	2025-2026
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
<u>COMMITTED ADDITIONS:</u>						
New Parks and Recreation Facilities Maintenance and Operations	0	384,000	901,000	1,362,000	1,848,000	1,947,000
New Traffic Infrastructure Assets Maintenance and Operations	0	175,000	287,000	367,000	404,000	428,000
New Public Safety Facilities Maintenance and Operations	0	19,000	156,000	240,000	247,000	256,000
Measure T (Emergency Operations Center and OEM Relocation)	0	0	124,000	223,000	235,000	245,000
Measure T (Fire Station 8 Relocation)	0	0	0	9,000	36,000	37,000
Measure T (Fire Station 32)	0	0	0	1,053,000	4,338,000	4,468,000
Measure T (Fire Station 36)	0	0	0	0	0	3,953,000
Measure T (Fire Station 37)	0	1,977,000	4,071,000	4,193,000	4,319,000	4,449,000
Measure T (Police Training Center Relocation)	0	0	0	1,547,000	2,136,000	2,212,000
Measure T (Police Air Support Hangar)	0	0	0	71,000	75,000	77,000
Measure T (Police Substation Activation)	0	0	0	2,359,000	3,239,000	3,336,000
TOTAL COMMITTED ADDITIONS	0	2,555,000	5,539,000	11,424,000	16,877,000	21,408,000
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,714,096,530	1,268,731,267	1,307,423,752	1,352,254,461	1,396,990,441	1,442,397,943
		(25.98%)	3.05%	3.43%	3.31%	3.25%

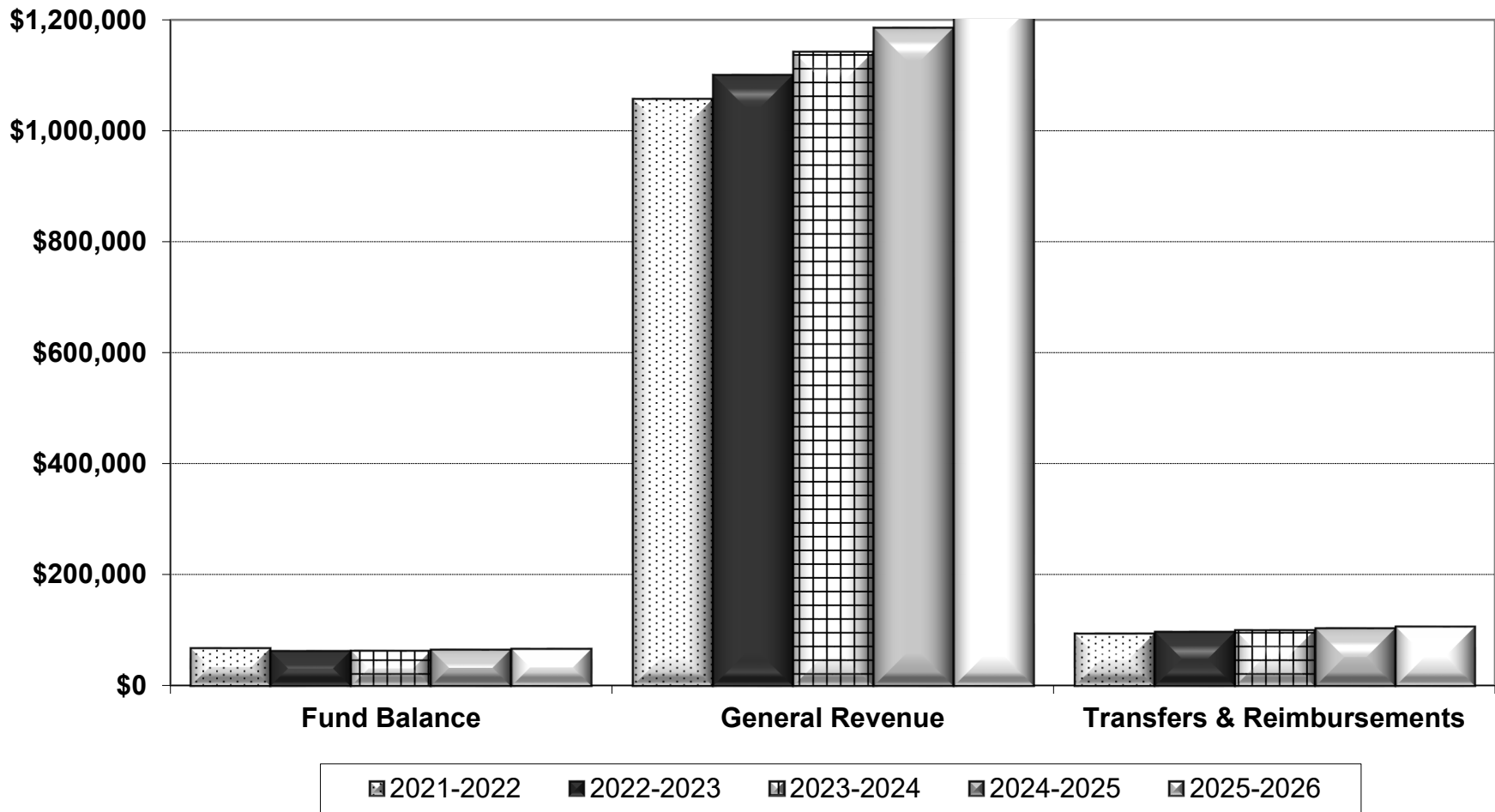
OPERATING MARGIN

	MODIFIED BUDGET	FEBRUARY FORECAST	2022-2023	2023-2024	2024-2025	2025-2026
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
BASE EXPENDITURES (w / COMMITTED ADDITIONS)						
GRAND TOTAL REVENUE	1,714,096,530	1,220,634,052	1,262,648,000	1,307,676,000	1,356,839,000	1,404,190,000
GROWTH RATE		(28.79%)	3.44%	3.57%	3.76%	3.49%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,714,096,530	1,268,731,267	1,307,423,752	1,352,254,461	1,396,990,441	1,442,397,943
GROWTH RATE		(25.98%)	3.05%	3.43%	3.31%	3.25%
OPERATING MARGIN	0	(48,097,215)	(44,775,752)	(44,578,461)	(40,151,441)	(38,207,943)
ONGOING OPERATING MARGIN CHANGE		(48,097,215)	3,321,463	197,291	4,427,020	1,943,498
<i>From Prior Year</i>						

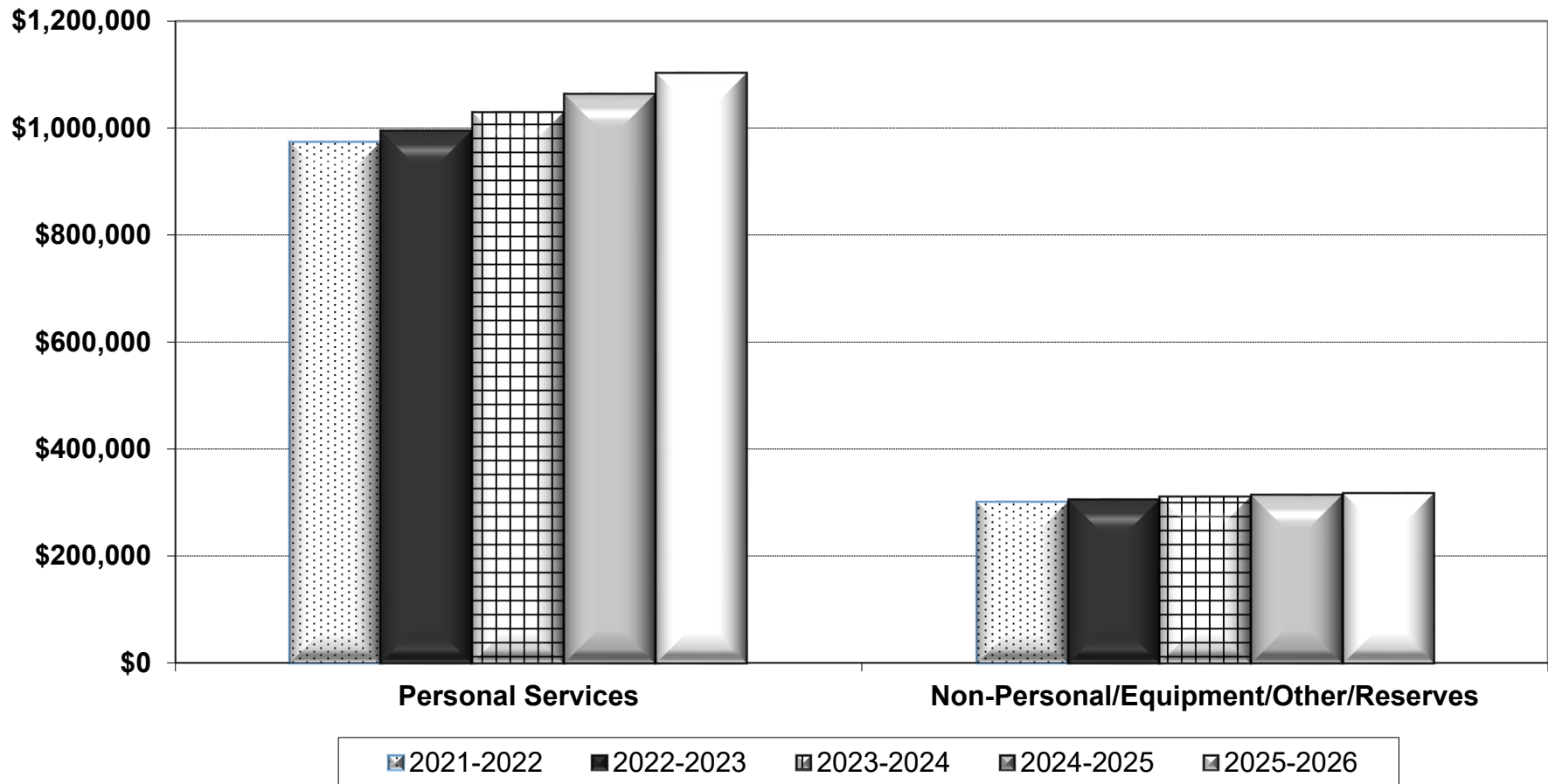
2022-2026 General Fund Forecast PROJECTED REVENUES AND EXPENDITURES (\$ in thousands)



**2022-2026 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
(\$ in thousands)**



2022-2026 General Fund Forecast FIVE-YEAR USE OF FUNDS COMPARISON (\$ in thousands)



Note: Committed Additions ranging from \$2.6 million to \$21.4 million annually during this Forecast are not displayed.

*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

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

A summary of the Committed Additions included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council’s adoption of Budget Principle #8 during the 2008-2009 budget process, a General Fund Capital Operating and Maintenance/Budget Principle #8 discussion is included in this section. Capital projects with annual maintenance and operating costs over \$100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A of this section. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast, that have not been previously approved by the City Council, may be recommended for certification as part of the 2022-2026 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

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

New Parks and Recreation Facilities Maintenance and Operations – This category reflects the projected additional costs that are necessary to operate and maintain new and expanded parks and recreation facilities included in the Capital Improvement Program. Several parks are scheduled to come online over the next five years include, but are not limited to, all-inclusive playgrounds for Almaden Lake and Emma Prusch; Communications Hill II – Hillsdale Fitness Staircase; Columbus Park Soccer Fields; Winchester Orchard Park; Payne Ave Park; Bruzzone Park; and Mercado Park. The city will assume operations and maintenance costs for Commodore Children’s Park, River Oaks Park, North San Pedro Park, and Bassett Park — locations which received in-lieu payments for maintenance from the developers, but the limited funding sources are expected to be depleted within the next five years. The Forecast also includes operating cost estimates for trail sections along Coyote Creek Trail, including Singleton, Phelan to Tully, Story to Phelan, and Mabury to Empire. The City currently has approximately 61 miles of trails.

<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
384,000	901,000	1,362,000	1,848,000	1,947,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
175,000	287,000	367,000	404,000	428,000

New Public Safety Facilities Maintenance and Operations – This category reflects the anticipated additional costs that are necessary to operate and maintain the new Fire Training Center to be constructed at the Central Service Yard as a result of the sale of the existing site on Montgomery Street to Google as approved by the City Council on December 4, 2018. The maintenance and operations costs for landside operations at Fire Station 20 are also included in this category. Efficiencies will be gained expanding construction to build a facility for landside operations adjacent to the Airport Rescue and Fire Fighting Facility/Fire Station 20 (airside operations). The landside portion of fire station will improve emergency response capabilities to the local community. Any additional maintenance and operation costs for the airside operations will be included in the Airport budget and will not funded by the General Fund.

While the current staffing plan for Fire Station 20 landside operations is to relocate an existing Squad (two-person resource) from Fire Station 5 with a cost increase of approximately \$40,000 annually for utilities and phones, the addition of a new Squad would have an annual cost of \$2 million. The priority for the Fire Department is to add resources for Fire Station 37 and other new fire stations, and thus staffing needs for the landside operations of Fire Station 20 is not included in the five-year forecast.

<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
19,000	156,000	240,000	247,000	256,000

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

Several Measure T facilities are anticipated to come online during the next five years, including Fire Stations 32, 36, and 37. The increased costs associated with these stations is primarily driven by the need for a new engine company at each station. Fire Station 37 will be located on a portion of the parking lot at Lincoln Glen Park and is expected to open January 2022. The Police Training Facility, expected to come online in 2023-2024, will also trigger the phased activation of the South

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility. Land acquisition for the new Police Training Facility is in progress, with maintenance costs of \$2.1 million representing an early look at potential ongoing impacts of this facility. Manager’s Budget Addendum #8, released as part of the 2018-2019 budget deliberations, was used to estimate the maintenance and operations costs for a fully activated Police Substation with the tentative costs potentially being higher or lower depending on the operational plan and the level of available resources. All estimates will be further refined once a site is selected and fully scoped, the results of which will be brought forward for City Council consideration.

Additional maintenance and operations funding were factored for the new Emergency Operations Center, Office of Emergency Management relocation, Fire Station 8 Relocation, and the Police Air Support Unit Hangar expansion. In total, the maintenance and operations funding for Measure T facilities coming online will increase from \$2.0 million in 2021-2022 to approximately \$18.8 million by 2025-2026.

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

<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
1,977,000	4,195,000	9,455,000	14,378,000	18,777,000

General Fund Capital Operating and Maintenance/Budget Principle #8

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

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

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for these projects were included as part of the approved Capital Improvement Program, approved by the City Council in June 2020 or align with previous City Council direction. All capital projects with annual maintenance and operating costs in the General Fund greater than \$100,000 have been denoted in the chart. Fire Training Center Relocation, Emergency Operations Center and Office of Emergency Management Relocation, and Fire Station 37 were previously certified by the City Council. By 2025-2026, the costs to maintain and operate all City Council projects expected to come online during the five-year period are estimated at approximately \$21.4 million annually, of which approximately \$18.8 million is related to Measure T facilities as described above.

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

CHART A - 2022-2026 GENERAL FUND FORECAST

Net Operating Impact of Committed Additions

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
All Inclusive Almaden Lake	87,000	107,000	110,000	113,000	116,000
All Inclusive Emma Prusch	88,000	122,000	125,000	128,000	131,000
Bassett Park†	-	-	-	29,000	29,000
Bruzzone Park and Dog Park	47,000	82,000	84,000	86,000	87,000
Columbus Park Soccer Fields*	-	-	375,000	683,000	725,000
Commodore Children's Park (Mabury Park)†	104,000	107,000	110,000	113,000	116,000
Communications Hill II - Hillsdale Fitness Staircase	-	68,000	73,000	75,000	78,000
Mercado Park	45,000	77,000	80,000	82,000	83,000
Newbury Park	-	27,000	27,000	28,000	28,000
North San Pedro Park†	-	-	12,000	76,000	77,000
Payne Ave Park	-	54,000	55,000	56,000	57,000
Pellier Park	-	29,000	30,000	30,000	31,000
Penitencia Creek Dog Park	-	44,000	45,000	46,000	47,000
PAL Stadium Turf Replacement	-	7,000	23,000	23,000	24,000
RAMAC Turf Replacement	-	22,000	23,000	23,000	24,000
River Oaks Park†	-	120,000	123,000	125,000	127,000
TRAIL: Coyote Creek - Mabury to Empire	-	-	24,000	43,000	43,000
TRAIL: Coyote Creek - Phelan to Tully	-	20,000	27,000	28,000	29,000
TRAIL: Coyote Creek - Singleton	-	-	1,000	3,000	3,000
TRAIL: Coyote Creek - Story to Phelan	13,000	15,000	15,000	15,000	17,000
Winchester Orchard Park	-	-	-	43,000	75,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	384,000	901,000	1,362,000	1,848,000	1,947,000
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Community Development Block Grant - Sidewalks	-	-	9,000	9,000	10,000
Developer Installations - Ped Safety Infrastructure	-	1,000	1,000	1,000	1,000
Developer Installations - Signals	24,000	25,000	26,000	26,000	27,000
Developer Installations - Signals (Future Years)	-	39,000	44,000	50,000	57,000
Developer Installations - Streetlights	3,000	4,000	4,000	4,000	4,000
Developer Installations - Streetlights (Future Years)	-	6,000	12,000	18,000	24,000
Digital Inclusion - Fiber Optic Infrastructure	30,000	33,000	34,000	35,000	36,000
McKee Road Safety Corridor Improvements (OBAG)	60,000	66,000	70,000	72,000	74,000
McLaughlin Safety Enhancement Project (HSIP)	6,000	6,000	7,000	15,000	15,000
Route 101/Blossom Hill Interchange	-	2,000	6,000	6,000	6,000
Safety: Pedestrian Improvements	18,000	19,000	19,000	20,000	20,000
Safety: Pedestrian Improvements (Future Years)	-	8,000	17,000	25,000	26,000
Sender Road Pedestrian Safety Improvements (HSIP)	28,000	29,000	30,000	31,000	32,000
Tully Road Safety Corridor Improvements (OBAG)	6,000	47,000	83,000	85,000	88,000
Vision Zero:City-wide Pedestrian Safety and Traffic Calming (Future Years)	-	2,000	5,000	7,000	8,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	175,000	287,000	367,000	404,000	428,000
NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS					
Fire Station 20 (Landside Operations)	19,000	39,000	40,000	41,000	43,000
Fire Training Center Relocation	-	117,000	200,000	206,000	213,000
TOTAL NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS	19,000	156,000	240,000	247,000	256,000
MEASURE T MAINTENANCE AND OPERATIONS**					
Emergency Operations Center and OEM Relocation	-	124,000	223,000	235,000	245,000
Fire Station 8 Relocation	-	-	9,000	36,000	37,000
Fire Station 32 (New)*	-	-	1,053,000	4,338,000	4,468,000
Fire Station 36 (New)*	-	-	-	-	3,953,000
Fire Station 37 (New)	1,977,000	4,071,000	4,193,000	4,319,000	4,449,000
Police Training Facility*	-	-	1,547,000	2,136,000	2,212,000
Police Air Support Unit Hangar	-	-	71,000	75,000	77,000
Police Substation Activation*	-	-	2,359,000	3,239,000	3,336,000
TOTAL MEASURE T MAINTENANCE AND OPERATIONS	1,977,000	4,195,000	9,455,000	14,378,000	18,777,000
TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS	2,555,000	5,539,000	11,424,000	16,877,000	21,408,000

†Parks that are currently being maintained by a developer. City responsibility for maintenance and operations begin when initial developer funding ends

*Annual maintenance and operating costs in the General Fund greater than \$100,000 that will require certification prior to authorizing construction.

**Capital projects authorized as part of the ballot Measure T - The Disaster Preparedness, Public Safety and Infrastructure Bond.

*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

2022-2026 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

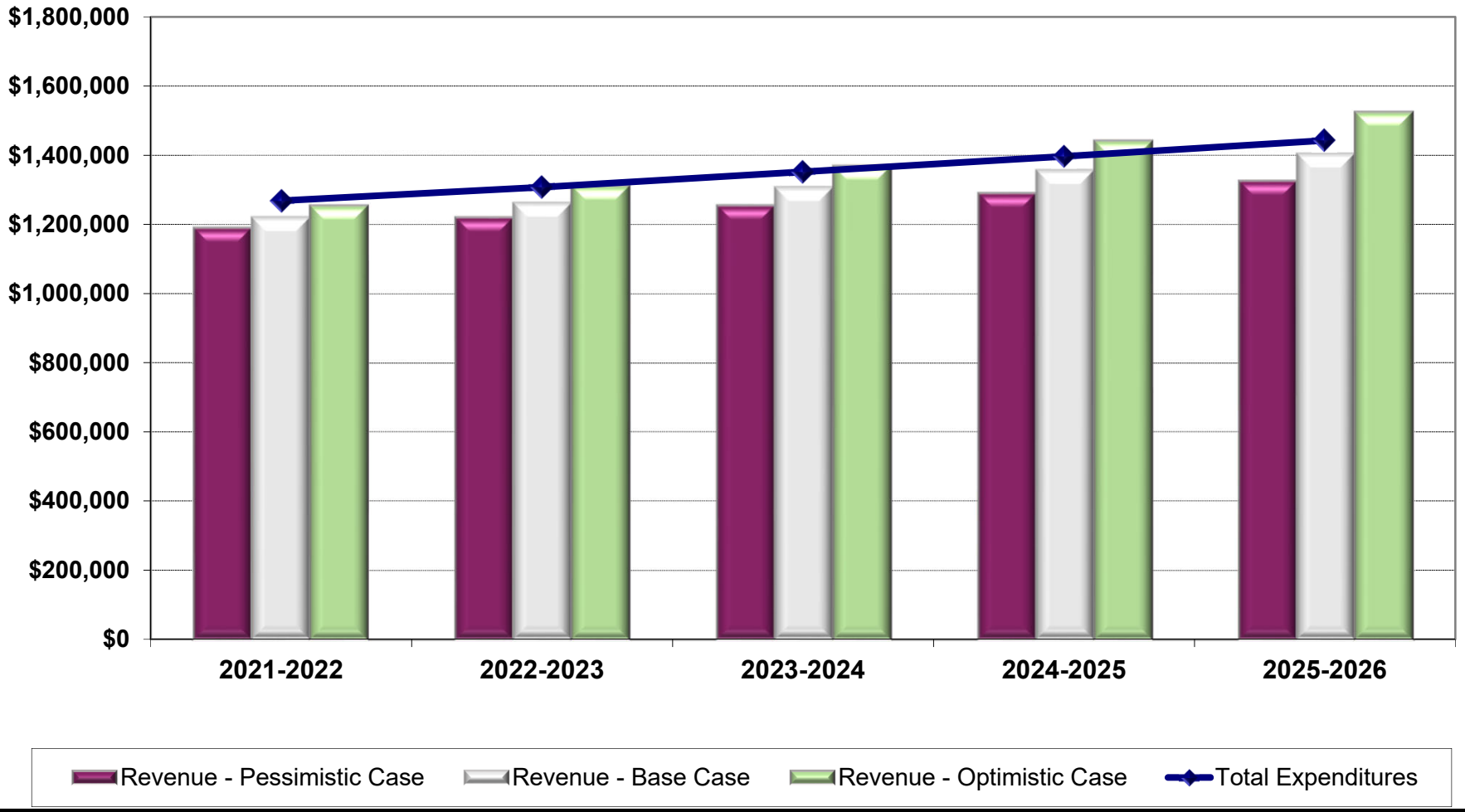
BASE CASE					
	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
TOTAL REVENUES (\$)	1,220,634,052	1,262,648,000	1,307,676,000	1,356,839,000	1,404,190,000
GROWTH RATE		3.44%	3.57%	3.76%	3.49%
TOTAL EXPENDITURES (\$)	1,268,731,267	1,307,423,752	1,352,254,461	1,396,990,441	1,442,397,943
GROWTH RATE		3.05%	3.43%	3.31%	3.25%
OPERATING MARGIN - BASE	(48,097,215)	3,321,463	197,291	4,427,020	1,943,498

OPTIMISTIC CASE					
	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
TOTAL REVENUES (\$)	1,254,797,052	1,311,387,000	1,369,343,000	1,442,254,000	1,524,898,000
GROWTH RATE		4.51%	4.42%	5.32%	5.73%
TOTAL EXPENDITURES (\$)	1,268,731,267	1,307,423,752	1,352,254,461	1,396,990,441	1,442,397,943
GROWTH RATE		3.05%	3.43%	3.31%	3.25%
OPERATING MARGIN - OPTIMISTIC	(13,934,215)	17,897,463	13,125,291	28,175,020	37,236,498

PESSIMISTIC CASE					
	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
TOTAL REVENUES (\$)	1,190,597,052	1,220,628,000	1,255,586,000	1,290,626,000	1,325,847,000
GROWTH RATE		2.52%	2.86%	2.79%	2.73%
TOTAL EXPENDITURES (\$)	1,268,731,267	1,307,423,752	1,352,254,461	1,396,990,441	1,442,397,943
GROWTH RATE		3.05%	3.43%	3.31%	3.25%
OPERATING MARGIN - PESSIMISTIC	(78,134,215)	(8,661,537)	(9,872,709)	(9,695,980)	(10,186,502)

Note: The optimistic and pessimistic scenarios model changes in economically sensitive revenues with no changes in expenditures.

2022-2026 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
 (\$ in thousands)



*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

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

Construction and property resale-related Capital Program revenues are generally tracking at or above the modified expectations for 2020-2021 and anticipated to end the year approximately 40% above the estimates of the 2021-2025 Adopted CIP. While property resale-related performance will positively influence future years, construction activity in the following five years is expected to moderate from current levels. However, overall revenue estimates of \$370.9 million are 16% higher than the estimate used to develop the 2021-2025 Adopted CIP (\$319.9 million), as the real estate and construction markets have remained relatively strong in spite of the pandemic's other impacts throughout the economy. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this forecast with the 2021-2025 Adopted CIP.

Capital Revenue Forecast Comparison Summary (\$ in Thousands)

	2021-2025 Adopted	2022-2026 Forecast	Difference	% Change
Construction and Conveyance Tax	\$158,000	\$184,000	\$26,000	16%
Building and Structure Construction Tax	79,000	96,000	17,000	21%
Construction Excise Tax	78,000	86,000	8,000	10%
Municipal Water System Fees	375	375	0	0%
Residential Construction Tax	1,000	1,000	0	0%
Sanitary Sewer Connection Fee	2,500	2,500	0	0%
Storm Drainage Connection Fee	1,000	1,000	0	0%
TOTAL	\$319,875	\$370,875	\$51,000	16%

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

CAPITAL REVENUE FORECAST

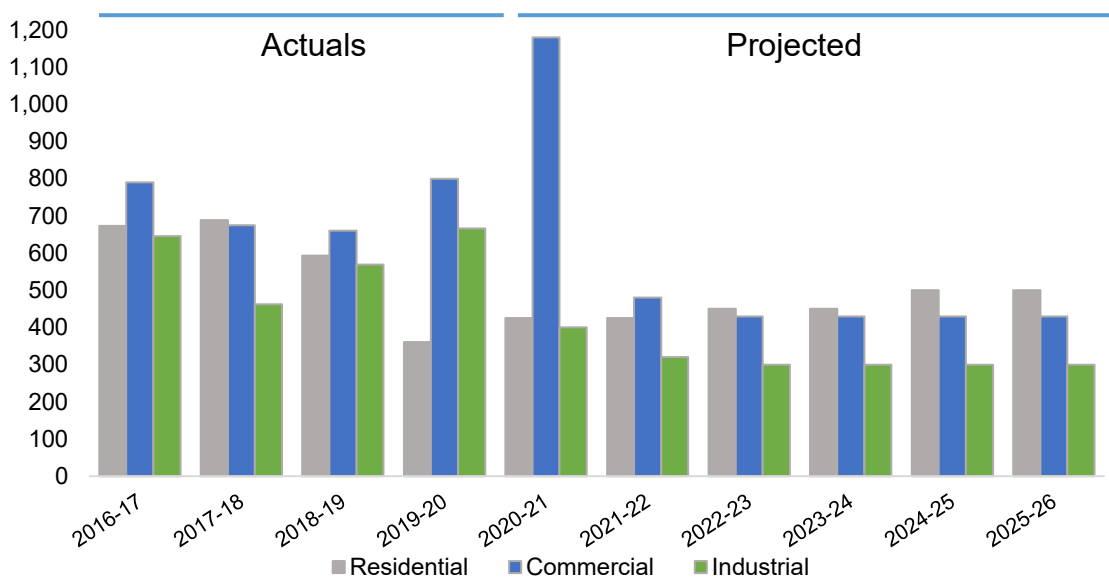
CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides projections of construction activity related to residential, commercial, and industrial development. The valuation figures have been adjusted to 2020 dollars per Bureau of Labor Statistics Consumer Price Index, San Francisco-Oakland-Hayward 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 (2022-2026)”, which is included as Appendix C.

Based on projections provided by the PBCE Department, construction activity valuation is anticipated to be higher than the prior year with \$2.0 billion in 2020-2021, a 10% increase compared to \$1.8 billion in 2019-2020. Construction valuation is projected to peak this fiscal year and then estimated to decrease by 40% to \$1.23 billion in 2021-2022, back to a level experienced prior to 2013-2014. For 2022-2023 and 2023-2024, construction activity valuation is expected decrease by another 3.7% to \$1.18 billion and then increase to \$1.23 billion for the last two years of the five-year period due to declining activity levels for both new construction and alternations. As described in Appendix C, while the pandemic led to some interruptions in the local construction sector, the market showed resilience last year and this year as projects already in progress re-started after the shutdown and other permits were pulled for the first time. Though these estimates may be conservative, they are reflective of the uncertain development environment in the future and an acknowledgement that the extremely high levels of activity experienced over the last several years will likely not continue. While there is hope for a return to normalcy in 2021 with the distribution of the COVID-19 vaccines, the pandemic’s effects may be long term.

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

CONSTRUCTION VALUATION, BY TYPE
(in millions)



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

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

A. Residential Construction Activity

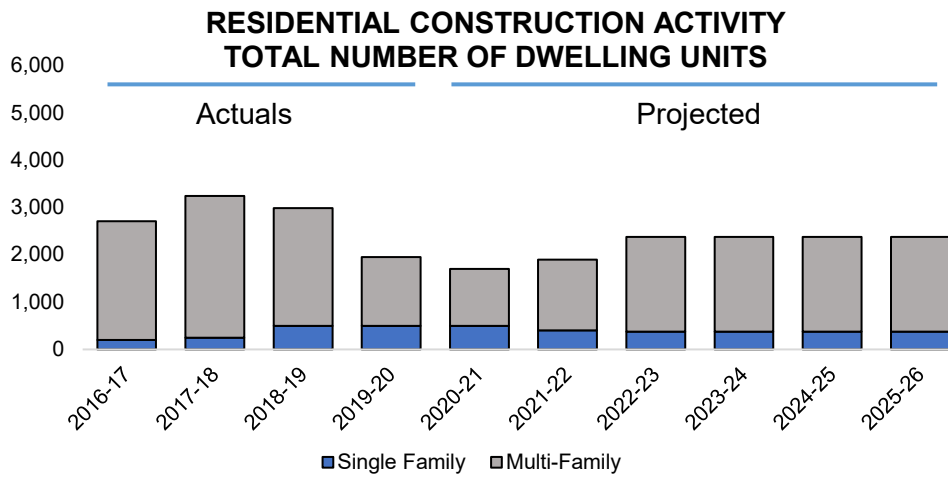
A significant portion of development-related revenue in San José has traditionally been generated by residential construction. New construction activity peaked in 2013-2014 in this sector with a total of 4,724 multi-family and single-family dwelling units, and then decreased the next two years and dropped to 1,692 dwelling units in 2015-2016, rebounded to 3,241 new dwelling units in 2017-2018, and then continued to drop for the next two years, ending with 1,954 new dwelling units in 2019-2020. Residential construction activity is anticipated to drop even further to 1,700 in 2020-2021, a decrease of 13% from the prior year total.

The total value of residential construction activity projected in this forecast is \$2.3 billion, which is a slight decrease from the projected valuation of \$2.5 billion included in the 2021-2025 Forecast. New residential construction slowed down due to the impacts from the COVID-19 pandemic, but are expected to recover slightly in 2020-2021 and continue to improve in the next five years though activity levels are lower compared to prior years. The PBCE Department expects residential construction activity to generate an estimated 1,900 new units in 2021-2022, increase to 2,375 new units in 2022-2023, and then remain flat the remaining years of the forecast. This represents an average of 2,280 units per year or 11,400 units over the forecast period. The activity level has decreased by 18% compared to the 13,825 units included in the 2021-2025 Forecast.

This forecast expects a total of 9,500 multi-family dwelling units or approximately 83% of all dwelling units (single-family and multi-family) to be constructed. This represents a 20% decrease compared to the projections in the 2021-2025 Forecast. The number of new single-family dwelling units is estimated to be 1,900 during this forecast period, which is 3% lower than the projections in the 2021-2025 Forecast. Starting in 2016, the City Council has taken several actions to ease requirements for accessory dwelling units (ADU), and since 2017-2018, the amount of ADU construction has continued to increase. The trend of ADUs comprising a significant portion of single-family units is expected to continue. The following chart shows the number of new units, by housing type, anticipated in San José through 2025-2026.

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS



B. Commercial Construction Activity

In 2019-2020, commercial construction activity totaled \$800 million, an increase of 17% from 2018-2019, and higher by 1% than the previous peak in 2016-2017. In 2020-2021, the PBCE Department expects commercial activity to increase 48% to \$1.2 billion in total permit valuation primarily due to a spike in commercial new construction driven by several large projects in July and August 2020, including the expansion of the Adobe North Tower, a new office building at 200 Park Tower, new construction of two data centers, improvements at Harker Middle School, a new six-story assisted living facility, and a new medical office building at Samaritan Medical Care Center. Going forward, commercial activity is expected to decrease by 60% in 2021-2022 as projects move through the development pipeline and construction is completed.

The total commercial construction valuation projected in this forecast is \$2.2 billion, an increase of 25% from the previous five-year forecast at \$1.8 billion because of an increase in commercial new construction and alterations. As discussed in the attached report provided by the PBCE Department, the most notable commercial project in the planning phase is Google's Downtown West mixed-use project that includes office, residential, and active use space. The project is anticipated to be entitled in spring 2021. Despite the COVID-19 pandemic and speculation on permanent remote working trends, San José continues to capitalize on the expansion of BART into San José and the continuing entitlement process of Google's Downtown West project. Although growth is forecasted for the commercial sector, due to the lack of available land for large retail centers, national retail trends to smaller retail centers, and the rise of e-commerce, retail demand faces an uncertain future. The forecast assumes that new commercial construction activity will decrease but stabilize in the next few years as the decline in new commercial construction will be offset by the growing demand for office space.

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

Information provided by real estate trade groups for the 4th Quarter 2020 compared to the same period in 2019 indicated that the overall San José office vacancy rate increased to 11.7% from 11.2%, research and development (R&D) vacancy rate increased to 14.6% from 13.8%, and retail vacancy rate increased 5.9% from 4.8%¹.

C. Industrial Construction Activity

In 2019-2020, industrial activity totaled \$666 million, an increase of 17% from 2018-2019, primarily driven by an increase in new construction. The PBCE Department expects valuation to decrease to \$400 million in 2020-2021, due to a downward trend in new construction and alteration activity, with permit records showing a decrease in total production of industrial square footage. Valuation then drops to \$320 million annually in 2021-2022 and remains flat at \$300 million annually for remainder of the forecast period, to reflect a lower level of activity.

Information provided by real estate trade groups for the 4th Quarter 2020 indicated that the overall San José vacancy rate for industrial space was 3.6%, increasing from 2.8% in 4th Quarter 2019¹.

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

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2022-2026) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on “major” projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but construction not yet commenced, and pending City approval). In addition, the City is divided into 15 planning areas and individual maps that show the projects in all status categories are provided, except for the Almaden, Calero, Coyote, and San Felipe planning areas as no major development activity has occurred and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary. These maps can be used in conjunction with the activity data to help analyze the rate, type, and location of major development activity in San José.

¹ Cushman and Wakefield, MarketBeat Reports

CAPITAL REVENUE FORECAST

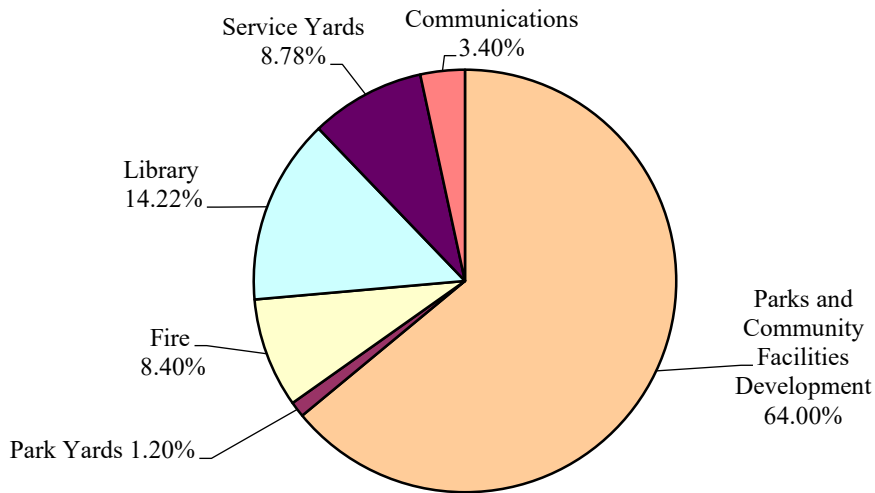
CONSTRUCTION AND CONVEYANCE TAX

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential, 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 new floor area constructed. The Construction Tax accounts for a very small portion (approximately 1%) of the total Construction and Conveyance Taxes collected.

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

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

CONSTRUCTION AND CONVEYANCE TAX 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.

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX

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 \$184.0 million, which is \$26.0 million higher than the estimate used to develop the 2021-2025 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

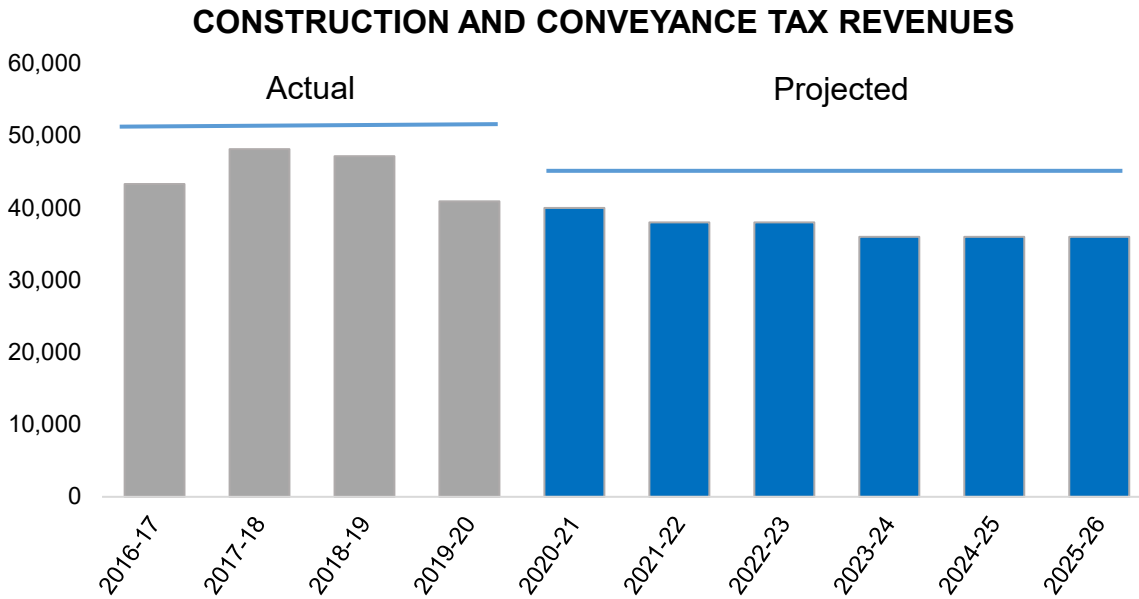
Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of \$49.0 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to \$20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and reached peak levels of \$48.1 million in 2017-2018 and \$47.2 million in 2018-2019, before decreasing to \$40.9 million in 2019-2020.

Real estate activity was anticipated to be sluggish in 2020-2021 due to higher unemployment rates coupled with lower consumer confidence. According to data from the Santa Clara County Association of Realtors, the number of property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranging from 10%-54% between the beginning of the shelter-in-place through June. However, beginning in September, the local real estate market once again began to experience year-over-year gains. Through December, there were a total of 4,099 property transfers for all residences, which represents growth of approximately 18% from December 2019 levels. In addition, median single family home prices remain strong. As of December 2020, the median single family home price totaled \$1.23 million, which represents a 14.4% increase from the December 2019 price of \$1.07 million.

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX

C&C collections in 2020-2021 are projected to end the year at \$40.0 million. This collection level is 2% below the actual receipts received in 2019-2020 (\$40.9 million), which is reflective of the strong housing market despite the pandemic. Collections in this extremely volatile revenue category are forecasted to drop to \$38.0 million in 2021-2022 and 2022-2023, and then drop further to \$36.0 million the remainder of the forecast period. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.



CONSTRUCTION VALUATION TAX RATES

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

CAPITAL REVENUE FORECAST

CONSTRUCTION VALUATION TAX RATES

Permanent Tax Rates without Partial Suspension:

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

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

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

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

CAPITAL REVENUE FORECAST

CONSTRUCTION VALUATION TAX RATES

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

BUILDING AND STRUCTURE CONSTRUCTION TAX

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

In 2020-2021, Building and Structure Construction Tax receipts through January totaled \$18.2 million, up 3% from the \$17.6 million collected through the same period last year, and on track to exceed the 2020-2021 Adopted Budget estimate of \$19.0 million. Based on these strong collections, actions were included in the 2020-2021 Mid-Year Budget Review to increase the budgeted estimates by \$6.0 million to \$25.0 million.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections total \$96.0 million, \$17.0 million above the estimate included in the 2021-2025 Adopted CIP. It is projected that collections will drop from the 2020-2021 estimate of \$28 million to \$20 million in 2021-2022 and to \$19 million for the remainder of the forecast period as projects are completed and activity levels decrease.

In 2005, the City Council adopted the North San José Area Development Policy (Policy), which established a policy framework to guide the ongoing development of the area as an important employment center for San José. In order to provide public infrastructure requirements and to fund roadway improvements to mitigate the impacts of increased traffic generated by new development under the Policy, the City Council adopted the North San José Traffic Impact Fee to fund these improvements. In January 2012, the City Council adopted the North San José Traffic Impact Fee Incentive Program that reduced the traffic impact fee imposed on industrial development projects. This Program was amended in February 2013 and again in December 2013, further reducing the traffic impact fee to entice commercial/job-oriented development in North San José. With the lowering of the impact fees and the loss of San Jose Redevelopment Agency contributions, a large traffic infrastructure funding gap was created. In June 2014, as part of the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council,

CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX

Manager's Budget Addendum #8 described a funding strategy to address the funding gap. The approved funding strategy dedicates future Building and Structure Construction Tax revenues generated from new development in North San José to be held in reserve for North San José transportation projects. It is anticipated that there will be several new major projects under construction in the North San José area during the forecast period. As the budget for the 2022-2026 Traffic Capital Program is developed, an estimate of the tax revenue from these projects will be set aside so that funding is available for the construction of North San José and Route 101/Mabury Road transportation improvement projects.

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

CONSTRUCTION EXCISE TAX

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

In 2020-2021, tax receipts through January for the Construction Excise Tax Fund totaled \$13.7 million, 15% above the \$11.9 million collected through the same period last year and on pace to exceed the 2020-2021 Adopted Budget estimate of \$14.0 million. Based on these strong collections, actions were included in the 2020-2021 Mid-Year Budget Review to increase the budgeted estimates by \$7.0 million to \$21.0 million.

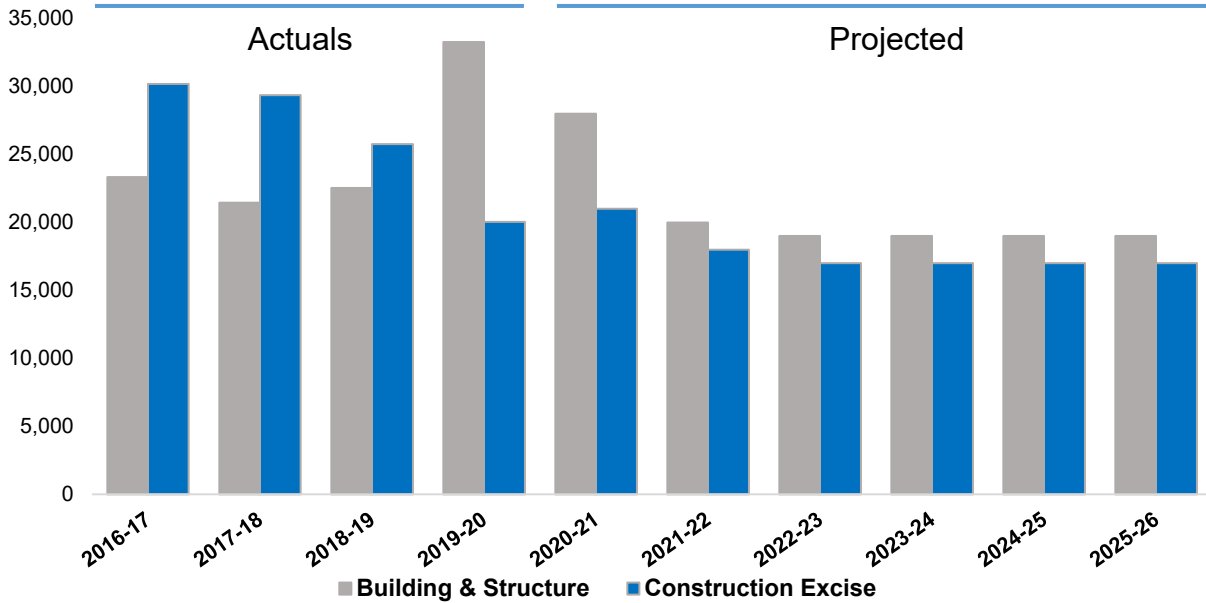
Based upon the construction projections provided by the PBCE Department and an analysis of actual collection patterns, Construction Excise Tax collections are projected to total \$86.0 million over the five-year forecast period, \$8.0 million above the estimate included in the 2021-2025 Adopted CIP. It is projected that collections will drop from the 2020-2021 estimate of \$21.0 million to \$18.0 million in 2021-2022 and to \$17.0 million for the remainder of the forecast period as projects are completed and activity levels decrease.

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

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX

MAJOR CONSTRUCTION-RELATED TAX REVENUES (in thousands)



MUNICIPAL WATER SYSTEM FEES

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

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

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

CAPITAL REVENUE FORECAST

MUNICIPAL WATER SYSTEM FEES

MUNICIPAL WATER SYSTEM FEES

(\$ in Thousands)

	2021-2025	2022-2026		%
	CIP	Forecast	Difference	Change
Advance System Design Fee	125	125	-	0%
Meter Installation Fee	125	125	-	0%
Service Connection Fee	125	125	-	0%
TOTAL	375	375	-	0%

RESIDENTIAL CONSTRUCTION TAX

The Residential Construction Tax is imposed upon the construction of residential dwelling units and mobile home lots in the City. The rates are imposed on each dwelling unit and differ according to the number of units located in the building. Rates vary from \$90 for each unit in a building of at least 20 dwelling units to \$180 for a single-family residence.

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

In 2020-2021, receipts are projected to total \$200,000 based on year-to-date activity levels. This collection level is on target to meet the budgeted estimates of \$200,000. due strong residential development activity. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, collections are expected to remain at \$200,000 in the forecast as a result of development remaining strong. A total of \$1 million is expected over the five-year period of this forecast, which is equal to the total in the 2021-2025 Adopted CIP of \$1.0 million.

CAPITAL REVENUE FORECAST

SANITARY SEWER CONNECTION FEE

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

In 2020-2021, receipts are projected to total \$500,000 based on year-to-date activity levels, which is equal to the budgeted estimate of \$500,000. The five-year forecast for Sanitary Sewer Connection Fees totals \$2.5 million, with annual receipts of \$500,000 for the period from 2021-2022 to 2025-2026. This collection level is equal to the estimate included in the 2021-2025 Adopted CIP of \$2.5 million.

STORM DRAINAGE CONNECTION FEE

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

In 2020-2021, receipts are projected to total \$100,000 based on year-to-date activity levels, which is a decrease from the budgeted estimate of \$200,000. The five-year forecast for Storm Drainage Connection Fees totals \$1.0 million, with annual receipts of \$200,000 for the period from 2021-2022 to 2025-2026. This collection level is equal to the estimate included in the 2021-2025 Adopted CIP of \$1.0 million.

ATTACHMENT A

**CONSTRUCTION-RELATED REVENUE
2022-2026 FORECAST
(in \$ thousands)**

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	5 Yr Total
Construction and Conveyance Tax							
2021-2025 Adopted CIP	30,000	26,000	34,000	34,000	34,000	N/A	158,000
2022-2026 FORECAST	40,000	38,000	38,000	36,000	36,000	36,000	184,000
Difference	10,000	12,000	4,000	2,000	2,000	N/A	26,000
Building and Structure Construction Tax							
2021-2025 Adopted CIP	19,000	15,000	15,000	15,000	15,000	N/A	79,000
2022-2026 FORECAST	28,000	20,000	19,000	19,000	19,000	19,000	96,000
Difference	9,000	5,000	4,000	4,000	4,000	N/A	17,000
Construction Excise Tax							
2021-2025 Adopted CIP	14,000	13,000	17,000	17,000	17,000	N/A	78,000
2022-2026 FORECAST	21,000	18,000	17,000	17,000	17,000	17,000	86,000
Difference	7,000	5,000	-	-	-	N/A	8,000
Municipal Water Advance System Design Fee							
2021-2025 Adopted CIP	25	25	25	25	25	N/A	125
2022-2026 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee							
2021-2025 Adopted CIP	25	25	25	25	25	N/A	125
2022-2026 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Service Connection Fee							
2021-2025 Adopted CIP	25	25	25	25	25	N/A	125
2022-2026 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Residential Construction Tax							
2021-2025 Adopted CIP	200	200	200	200	200	N/A	1,000
2022-2026 FORECAST	200	200	200	200	200	200	1,000
Difference	-	-	-	-	-	N/A	-
Sanitary Sewer Connection Fee							
2021-2025 Adopted CIP	500	500	500	500	500	N/A	2,500
2022-2026 FORECAST	500	500	500	500	500	500	2,500
Difference	-	-	-	-	-	N/A	-
Storm Drainage Connection Fee							
2021-2025 Adopted CIP	200	200	200	200	200	N/A	1,000
2022-2026 FORECAST	100	200	200	200	200	200	1,000
Difference	(100)	-	-	-	-	N/A	-
TOTAL							
2021-2025 Adopted CIP	63,975	54,975	66,975	66,975	66,975	N/A	319,875
2022-2026 FORECAST	89,875	76,975	74,975	72,975	72,975	72,975	370,875
Difference	25,900	22,000	8,000	6,000	6,000	N/A	51,000
 % Change from 2021-2025 CIP	 40%	 40%	 12%	 9%	 9%	 N/A	 16%

*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

Appendix A

City of San José Budget Principles
Service Delivery Framework
City Roadmap

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.

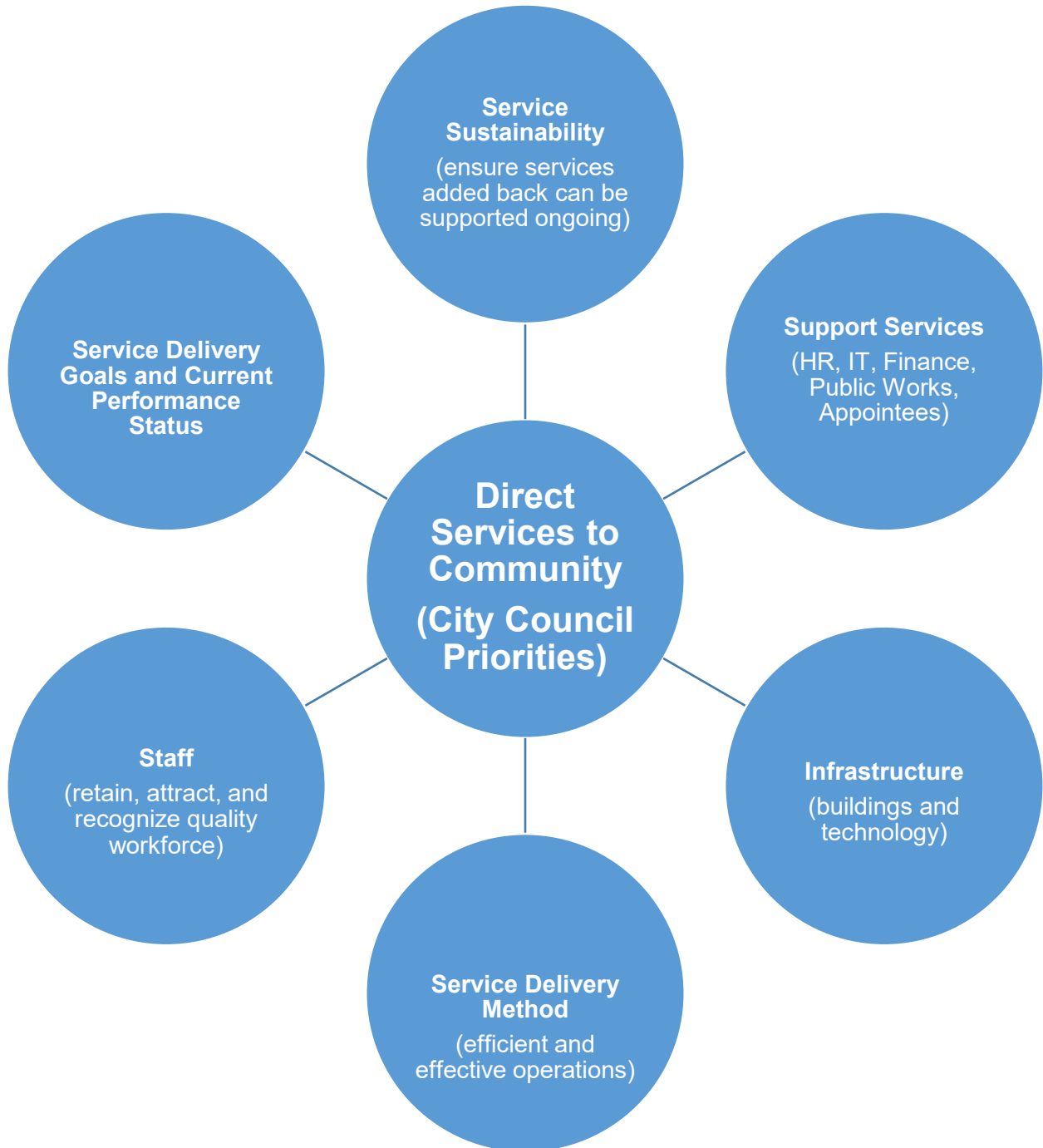
12) PERFORMANCE MEASURES

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.

Service Delivery Framework



San José City Roadmap | Draft FY 2021-2022 City Roadmap (2/25/2021)

Legend: ■ COVID-19 Response ■ Enterprise Initiatives

Enterprise Priority
Emergency Management + Preparedness <i>C+ER: Community + Economic Recovery</i>
Creating Housing + Preventing Homelessness <i>C+ER: Community + Economic Recovery</i>
Safe, Vibrant, + Inclusive Neighborhoods + Public Life <i>C+ER: Community + Economic Recovery</i>
The Future of Downtown
Building the San José of Tomorrow: Private Development Services
Smart, Sustainable, + Reliable City: 21st Century Infrastructure

Project							
Vaccination Taskforce	<i>C+ER</i> Food + Necessities Distribution	<i>C+ER</i> Digital Equity					
<i>C+ER</i> Rental Assistance	Emergency Housing Construction + Operation	Sheltering + Enhanced Encampment Services					
<i>C+ER</i> Re-Employment + Workforce Development	<i>C+ER</i> Small Business Recovery	<i>C+ER</i> Child Care Learning Pods	Police Reforms Work Plan	San José 311 + Service Delivery	Encampment Waste Pick-Up BeautifySJ	Vision Zero Traffic Safety	
Google Development							
Align Zoning with General Plan	Development Services Transformation	Major Real Estate Development Projects					
Pavement, Fire, EOC, Transit Capital Improvements	Regional Wastewater Facility Capital Improvements	Electrical Service for Major Development	Climate Smart American Cities Climate Challenge				

Strategy	
North San José Strategy	
Equity Strategy Development	Neighborhood Services Access Strategy
BART + High-Speed Rail Strategy	
Lowering PG&E Above Market Costs for Clean Energy	

Policy
Soft-Story Building Earthquake Retrofit Policy

Enterprise Priority Foundational
Strategic Fiscal Positioning + Resource Deployment
Powered by People 2.0

Project						
Federal + State Stimulus Advocacy	Secure City Cybersecurity	Procurement Improvement	Pension Obligation Bond Analysis			
Continuity of City Services	Workplace Safety	Employee Health + Wellness	Drive to Digital	Effective Teams	Bargaining Unit Contract Negotiations	

Strategy	
Budgeting for Equity	City Roadmap Budgeting, Accountability, + Performance
City Workforce Diversity + Skill Building	

Policy

Priority Higher ● ————— ● Lower Higher ● ————— ● Lower Higher ●● Lower

*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

GENERAL FUND REVENUE DESCRIPTIONS

PROPERTY TAX

On June 6, 1978, California voters approved 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 1% property tax rate, by allocating revenues back to local governments based on their historic shares of property tax revenues. AB 8 shifted approximately \$772 million of school district property tax revenue to local governments and backfilled schools' lost revenue with subsidies from the State General Fund. Actions taken by the State in order to balance the 1992-1993 and 1993-1994 State budgets partially reversed the AB 8 formula. The 1992-1993 action reduced the City's Property Tax proceeds by nine percent, and shifted this funding to schools in order to reduce the amount of State backfill required. As part of the State's 1993-1994 Budget, the AB 8 formula was again altered requiring another ongoing shift in City Property Tax revenue to K-12 schools and community colleges.

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

In 2004-2005, the State budget included a permanent reduction of the Motor Vehicle In-Lieu (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, which now grows 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 local Sales and Use Tax is collected and administered by the California Department of Tax and Fee Administration and is authorized by the Uniform Local Sales and Use Tax Law and the Bradley-Burns Uniform Local Sales and Use Tax Law. The proceeds of sales and use taxes imposed within the boundaries of San José are distributed by the State to various agencies, with the City of San José receiving one percent.

On November 2, 1993, Proposition 172 (Public Safety Fund) was approved allowing for the permanent extension of the half-cent State sales tax that was originally imposed on July 15, 1991, and was to sunset on June 30, 1993. (On July 1, 1993, a six-month extension of the tax was granted by the State in order to provide a source of one-time funding for cities and counties to partially offset 1993-1994 ongoing property tax reductions.) The passage of the Proposition 172 legislation, effective January 1, 1994, required that the proceeds from the 0.5% tax be diverted from the State to counties and cities on an ongoing basis for funding public safety programs.

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

SALES AND USE TAX

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

TRANSIENT OCCUPANCY TAX

The Transient Occupancy Tax is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The tax rate is currently 10%, of which 6% is placed in the Transient Occupancy Tax Fund and 4% is deposited in the General Fund. The tax is authorized by Title 4 of the Municipal Code, Section 4.74, Ordinance number 21931.

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (6% percent of room rent) is restricted by Title 4 of the Municipal Code, Section 4.72, Ordinance number 23481 to the following uses:

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

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

GENERAL FUND REVENUE DESCRIPTIONS

FRANCHISE FEES

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

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

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

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

FRANCHISE FEES

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

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

UTILITY TAX

The Utility Tax is charged to all users of a given utility (gas, electricity, telephone, and water) other than the corporation providing the utility (i.e., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). For the electricity, gas, and water categories, consumers pay 5% of their utility charges to the utility company that acts as a collection agent for the City. For the telephone utility tax, consumers pay 4.5% on all intrastate, interstate, and international communication services regardless of the technology used to provide such services. Private communication services, voice mail, paging, and text messaging are treated the same as traditional telephone services. In November 2008, voters approved Measure K that reduced the telephone utility rate from 5.0% to 4.5% and broadened the base for the tax and the definition of technologies covered by the tax. The tax is not applicable to State, County, or City agencies. Also, per State regulations, insurance companies and banks are exempted from the tax. This tax is authorized by Title 4 of the Municipal Code, Section 4.68.

TELEPHONE LINE TAX

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

GENERAL FUND REVENUE DESCRIPTIONS

BUSINESS TAXES

The **General Business Tax** was first adopted on July 15, 1963. The methodology used for calculating the Business Tax (Chapter 4.76 of the San José Municipal Code) was adopted in 1984 and adjusted in 1986. In November 1996, the rates were increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates were returned to the levels prior to November 1996. Those rates stayed in effect until San José voters approved the Business Tax Modernization measure on November 8, 2016. In addition to expanding the application of tax to more business classes, the Business Tax Modernization measure increased the base tax, the incremental tax, and the cap (the maximum amount of tax affecting large businesses). The Business Tax Modernization measure rates went into effect July 1, 2017 and will be adjusted annually on July 1st for inflation changes.

The following charts present the business tax rate structure after the Business Tax Modernization, along with the inflation adjusted rates for the periods listed. The updated rates that will take effect on July 1, 2021 are currently being analyzed and will be included in the 2021-2022 Proposed Budget, which is scheduled to be released on May 3, 2021.

Employee Count

Every person engaged in business in the City shall pay a business tax based on employee count¹, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

Businesses: Employee Count ¹	July 2019- June 2020	Effective July 1, 2020 ³
Base Tax: 1-2 employees	\$200.85	\$203.85
Incremental Tax: 3-35 ²	\$31.80	\$32.70
Incremental Tax: 36-100 ²	\$42.40	\$43.60
Incremental Tax: 101-500 ²	\$53.00	\$54.50
Incremental Tax: 501+ ²	\$63.65	\$65.45
Cap	\$159,135	\$163,745

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

² Incremental tax rates are applicable per employee.

³ As prescribed in San José Municipal Code Section 4.76.365, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2019 to February 2020, the CPI grew by 2.9%.

GENERAL FUND REVENUE DESCRIPTIONS

BUSINESS TAXES

Residential Rental Property Units

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

Residential Landlords: Rental Units	July 2019- June 2020	Effective July 1, 2020 ²
Base Tax: 1-2 units	\$200.85	\$203.85
Incremental Tax: 3-35 ¹	\$10.60	\$10.90
Incremental Tax: 36-100 ¹	\$15.90	\$16.35
Incremental Tax: 101-500 ¹	\$21.20	\$21.80
Incremental Tax: 501+ ¹	\$26.50	\$27.25
Cap	\$159,135	\$163,745

Commercial (Non-Residential) Rental Property Units

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

Commercial Landlords	July 2019- June 2020	Effective July 1, 2020 ²
Base Tax	\$200.85	\$203.85
Flat Incremental Tax: per Square Foot ¹	\$0.0265	\$0.0272
Cap	\$159,135	\$163,745

Mobile Home Parks Rental Units

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

Mobile Home Parks – Rental Lot	July 2019- June 2020	Effective July 1, 2020 ²
Base Tax: 1-2 lots	\$200.85	\$203.85
Incremental Tax: 3+ lots ¹	\$10.60	\$10.90
Cap	\$159,135	\$163,745

¹ Incremental tax rates are applicable per unit.

² As prescribed in San José Municipal Code Section 4.76.450, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2019 to February 2020, the CPI grew by 2.9%.

GENERAL FUND REVENUE DESCRIPTIONS

BUSINESS TAXES

Water Meter Connections

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

Water Companies	July 2019- June 2020	Effective July 1, 2020 ²
Base Tax	\$200.85	\$203.85
Flat Incremental Tax: per connection ¹	\$1.06	\$1.09
Cap	\$159,135	\$163,745

¹ Incremental tax rates are applicable per connection.

² As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2019 to February 2020, the CPI grew by 2.9%.

Exclusions and Exemptions

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

Specialty Business Taxes

On May 26, 1987, the City Council enacted a new **Disposal Facility Tax**, which became effective July 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, the City Council approved a cardroom ordinance, which contained the provision of a **Cardroom Business Tax** to tax gross receipts from cardrooms located in the City. On June 9, 1992, the City Council amended the cardroom ordinance, increasing the tax rate schedule and expanding the permissible games authorized. A gross receipt monthly tax schedule was established with taxes ranging from 1% to 13% of gross receipts. In 1993-1994, the City Council approved a revision to the cardroom ordinance, instituting a flat 13% gross receipts tax for all cardrooms located in the City with annual gross revenues in excess of \$10,000. In June 2010, voters approved a ballot measure that increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98. In November 2020 voters approved a ballot measure to increase the tax rate from 15% to 16.5%, increase the maximum number of card tables from 98 to 128, and extend the cardroom tax to those businesses providing Third-Party Proposition Player Services in the cardrooms.

GENERAL FUND REVENUE DESCRIPTIONS

BUSINESS TAXES

On November 2, 2010, San José voters approved Ballot Measure U, which allowed the City to tax all marijuana businesses (medical and non-medical; legal and illegal) at a rate of up to 10% of gross receipts. On December 13, 2010, the City Council approved an ordinance that set the **Cannabis Business Tax** (formerly Marijuana Business Tax) at 7%, and on June 4, 2013, the City Council increased the rate to 10% effective on July 1, 2013. On May 21, 2019, the City Council approved an ordinance that amended Chapter 4.66 to rename the Marijuana Business Tax to the Cannabis Business Tax (CBT) and to establish a tiered CBT rate structure for various categories of cannabis business activities. Effective July 1, 2019, the following CBT rates are applicable on the gross receipts:

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

REAL PROPERTY TRANSFER TAX

On March 3, 2020, San José voters approved Measure E, Real Property Transfer Tax. This new tax, which becomes effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. The Real Property Transfer Tax is a general tax, which means the City of San José can use the revenue for any governmental purpose.

The rate for the Real Property Transfer Tax is as follows:

- 1) Under \$2.0 million – Exempt;
- 2) \$2.0 million to \$5.0 million – 0.75% of the transferred property value;
- 3) \$5.0 million to \$10.0 million – 1.0% of the transferred property value; and
- 4) Over \$10.0 million – 1.5% of the transferred property value

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 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.

REVENUE FROM LOCAL AGENCIES

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

GENERAL FUND REVENUE DESCRIPTIONS

REVENUE FROM THE FEDERAL GOVERNMENT

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

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 (MVLFF) Tax revenues, which are license fees collected by the California Department of Motor Vehicles (DMV). Until 1998-1999, the annual license fee was 2% of the market value of the vehicle as determined by the DMV.

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

GENERAL FUND REVENUE DESCRIPTIONS

REVENUE FROM THE USE OF MONEY AND PROPERTY

The City invests idle funds in order to earn interest. The total income varies with the market rates for interest and the funds available to invest. The City has established a formalized and conservative investment policy with objectives emphasizing safety and liquidity. This policy provides guidelines for the type, size, maturity, percentage of portfolio, and size of security issuer (among others) of each investment. In addition, the policy statement outlines several responsibilities of the City Council, City Manager, City Auditor, and Finance Director. These policy and monitoring units interact and produce investment performance reports and an annually updated investment policy. All reports and policies must be reviewed and approved by both the City Manager and City Council. Investment of funds is authorized by the City Charter, Section 8066. Revenue is also received from the rental of City-owned property.

FEEES, RATES, AND CHARGES

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

OTHER REVENUE

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

TRANSFERS AND REIMBURSEMENTS

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

Overhead charges are assessed to recover the estimated fair share of indirect General Fund support services costs (staff and materials) that benefit other City program and fund activities. Examples of support activities included in the charges are services provided by the following departments:

GENERAL FUND REVENUE DESCRIPTIONS

TRANSFERS AND REIMBURSEMENTS

Finance, Human Resources, Information Technology, Mayor and City Council, the Office of the City Attorney, and the Office of the City Manager. Each year the charges are calculated using Finance Department developed overhead rates applied to projected salary costs in most City funds. The most significant sources of overhead reimbursements are the Treatment Plant Operating Fund, the Sewer Service and Use Charge Fund, the Airport Maintenance and Operation Fund, and the Integrated Waste Management Fund.

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

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

STATE GAS TAX

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

$$\begin{array}{l} \text{County Allocation :} \\ \div \text{ a No. of Registered Vehicles in County} \\ \div \text{ b No. of Registered Vehicles in State} \\ \times \text{ c } \$0.0104 \\ \times \text{ d Gallons of Gas Sold} \end{array}$$

$$\begin{array}{l} \text{City Allocation:} \\ \div \text{ a Incorporated Assessed Value in County} \\ \div \text{ b Total Assessed Value in County} \\ \times \text{ c County Allocation} \end{array}$$

$$\begin{array}{l} \text{Individual City Allocation:} \\ \div \text{ a Population in City} \\ \div \text{ b Population of all Cities in County} \\ \times \text{ c City Allocation} \end{array}$$

The 1943 Gas Tax (Section 2107) authorized a per gallon charge of \$0.00725. The State allocates part of these revenues for snow removal; the balance is distributed by calculating the portion of the State population represented by the city's population. As a result of the passage of Proposition 111, gas and diesel taxes were increased \$0.05 per gallon on August 1, 1990, and increased by \$0.01 per gallon each January 1 until and including January 1, 1994. For the 1990 Gas Tax (Section 2105), cities are apportioned a sum equal to the net revenues derived from 11.5% of highway users taxes in excess of \$0.09 per gallon in the proportion that the total city population bears to the total population of all cities in the State.

*Five-Year Economic Forecast
and
Revenue Projections*

2022-2026

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2022-2026)



Prepared by:

**City of San José
Department of Planning, Building and Code Enforcement
February 2021**

Development Activity Highlights & Five-Year Forecast (2022-2026)

For more information, please contact:

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Department of Planning, Building and Code Enforcement
Planning Division
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San José, CA 95113
(408) 535-3555**

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

<https://www.sanjoseca.gov/your-government/departments/planning-building-code-enforcement/planning-division/data-and-maps/development-monitoring/activity-highlights-five-year-forecast>

Development Activity Highlights & Five-Year Forecast (2022-2026)

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Development Activity Highlights & Five-Year Forecast (2022-2026)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2022-2026)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves three important functions, as follows:

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

II. SUMMARY

Soon after the publication of the *Development Activity Highlights and Five-Year Forecast (2021-2025) Report* in February 2020, the COVID-19 global pandemic unfolding in the East reached the United States and its significant impacts on San José continue to unfold. On March 16, 2020 the Santa Clara County Public Health Officer issued a shelter in place order to slow the spread of COVID-19. Except for essential travel and services, (e.g., grocery/supply shopping, health services, financial services and outdoor activities), most other business operations (especially those involving customer interaction) were prohibited. Most construction in San José was prohibited under the shelter-in-place order until May 4, 2020 when the Santa Clara County Health Officer allowed construction to resume under the County's Mandatory Directive for Construction Projects and State of California Industry Guidance. On May 21, 2020, the City Manager signed an Emergency Order to extend construction hours 6:00 a.m. to 8:00 p.m., Mondays through Saturdays, for project sites with an approved development permit or other planning approval that are at least 50,000 square feet of development or at least 50 residential units to make up for the time lost during the original shelter in place directive.

The social and economic impacts of COVID-19 have been widespread, and affected construction and development patterns in fiscal year 2019/2020. The full impact of the COVID-19 global pandemic will not be fully realized for years to come as it continues to transform living preferences and redefine working patterns. In fiscal year 2019/2020 the City of San José saw a sharp decrease in total residential unit production and construction valuation, a pattern that is also expected in fiscal year 2020/2021, though these patterns are anticipated to return to more normal trendlines in several

years. On the contrary, the commercial sector saw an increase in total commercial square footage production and valuation in fiscal year 2019/2020 and is forecasted for an even greater increase in fiscal year 2020/2021. Similarly, in fiscal year 2019/2020, there was an increase in industrial new construction valuation; however, permit records show a decrease in total production of industrial square footage.

While the pandemic led to some interruptions in the local construction sector, the market showed resilience as projects already in progress re-started after the shutdown, and others pulled permits for the first time. The slow roll-out of COVID-19 vaccines in early 2021 gives hope for a return to normalcy, but the pandemic's effects may be long term.

Residential Development

New construction for multi-family residential development in fiscal year 2019/2020 declined from historical trends. Increased supply paired with decreased demand, led to sharp increases in vacancy for Class A rentals. Rents for new, Class A, apartments dropped significantly, compared to older housing stock. This pattern is linked to the uncertainties presented by the global pandemic and has presented challenges for new construction.

During the first six months of fiscal year 2020/2021, building permits were issued for approximately 856 new residential units of which only 585 are multifamily units while 55 were single-family homes, and 216 were accessory dwelling units (ADUs).¹ As new multifamily units decline, single-family new construction remains steady and ADU production continues to increase over time. Since the major update of the City's ADU ordinance in 2016 and subsequent updates in 2018 and 2019, the trend continues in fiscal year 2019/2020 as new ADU units increased to 392 units representing a 32% increase from the previous fiscal year. ADUs are forecasted to continue the trend upward with 213 new units approved within the first 6 months of fiscal year 2020/2021.

Additionally, as of February 2021, there were approximately 11,168 new residential units that have received entitlements, but have not yet started construction. The projects in the pipeline have all been identified as multifamily residential which may be slow to reach construction if the pandemic trends continue. However, more affordable housing projects are seen on this list than past years with the passage of SB 35, AB 2162 and other affordable housing streamlining bills. Overall, new residential units are forecasted to decline below the five-year average at 1,700 units for fiscal year 2020/2021 based on the current housing trends, which have slowed due to lower demand for multifamily residential, and the decrease of rents relative to the lower demand. However, we expect residential new construction to increase over time back

¹ Note that in ADUs are counted under Single-Family in Table 2.

to normal levels by fiscal year 2025/2026 as vaccinations continue to roll-out and the economy begins to return towards pre-pandemic levels.

Despite a decrease in new construction, alternations for residential development remain stable, and are forecasted to continue.

Following multiple years of steep increases, rents in Silicon Valley have declined for the first time since 2010.² Average effective rents fell 7% from 2019 but increased 2.5% over the past five year stretch.³ In Q4 2020, the average effective rent⁴ in San José was \$2,299.⁵ Spurred by the global pandemic San José posted the steepest rent drop among major U.S. metros on a trailing three month basis in September 2020.⁶ However, for many Bay Area communities rents and housing costs are still unaffordable and citywide moratoriums on evictions have protected renters who have been impacted by the pandemic.

Commercial and Industrial/Office Development

The industrial construction category includes office buildings, industrial manufacturing buildings, and warehouse space, while new commercial construction incorporates other commercial types such as hotel and retail space. Building permit data revisions this fiscal year may have resulted in commercial numbers that include industrial or office uses and vice versa. For a better comparison to past fiscal years, this report will combine commercial and industrial/office development production and valuation for fiscal year 2020/2021 and past years. A correction that reclassifies commercial and industrial/office projects correctly may be issued at a later date.

Despite the COVID-19 global pandemic and its economic impact, valuation of combined commercial and industrial/office for new construction activity increased in fiscal year 2019/2020 to \$962 million, compared to the previous fiscal year of \$525 million and higher than the historical 5-year average. Through the first six months of the current fiscal year (2020/2021) valuation of new construction for combined commercial and industrial office was higher than the previous fiscal year at approximately \$1.03 billion, with a forecasted valuation of \$1.25 billion for fiscal year 2020/2021. Although growth is forecasted for the commercial sector, lack of available land for large retail centers and national retail trends, may result in decline in new commercial construction in the future. With the impact of the pandemic impact and the rise of ecommerce, retail demand faces an uncertain future. The combined commercial

²Matrix Multifamily San Jose Report-Fall 2020, Fall 2019 ~ Comparing year over year in the fourth quarter. Rent growth typically follows a seasonal pattern by recording a negative change at the end of the third or beginning of the fourth quarter, and rebounding by the middle of the first quarter of the following year.

³ Costar Q4 2015 – Q4 2020.

⁴ Effective rent is defined as asking rent less rent concessions, such as move-in specials, one month free, etc.

⁵ Costar Q4 2020.

⁶ Matrix Multifamily San Jose Report-Fall 2020.

and industrial/office valuation is forecasted to decrease, but stabilize in the next few years as the decline in new commercial construction will be offset by the growing demand of industrial/office space.

In fiscal year 2019/2020 the combined commercial and industrial/office yielded 4.7 million square feet of new construction, a 1.3 million square-foot increase from the previous fiscal year. The new construction of commercial and industrial/office square footage is projected to increase even further to 5.2 million square feet in fiscal year 2020/2021 and then taper off in the next 2 years to return to the 5-year average levels of previous years. Over 1.4 million square feet of commercial projects and 6.1 million square feet of industrial/office projects have been entitled but have not yet started construction. Hotel development has remained steady with 1,179 hotel rooms pending entitlements and over 1,629 rooms entitled but not constructed.

Comparatively, commercial and industrial/office alterations declined in fiscal year 2019/2020 approximately \$131 million below the 5-year historic average at \$635 million, indicative of lower demand for renovations and remodels during the pandemic.

As of the fourth quarter of 2020, the overall retail vacancy rate in San José rose to approximately 5.9%, one percent higher than the previous year (approximately 4.8%) and well below the national average of 7.2%.⁷ San José and Silicon Valley continue to showcase resiliency and economic strength as unemployment continues to decline.

The pandemic continues to economically challenge Bay Area communities with statewide public health orders requiring many businesses to adapt to remote work or mobile service. The demand for office space is reflected in the increase of overall office vacancy rates in Silicon Valley, rising during the fourth quarter of 2020 to 10.9%, an increase from the vacancy rate in 2019 of 9.2%.⁸ The office vacancy rate in Downtown San José has increased from 12.9% in the fourth quarter of 2019 to 16.2% in the fourth quarter of 2020.⁹ Despite the increased vacancy rates, two high-rise commercial projects, Adobe North Tower, an 18-story 700,000-square-foot office tower, and 200 Park Tower, a 19-story 857,000-square-foot office tower, broke ground in 2019 and continue their construction.

Overall industrial warehouse vacancy rates have remained low but have increased to 3.6% slightly up from 2.8% in the fourth quarter of 2019.¹⁰ There is over 6 million square feet of industrial development entitled and yet to start construction.

The availability and vacancy rate for Research & Development (R&D) in the North San José market slightly increased for the fourth quarter of 2020 to 15.9% from 15.2%

⁷ Marketbeat Silicon Valley 2020, Retail Q4 2020, Cushman & Wakefield.

⁸ Marketbeat Silicon Valley 2020, Office Q4 2020, Cushman & Wakefield.

⁹ Marketbeat Silicon Valley 2020, Office Q4 2020, Cushman & Wakefield.

¹⁰ Marketbeat Silicon Valley 2020, Industrial Q4 2020, Cushman & Wakefield.

in the fourth quarter of 2019.¹¹ A portion of the increase can be contributed to new construction of an 82,260 square foot warehouse underway. Higher asking rates and BART's (Bay Area Rapid Transit) extension into Milpitas and North San José continues to create demand in the North San José area.

The most notable projects underway for commercial and industrial/office is Google's investment and proposed Downtown West Mixed-Use Project that includes construction of approximately 6,500,000 square feet of office (with a maximum of 7,300,000 square feet); approximately 3,000 to 5,000 units of housing (with a maximum of 5,900 units); approximately 300,000 to 500,000 square feet of active uses, which may include retail, cultural, arts, etc.; approximately 100,000 square feet of event space; up to 300 hotel rooms and up to 800 rooms of limited-term corporate accommodations. The proposed project represents approximately 30% of all industrial square footage in the pipeline and 15% of all residential units in the development process. The proposed project is anticipated to be entitled in spring 2021. Additionally, in the fourth quarter, Amazon completed a new lease, deciding to take 141,000 square feet at 2256 Junction Avenue in North San José and purchased a 17.8-acre property on 1605 South 7th Street for future redevelopment.

III. FIVE-YEAR FORECAST (2022-2026)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Despite COVID-19 impacts, construction valuation in fiscal year 2021/2022 is expected to increase from fiscal year 2019/2020, fueled by a strong commercial and industrial construction, despite a slowdown of new residential construction. Valuations of new residential construction have halved in fiscal year 2019/2020 compared to pre-COVID-19 numbers, but are expected to recover slightly in fiscal year 2020/2021 and continue to improve in the next five years. Despite the COVID-19 global pandemic and speculation on permanent remote working trends, San José continues to capitalize on the expansion of BART into San José and the continuing entitlement process of Google's Downtown West project despite the economic turmoil from the global pandemic as another positive indication for future development in San José.

¹¹ Marketbeat Silicon Valley 2020, R&D Q4 2020, Cushman & Wakefield.

Table 1
Construction Valuation: FY 15/16 to FY 25/26

Fiscal Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
	<u>Actual Valuation¹ (in millions)</u>					<u>Projected Valuation (in millions)</u>					
<u>New Construction</u>											
Residential	\$382	\$555	\$569	\$456	\$234	\$300	\$325	\$350	\$350	\$400	\$400
Commercial	278	437	419	370	567	\$950	300	250	250	250	250
Industrial	349	116	249	155	395	300	200	150	150	150	150
Subtotal	\$1009	\$1108	\$1237	\$981	\$1196	\$1550	\$825	\$750	\$750	\$800	\$800
<u>Alterations</u>											
Residential	\$132	\$118	\$120	\$137	\$126	\$125	\$100	\$100	\$100	\$100	\$100
Commercial	273	353	256	290	233	230	180	180	180	180	180
Industrial	343	530	213	414	271	100	120	150	150	150	150
Subtotal	\$748	\$1002	\$590	\$841	\$630	\$455	\$400	\$430	\$430	\$430	\$430
Grand Total (Taxable)	\$1756	\$2110	\$1826	\$1822	\$1826	\$2005	\$1225	\$1180	\$1180	\$1230	\$1230

¹Valuation figures adjusted to 2020 dollars, per U.S. Bureau of Labor Statistics Consumer Price Index (CPI), San Francisco-Oakland-Hayward, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 15/16 to FY 25/26

Fiscal Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
	<u>Actual¹</u>					<u>Projected</u>					
<u>Residential (Units)</u>											
Single-Family	152	201	250	495	501	500	400	375	375	375	375
Multi-Family	1,540	2,511	2,991	2,490	1,453	1,200	1,500	2,000	2,000	2,000	2,000
TOTAL	1,692	2,712	3,241	2,985	1,954	1,700	1,900	2,375	2,375	2,375	2,375
<u>Non-Residential (sq.ft., in thousands)</u>											
Commercial	1,854	1,911	3,235	2,397	3,982	4,350	1,700	1,500	1,500	1,500	1,500
Industrial	2,068	1,452	1,584	1,055	754	875	1,000	1,000	1,000	1,000	1,000
TOTAL	3,922	3,363	4,819	3,452	4,736	5,225	2,700	2,500	2,500	2,500	2,500

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

IV. CONSTRUCTION TAXES

The City of San José 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 multifamily units or any mobile home lot in the City. This tax is collected and placed in a fund used to reimburse private entities that have constructed a portion of an arterial street that is wider than what is normally required in connection with residential development. The funds are also used to construct median landscaping and other street improvements.

V. MAJOR DEVELOPMENT ACTIVITY DATA

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

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

**Major Residential Development Activity
Projects of 50+ Dwelling Units**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Housing Type	No. of Units	Approval Date
Projects Completed 2020 to 2021								
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	Southwest side of Montecito Vista Way at the western terminus of Esfahan Drive and Montecito Vista Drive	South	SF	100	6/7/13
PD13-027	7/1/13	Vicenza at Montecito Vista	455-09-062	East side of Montecito Vista Way, between Esfahan Drive and Montecito Vista Drive	South	MF	162	11/22/13
PD14-051	10/30/14	777 Park Ave	261-36-062	777 Park Avenue	Central	MF	182	3/18/15
H15-007	1/23/15	Moderer San Pedro Square	259-35-042	45 N. San Pedro Street	Central	MF	201	5/20/15
PD15-035	7/9/15	Ohlone Block C	264-14-024	345 Sunol Street	Central	MF	268	12/16/15
PDA12-031-01	11/13/15	Platform	241-04-011	1501 Berryessa Road	Berryessa	MF	551	4/13/16
PD15-067	12/22/15	The Reserve	299-26-059	881 S. Winchester Boulevard	West Valley	MF	640	4/27/2016
PD16-002	1/21/16	Berryessa Flea Market (KB)	241-04-011	North side of Berryessa Road on the northern portion of the parcel just west of Union Pacific Railroad tracks (Flea Market)	Berryessa	SF	162	5/18/16
Total							2,266	
Projects Under Construction								
PD12-039	10/11/12	South Village (Hitachi Condo's)	706-65-020	0 Raleigh Road	Edenvale	MF	83	12/20/12
H12-020	1/16/13	San Pedro Square	259-32-044	195 W. Julian Street	Central	MF	406	2/24/14
H13-041	10/31/13	Silvery Towers Apts	259-32-004	180 W. St. James Street	Central	MF	643	2/26/14
PDA14-035-01	8/21/14	Communication Hill (Phase 1)	455-28-017	Junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	SF	314	3/18/15
PD15-013	4/3/15	Arcadia/Evergreen Part 1	670-29-002	2140 Quimby Road	Evergreen	SF	250	11/30/15
PD15-014	4/16/15	1807 Almaden Rd	455-21-050	1807 Almaden Road	South	MF	96	10/7/15
PDA15-036-01	7/9/15	Ohlone Block B	264-14-024	345 Sunol Street	Central	MF	269	12/16/15
PD15-055	11/4/15	Shea Homes/ Japantown Corp. Yard	249-39-039	Bounded by N. Sixth Street, E. Taylor Street, N. Seventh Street, and Jackson Street	Central	MF	520	5/25/16
PD16-005	2/4/16	Istar/Great Oaks	706-08-008	West side of Great Oaks Blvd approx 1,000 feet northwesterly of Highway 85	Edenvale	MF	301	5/18/2016
PD16-025	8/16/16	The Orchard (Residential)	254-06-042	641 N. Capitol Avenue	Alum Rock	MF	188	1/24/17
SPA17-009-01	9/7/17	Miro (formerly SJSC Towers)	467-20-086	33 N. 5th Street	Central	MF	630	12/13/17
PD14-055	1/13/15	Leigh Ave Apartments	284-32-014	1030 Leigh Avenue	Willow Glen	MF	64	3/18/15
PD15-044	9/11/15	Sparta	467-16-076	525 E. Santa Clara Street	Central	MF	85	9/20/16
H15-046	9/25/15	363 Delmas Avenue	264-26-006	341 Delmas Avenue	Central	MF	120	6/21/16
PDA14-035-04	4/9/17	Communication Hill Phase II	455-28-016	junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	486	7/26/17
PD17-029	12/15/17	Julian/Stockton Mixed Use	261-01-030	715 W. Julian Street	Central	MF	228	10/23/18
CPA11-034-01	5/10/11	North San Pedro Apts	259-23-016	201 Bassett Street	Central	MF	135	7/23/14
SP17-037	9/1/17	Page Street Housing	277-20-044	329 Page Street	Central	MF	82	12/5/18
Total							4,900	

**Major Residential Development Activity
Projects of 50+ Dwelling Units**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Housing Type	No. of Units	Approval Date
Approved Projects (Construction Not Yet Commenced)								
PD12-013	3/29/12	Ohlone Mixed Use (Block A)	264-14-131	southwest corner of West San Carlos Street and Sunol Street	Central	MF	263	12/16/15
HA14-009-02	6/5/18	Parkview Towers	467-01-008	northeast corner of the intersection of 1st Street and St. James Street	Central	MF	220	5/13/15
H14-037	11/5/14	NSP3 Tower	259-24-008	201 W. Julian Street	Central	MF	313	8/5/15
PD15-042	9/11/15	Montgomery 7	259-47-068	565 Lorraine Avenue	Central	MF	54	6/21/16
H15-047	9/28/15	Gateway Tower	264-30-089	455 S. 1st Street	Central	MF	300	12/6/16
H15-055	11/17/15	6th Street Project	467-19-059	73 N. 6th Street	Central	MF	126	6/29/16
PD15-061	12/4/15	Diridon TOD	259-38-036	402 West Santa Clara	Central	MF	325	5/24/16
PD15-066	12/21/15	Santana Row Lot 12	277-40-017	358 Hatton Street	West Valley	MF	258	8/16/16
PD15-068	12/22/15	Santana Row Lot 17	277-38-003	544 Dudley Avenue	West Valley	MF	110	5/25/16
SP16-016	3/8/16	Park Delmas	259-46-040	201 Delmas Avenue	Central	MF	123	6/29/16
PD16-013	4/7/16	777 West San Carlos St	261-39-045	270 Sunol Street	Central	MF	149	6/21/16
SP16-021	4/11/16	Greyhound Residential	259-40-012	70 South Almaden Avenue	Central	MF	781	5/23/17
PD15-059	6/23/16	Volar (Residential)	277-33-003	350 S. Winchester Boulevard	West Valley	MF	330	6/13/17
PD16-026	8/11/16	7th & Empire	249-38-042	535 N. 7th Street	Central	MF	92	4/11/17
PD16-031	9/27/16	750 West San Carlos	264-15-003	750 W. San Carlos Street	Central	MF	56	12/12/17
SP17-016	4/24/17	425 Auzerais Avenue	264-26-017	425 Auzerais Avenue	Central	MF	130	6/19/17
PD17-014	4/25/17	Stevens Creek Promenade	296-38-013	4360 Stevens Creek Boulevard	West Valley	MF	499	2/26/19
HA14-023-02	12/6/17	Post & San Pedro Tower	259-40-088	171 Post Street	Central	MF	228	6/9/18
SP18-016	3/29/18	27 West	259-40-043	27 S. 1st Street	Central	MF	374	2/27/19
H18-057	5/3/18	Balbach Affordable Housing	264-31-109	South East corner of Balbach and South Almaden Blvd	Central	MF	87	1/30/19
H17-019	4/25/17	Spartan Keyes Senior Housing	472-25-092	295 E. Virginia Street	Central	MF	301	1/9/19
CP17-052	11/17/17	Alum Rock Mixed Use	481-19-003	1936 Alum Rock Avenue	Alum Rock	MF	94	3/27/19
SP17-027	6/26/17	Roosevelt Park Apartments	467-12-001	21 N. 21st Street	Central	MF	80	2/6/19
PD17-027	12/14/17	Saratoga Ave Mixed Use	299-37-024	700 Saratoga Avenue	West Valley	MF	300	6/11/19
SP18-001	1/9/18	Garden Gate Tower	472-26-090	600 S. 1st Street	Central	MF	285	11/19/19
H18-026	6/7/18	S. Market Mixed Use	264-30-034	477 S. Market Street	Central	MF	130	5/1/19
PD18-015	6/19/18	Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	MF	590	9/10/19
SP18-059	5/10/18	McEvoy Affordable Housing	261-38-004	699 W. San Carlos	Central	MF	365	2/11/20
SPA17-023-01	12/11/18	StarCity (Co-Living)	259-23-006	199 Bassett Street	Central	MF	800	5/29/19
CP18-022	6/26/18	Blossom Hill Affordable Apartments	690-25-021	397 Blossom Hill Road	Edenvale	MF	147	12/11/19
PD19-019	6/4/19	Winchester Ranch	303-38-001	555 S. Winchester Boulevard	West Valley	MF	688	1/14/20
PD20-003	5/6/20	Tamien Station TOD	434-13-041	1197 Lick Avenue	Central	MF	569	12/9/20
SP20-020 (prev H18-02)	6/5/18	Carlisle	259-35-033	51 Notre Dame Avenue	Central	MF	220	7/8/20
SP18-033	6/28/18	Mitzi Place	299-16-001	4146 Mitzi Drive	West Valley	MF	50	10/7/20
PD18-016	6/29/18	Little Portugal Gateway	481-12-069	1663 Alum Rock Avenue	East San José	MF	121	11/17/20
PD18-043	10/17/18	Race Street Housing	261-42-058	253 Race Street	Central	MF	206	8/19/20
SP19-064	2/19/19	Roem Affordable Housing	284-03-015	961 Meridian Avenue	Willow Glen	MF	230	12/10/20
PD19-011	4/10/19	Meridian Mixed Use	274-14-152	259 Meridian Avenue	Central	MF	241	6/23/20
CP19-021	6/18/19	Bascom Residential Care	412-25-009	2375 South Bascom Avenue	Willow Glen	MF	138	9/29/20

**Major Residential Development Activity
Projects of 50+ Dwelling Units**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Housing Type	No. of Units	Approval Date
H19-028	6/20/19	750 W San Carlos	264-15-003	750 W. San Carlos	Central	MF	80	1/13/21
H19-051	11/18/19	Eden Housing	264-26-088	425 Auzerais Avenue	Central	MF	130	9/18/20
CP18-025	6/28/19	Union Assisted Living	421-20-010	0 Union Avenue	Cambrian/Pioneer	MF	152	11/18/19
SP19-068	12/3/19	Hemlock Mixed Use Project	277-34-051	2881 Hemlock Avenue	West Valley	MF	51	2/10/21
H19-054	12/18/19	Moorpark Supportive Housing	282-44-027	1710 Moorpark Avenue	Willow Glen	MF	108	9/11/20
H20-001	1/3/20	Dahlia Apartments	467-11-021	1135 E. Santa Clara Street	Central	MF	91	11/19/20
H20-002	1/15/20	4th and Younger Apartments	235-09-020	1020 N. 4th Street	Central	MF	96	6/30/20
CP18-044	12/19/18	Affirmed housing	484-41-165	2348 Alum Rock Avenue	Alum Rock	MF	87	1/14/20
Total							11,168	
<u>Projects Pending City Approval</u>								
PDA14-035-05	4/10/17	Communication Hill Village Center	455-28-017	junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	490	---
SP18-057	12/14/17	543 Lorraine Ave Mixed Use	259-47-069	543 Lorraine Avenue	Central	MF	70	---
CP20-001	6/29/18	Silicon Sage	481-07-016	north side of Alum Rock Ave 220 feet westerly of Jose Figueres Avenue	Alum Rock	MF	792	---
H19-021	1/30/19	4th Street Housing	467-20-019	100 N. 4th Street	Central	MF	298	---
PDA15-066-01	6/5/18	Santana Row Lot 12	277-40-017	385 Hatton Street	West Valley	MF	300	---
H18-025	6/5/18	Carlisle	259-35-033	51 Notre Dame Avenue	Central	MF	290	---
PDA14-035-06	4/2/19	Comm Hill Phase 3	455-28-017	0 Curtner Avenue	South	MF	798	---
SP20-004	4/29/19	W. San Carlos Mixed Use	277-18-019	1530 West San Carlos	Central	MF	173	---
H19-019	5/6/19	Kelsey Ayer	259-20-015	447 North 1st Street	Central	MF	115	---
PD19-020	6/13/19	Santa Clara University Mixed Use Housing	230-14-004	1202 Campbell Avenue	West Valley	MF	290	---
SP19-067	8/30/19	1301 West San Carlos	261-42-059	1301 W. San Carlos Street	Central	MF	230	---
H19-048	10/10/19	Virginia Studios	472-25-092	295 E. Virginia Street	Central	MF	347	---
PD19-029	10/10/19	Google/ Downtown West	259-38-132	450 W. San Carlos	Central	MF	5,000	---
SP20-002	1/8/20	S. Winchester Mixed Use	299-25-038	1073 S. Winchester Boulevard	West Valley	MF	61	---
SP20-008	2/24/20	Baywood Mixed Use Project	419-48-014	375 South Baywood Ave	West Valley	MF	79	---
H20-007	3/26/20	488 St John Urban Residential Development	467-17-046	95 N 11th St	Central	MF	33	---
SP20-012	4/15/20	VTA Blossom Hill Station TOD	486-41-033	605 Blossom Hill Rd	Edenvale	MF	328	---
SP20-013	4/16/20	Almaden Villas	259-41-070	1747 Almaden Rd	South	MF	62	---
CP20-015	4/30/20	Villa Del Sol Mixed Use Residential	421-07-029	1936 Alum Rock Ave	Alum Rock	MF	194	---
PD20-004	5/20/20	Japantown Mixed Use	684-22-022	653 N 7th St	Central	MF	65	---
H20-013	6/9/20	3090 S Bascom	439-28-007	3090 South Bascom Ave	Willow Glen	MF	90	---
SP20-019	6/29/20	Madera Multifamily	439-05-007	486 West San Carlos	Central	MF	184	---
CP20-017	6/18/20	Alum Rock Multifamily	434-11-081	1860 Alum Rock Ave	Alum Rock	MF	65	---
SP20-021	6/29/20	The Mark	704-35-026	459 S 4th St	Central	MF	222	---
SPA18-001-01	6/29/20	Garden Gate	264-21-066	600 S 1st St	Central	MF	336	---
CP20-020	8/25/20	West San Carlos	442-34-059	17 BOSTON AV	Central	MF	61	---
H20-024	7/15/20	Monterey Mixed Use	684-02-003	4300 Monterey Rd	Edenvale	MF	438	---
H20-026	7/27/20	Eterna Tower	254-32-065	17 East Santa Clara St	Central	MF	96	---
H20-028	8/5/20	605 Affordable	569-14-128	605 S 2nd St	Central	MF	345	---
PD20-006	8/18/20	El Paseo & 1777 Saratoga Ave Mixed Use Village	244-06-002	1312 El Paseo de Saratoga	West Valley	MF	741	---
PD20-007	9/1/20	Cambrian Park Plaza	684-38-022	14200 Union Ave	Cambrian/Pioneer	MF	378	---
H20-030	9/1/20	777 West San Carlos Residential	244-17-048	270 Sunol St	Central	MF	154	---
CP20-025	10/21/20	2880 Alum Rock	481-18-067	2880 Alum Rock Ave	Alum Rock	MF	166	---
H20-037	12/1/20	Fountain Alley	373-08-002	35 S 2nd St	Central	MF	194	---
H20-038	12/2/20	BoTown Residential	676-15-039	409 S 2nd St	Central	MF	520	---

**Major Residential Development Activity
Projects of 50+ Dwelling Units**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Housing Type	No. of Units	Approval Date
H20-040	11/25/20	North 2nd Affordable Senior Housing	484-02-005	19 N 2nd St	Central	MF	210	---
PD20-011	12/18/20	244 McEvoy	244-23-014	244 McEvoy St	Central	MF	695	---
H20-046	1/8/21	2188 The Alameda Supportive Housing	575-25-043	2188 The Alameda	Central	MF	110	---
H20-049	1/5/21	1050 St Elizabeth	665-63-013	1050 St Elizabeth Dr	Willow Glen	MF	150	---
H21-002	1/29/21	551 Keyes Affordable Housing	447-12-057	551 Keyes St	Central	MF	78	---
Total							<u>15,248</u>	
GRAND TOTAL							<u>33,582</u>	

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

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Approval Date
<u>Projects Completed 2019-2020</u>								
H13-048	12/16/2013	Hampton Inn/Holiday Inn	237-17-067	2088 N. 1st Street	North	173,000	284	9/3/16
PD16-006	2/5/2016	Vespaio @ Diridon (Commercial)	259-28-004	130 Stockton Avenue	Central	37,500		5/25/16
PD16-015	4/7/2016	Fairfield Inn & Suites	015-45-013	656 America Center Court	Alviso	161,112	261	6/21/16
PD16-017	5/23/2016	Santana Row Commercial (Lot 9)	277-40-030	3060 Olsen Drive	West Valley	30,000		11/9/16
PDA14-037-02	8/22/16	Wingate by Windham	458-17-032	5160 Cherry Avenue	Cambrian/Pioneer	56,032	115	2/8/17
SP14-032	7/24/2014	Capitol Toyota	459-05-019	775 Capitol Ex Auto Mall	South	261,286		1/28/15
PD16-039	1/5/17	Creative Center for the Arts	249-39-044	bounded by N. Sixth Street, E. Taylor Street, N.	Central	60,000		10/11/17
PD17-029	12/15/17	Julian/Stockton Mixed Use	261-01-030	715 W. Julian Street	Central	26,571		10/23/18
PDA15-013-02	8/9/18	Evergreen Circle Costco	670-29-024	2140 Quimby Road	Evergreen	209,780		2/22/19
Total						1,371,202	1,015	
<u>Projects Under Construction</u>								
HA06-027-02	6/10/2013	Valley Fair Expansion	274-43-035	2855 Stevens Creek Boulevard	West Valley	525,000		10/30/13
PDA12-031-01	11/13/2015	The Platform Retail	241-04-011	north side of Berryessa Road on the southern	Berryessa	37,000		4/13/16
SP17-009	2/22/17	Miro Retail/Office	467-20-086	39 N. 5th Street	Central	39,074		3/15/17
H15-023	5/4/2015	Holiday Inn Expansion	497-38-013	2660 Monterey Road	South	48,100	81	7/13/16
CP16-029	6/16/16	Oakmont Residential Care	659-04-015	easterly side of San Felipe Road approximately	Evergreen	91,714		4/26/17
PD16-025	8/16/16	The Capitol (Formerly The Orchard)	254-06-042	641 N. Capitol Avenue	Alum Rock	38,000		1/24/17
PD16-034	4/14/17	Topgolf	015-39-026	4701 N. 1st Street	Alviso	182,000	200	12/13/17
CP17-046	10/26/17	Holden Assisted Living	282-11-014	1015 S. Bascom Avenue	Willow Glen	156,022		9/12/18
H16-032	9/7/16	Hampton Inn	372-25-015	1090 S. De Anza Boulevard	West Valley	51,279	90	8/14/18
H17-044	9/2/17	Hilton Garden Inn	235-03-002	111 E. Gish Road	North	91,460	150	5/7/18
PDA08-069-01	9/17/18	Market Park Shopping Center	254-17-084	1590 Berryessa Road	Alum Rock	101,000		5/8/19
Total						1,543,527	755	
<u>Approved Projects (Construction Not Yet Commenced)</u>								
H16-010	2/29/2016	Cambria Hotel	277-34-014	2850 Stevens Creek Boulevard	West Valley	173,043	175	12/7/16
PD08-001	1/7/2008	Pepper Lane Mixed Use	254-15-072	southeast corner of Berryessa and Jackson On the hills from the junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	Alum Rock	30,000		10/10/08
PD14-035	3/15/2013	Communications Hill	455-09-040		South	68,000		11/21/14
CP17-047	10/20/17	Williams Rd Residential Care Facility	299-18-147	3924 Williams Road	West Valley	31,801		11/14/18
H17-023	5/18/17	AC Hotel Stevens Creek Blvd	375-12-017	5696 Stevens Creek Boulevard	West Valley	62,868	168	1/16/19
SP18-016	3/29/18	27 West (Retail Component)	259-40-043	27 South 1st Street	Central	35,712		2/27/18
SP18-048	3/27/18	Hotel Baywood	277-34-038	375 South Baywood Avenue	West Valley	123,120	105	2/27/18

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

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Approval Date
CP17-052	11/17/17	Alum Rock Mixed Use (Retail Component)	481-19-003	1936 Alum Rock Avenue	Alum Rock	39,000		3/27/19
H18-002	1/9/18	Silver Creek Valley Rd Hotel	678-93-015	5952 Silver Creek Valley Road	Edenvale	73,862	127	5/1/19
SP18-005	2/1/18	Bark Lane Hotel	372-24-033	7285 Bark Lane	West Valley	45,306	126	6/4/19
H18-016	4/11/18	Piercy Hotel	678-93-040	469 Piercy Road	Edenvale	119,333	175	5/29/19
H18-033	7/24/18	2nd Street Hotel	472-26-070	605 S. 2nd Street	Central	90,263	106	10/2/19
PDA16-034-02	11/5/18	Shilla Stay Hotel	015-39-026	4701 N. 1st Street	Alviso	109,991	200	6/19/19
PDA12-019-04	12/10/18	Coleman Hotel	230-46-093	1125 Coleman Avenue	North	115,392	175	6/26/19
H18-038	8/28/18	Almaden Corner Hotel	259-35-055	8 N. Almaden Boulevard	Central	153,275	272	1/14/20
H17-059	10/28/17	Hotel Clariana Addition	467-23-088	10 S. 3rd Street	Central	51,573	63	3/11/20
SP18-008	1/30/18	Presentation High School Master Plan	446-38-035	2281 Plummer Avenue	Willow Glen	106,248		7/29/20
H16-042	10/18/16	Tribute Hotel	259-42-079	211 S. 1st Street	Central	186,426	279	1/28/20
SP19-063	8/7/18	Stockton Ave Hotel	259-28-028	292 Stockton Avenue	Central	356,470		3/13/20
CP18-034	9/4/18	995 Oakland Road Hotel	235-16-011	955 Oakland Road	Central	67,766	116	12/4/19
Total						1,270,966	1,629	

Projects Pending City Approval

H15-014	3/30/15	Tropicana Shopping Center Expansion	486-10-091	1664 Story Road	Alum Rock	31,744		---
CP18-026	6/29/18	Sunset at Alum Rock	481-07-016	north side of Alum Rock Ave 220 feet westerly of	Alum Rock	26,500		---
SP18-012	2/27/18	West San Carlos Hotel	277-20-035	1470 W. San Carlos Street	Central	64,262		---
PD18-010	3/14/18	Mercedes Dealership Expansion	296-38-012	4500 Stevens Creek Boulevard	West Valley	171,351		---
PD18-042	10/9/18	Oakland Road Comfort Suites	241-13-019	northeast corner of Oakland Road and Faulstich northwest corner of Almaden Boulevard and Woz Way	Berryessa	38,400	61	---
SP20-005	1/31/19	South Almaden Office (Retail)	264-28-023	Woz Way	Central	65,000		---
CP19-031	10/10/19	Stevens Creek Fitness	303-25-016	3806 Stevens Creek boulevard	Central	150,000		---
PD19-029	10/10/19	Google - Downtown West Mixed Use	259-38-132	West of Downtown	Central	500,000	800	---
CP20-001	1/6/20	Sunset Mixed Use Complex	481-07-028	2101 Alum Rock Avenue	Alum Rock	28,690		---
PDA13-049-03	2/21/20	Bay 101 Hotel	235-01-019	1770 North 1st Street	North	94,040	171	---
CP20-008	3/3/20	San Jose Stage/Home 2 Hotel	467-47-098	490 South 1st Street	Central	132,028	144	---
CP20-013	4/8/20	SRM San Jose Assisted Living	451-09-067	3315 Almaden Expressway	Cambrian/Pioneer	195,840	195*	---
H18-025	6/18/20	The Carlisle	259-35-033	51 Notre Dame Avenue	Central	131,082		---
CP20-019	6/26/20	Delmas Senior Living	264-20-088	323 Gifford Avenue	Central	185,054	116*	---
CP20-020	8/25/20	West San Carlos	274-16-070	17 Boston Avenue	Central	107,013	157*	---
PD20-007	9/1/20	Cambrian Park Plaza	419-08-013	14200 Union Avenue	Cambrian/Pioneer	374,170	229	---
H20-040	11/25/20	North 2nd Affordable Senior Housing	467-21-028	19 North 2nd Street	Central	299,135	210*	---
Total						1,497,855	1,176	

* Residential Care Facility

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

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
<u>Projects Completed 2020 to 2021</u>							
H15-010	2/12/2015	SAF Keep Storage	237-08-084	1750 Junction Court	North	120,432	12/9/2015
H15-012	2/17/2015	SuperMicro (Phase 2)	237-05-036	750 Ridder Park Drive	Berryessa	162,500	12/16/2015
H16-031	9/10/2016	SuperMicro (Phase 3)	237-05-063	750 Ridder Park Drive	Berryessa	209,320	10/26/2016
H17-005	1/18/2017	Piercy Warehouse	678-08-057	448 Piercy Road	Edenvale	166,740	9/13/2017
HA13-040-01	4/23/2015	Peery Arrillaga Brokaw/1st Campus	237-16-071	60 E. Brokaw Road	North	117,440	12/16/2015
PD12-019	7/19/2012	Coleman Highline Office	230-46-062	1123 Coleman Avenue	North	683,000	6/10/2013
PD15-031	7/1/2015	Equinix (iStar)	706-09-117	7 Great Oaks Boulevard	Edenvale	386,000	3/9/2016
PD16-017	4/23/2016	Santana Row (Lot 9)	277-40-030	3060 Olsen Drive	West Valley	290,000	11/9/2016
H16-013	3/16/2016	River Corp Center III	259-24-036	353 W. Julian Street	Central	191,397	12/7/2016
H17-034	6/29/17	Panattoni Distribution Center	244-23-069	southwest corner of Oakland Road and Calle Artis	Berryessa	83,117	8/8/2018
H17-040	7/20/17	Monterey Rd Self Storage	456-40-004	2829 Monterey Road	South	142,766	3/21/2018
H18-027	6/12/18	2829 Monterey Distribution	456-40-004	2829 Monterey Road	South	81,100	6/12/2019
Total						3,178,592	
<u>Projects Under Construction</u>							
H15-058	11/23/2015	Senter/Alma Ministorage	477-38-014	Senter Road between E. Alma Avenue and Phelan Avenue	Central/South	91,885	3/15/2017
H16-035	9/27/16	Edenvale Self Storage Facility	678-93-005	5880 Hellyer Avenue	Edenvale	155,550	5/3/2017
PD13-012	3/20/2013	237 @ First Street (balance)	015-39-006	4353 N. 1st Street	Alviso	614,809	12/4/2013
PD16-016	4/28/2016	Winchester Ministorage	279-01-017	780 S. Winchester Boulevard	West Valley	84,000	11/9/2016
SP15-031	7/1/2015	Equinix Data Center	706-02-053	west side of Via Del Oro between San Ignacio Avenue and Great Oaks Boulevard	Edenvale	579,000	1/25/2017
H18-037	8/16/18	Adobe North Tower	259-39-116	333 W. San Fernando Street	Central	1,015,200	5/29/2019
H18-045	9/27/18	DiNapolo Office	259-43-076	200 Park Avenue	Central	717,246	10/9/2019
PD16-037	11/29/16	Self-storage (King Rd)	670-12-006	2905 South King Road	Evergreen	198,000	4/12/2017
SP18-020	12/15/17	Akatiff/Platform 16	259-29-104	440 W. Julian Street	Central	982,128	5/30/2018
H17-041	7/21/17	Knox Trojan Storage	481-39-003	1025 Knox Avenue	Alum Rock	139,615	2/28/2018
PD16-027	8/29/16	Oakland Rd Self Storage	235-18-001	645 Horning Street	Central	91,875	5/8/2018
H17-058	11/2/17	970 McLaughlin Industrial	472-10-109	970 McLaughlin Avenue	Central	223,717	3/13/2019
SP18-054	10/3/18	San Ignacio Data and Office	706-09-023	6320 San Ignacio Avenue	Edenvale	282,000	3/27/2019
PD18-045	10/26/18	Santana West Phase 1	303-40-010	3161 Olsen Drive	West Valley	376,250	5/29/2019
Total						3,257,690	
<u>Approved Projects (Construction Not Yet Commenced)</u>							
H14-029	8/14/2014	The Station on North First	101-30-006	2890 N. 1st Street	North	1,653,731	12/10/2014
H15-037	8/25/2015	Broadcom expansion/Innovation Place	097-33-116	3130 Zanker Road	North	536,949	12/2/2015

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

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
H16-018	4/27/2016	335 West San Fernando St	259-39-116	333 W. San Fernando Street	Central	700,000	11/9/2016
PD15-053	10/29/2015	America Center (balance)	015-45-047	northwest corner of State Highway 237 and Gold Street	Alviso	192,350	1/23/2018
PD15-061	12/4/2015	Diridon TOD (Office)	259-38-036	402 W. Santa Clara Street	Central	1,040,000	5/24/2016
PD15-062	12/9/2015	Bay 101 Technology Place office (Phase II)	235-01-020	1740 N. 1st Street	North	234,192	12/7/2016
PD16-023	7/22/16	Samaritan Medical Phase 1	421-37-001	north of Samaritan Drive, approximately 700 feet east of S. Bascom Drive	Cambrian/Pioneer	350,000	8/2/2017
SP16-053	11/4/16	Microsoft data center/industrial	015-31-054	1657 Alviso-Milpitas Road	Alviso	426,093	10/24/2017
PDA14-005-10	5/3/18	Western Digital Great Oaks Campus	706-07-020	5601 Great Oaks Parkway	Edenvale	73,400	11/14/2018
PD17-014	4/25/17	Stevens Creek Promenade (Office)	296-38-013	4360 Stevens Creek Boulevard	West Valley	233,000	2/26/2019
H18-024	5/31/18	Winfield Self Storage	694-06-009	5775 Winfield Boulevard	Edenvale	109,527	9/4/2019
PD18-015	6/19/18	South Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	213,500	9/10/2019
PD18-039	9/12/18	Cloud 10 Skyport Plaza	230-29-117	1601 Technology Drive	North	350,000	12/23/2019
CP20-003	1/21/20	Public Storage - 231 Capitol Expy	442-19-041	3911 Snell Ave		359,232	2/26/2020
PDA18-045-01	3/9/20	Santana West Phase 2	429-09-045	3161 Olsen Drive		376,250	12/9/2020
H19-016	4/19/19	City View Plaza	259-41-068	150 Almaden Boulevard	Central	960,567	6/16/2020
H20-021	6/29/20	Almaden Tower	421-23-041	0		596,750	12/9/2020
PD18-044	10/30/18	1605 Industrial Avenue Warehouse	237-30-015	1605 Industrial Avenue	Berryessa	180,500	8/13/2020
Total						6,112,742	

Projects Pending City Approval

H18-018	4/30/18	475 Tully Road Mini Storage	477-51-004	475 Tully Road	South	219,282	---
SP18-049	9/5/18	335 Winchester Office	303-39-047	335 S. Winchester Boulevard	West Valley	94,996	---
PD19-029	10/10/19	Google - Downtown West Mixed-Use Plan (Office)			Central	7,300,000	---

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

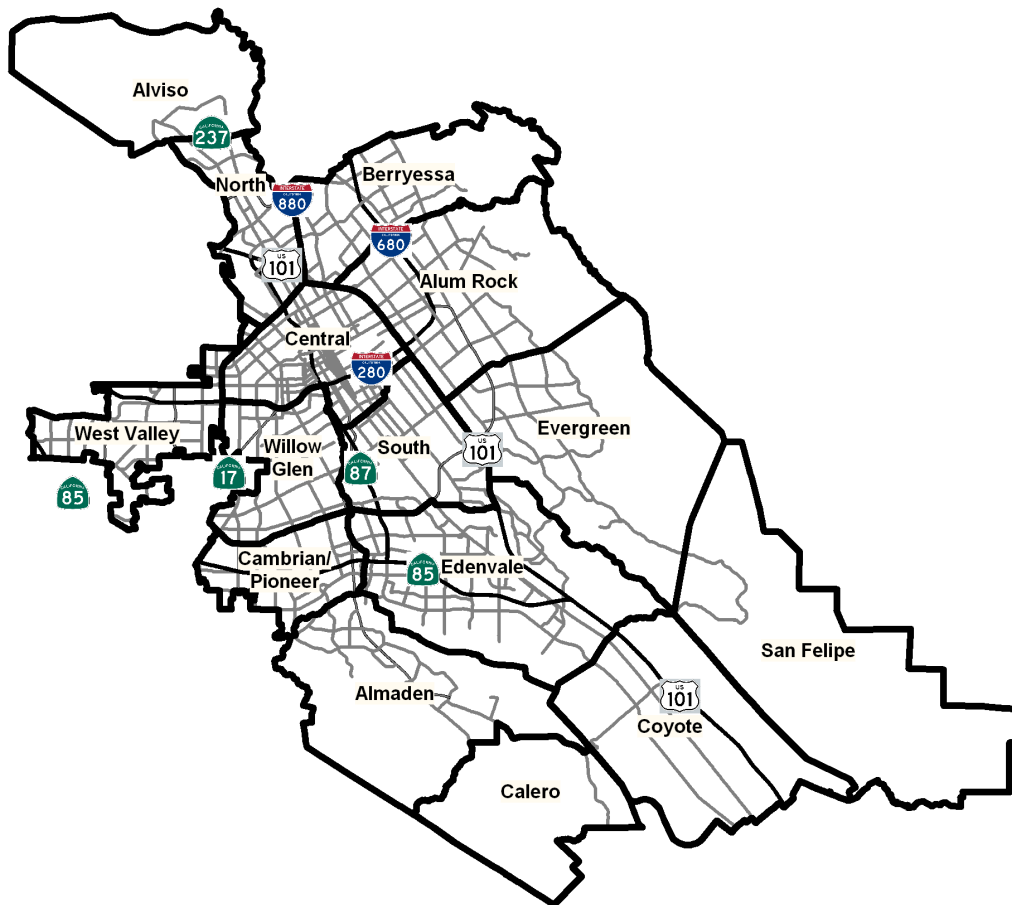
File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
H18-048	10/11/18	231 Captiol Public Storage	462-19-013	231 W. Capitol Expressway	South	359,232	---
SPA17-031-01	10/31/18	Museum Place (amendment)	259-42-023	180 Park Avenue	Central	774,000	---
H19-041	9/19/19	Fountain Alley Office	467-22-002	26 S. 1st Street	Central	90,829	---
H19-004	1/31/19	South Almaden Office	264-28-023	northwest corner of Almaden Boulevard and Woz Way	Central	1,952,045	---
H19-047	10/8/19	Davidson Towers	259-31-071	255 W. Julian Street	Central	666,552	---
CP19-031	10/10/19	Stevens Creek Fitness	303-25-016	3806 Stevens Creek Boulevard	West Valley	260,000	---
PDA16-027-02	1/9/20	645 Horning Self Storage	462-01-016	623 Horning Street		152,512	---
HA13-040-03	4/6/20	Brokaw Rd Office Parcel 3	414-22-028	1801 Bering Drive		1,297,000	---
H20-004	4/9/20	Woz Way		276 Woz Way		1,837,673	---
H20-014	6/19/20	370 Trimble	977-07-061	350 W. Trimble Road		1,280,250	---
H20-015	6/19/20	350 Trimble	977-07-061	350 W. Trimble Road		124,992	---
PD20-006	8/18/20	El Paseo & 1777 Saratoga Ave Mixed Use Village	244-06-002	1312 El Paseo De Saratoga		482,072	---
PDA15-031-01	9/1/20	Bloom Energy at Equinix	647-25-043	5 Great Oaks Boulevard		92,350	---
SP20-032	9/2/20	Park Habitat	654-55-025	180 Park Avenue		1,241,820	---
H20-033	10/13/20	1605 S 7th St	1-25-032, 472-28-	1605 S. 7th Street		94,325	---
H20-037	12/1/20	Fountain Alley	373-08-002	35 S. 2nd Street		437,883	---
H20-036	12/1/20	255 West Julian	299-32-033	255 West Julian Street		512,031	---
H21-003	2/5/21	1953 Concourse	467-47-053	1953 Concourse Drive		126,700	---
Total						<u>11,716,936</u>	
GRAND TOTAL						24,265,960	

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

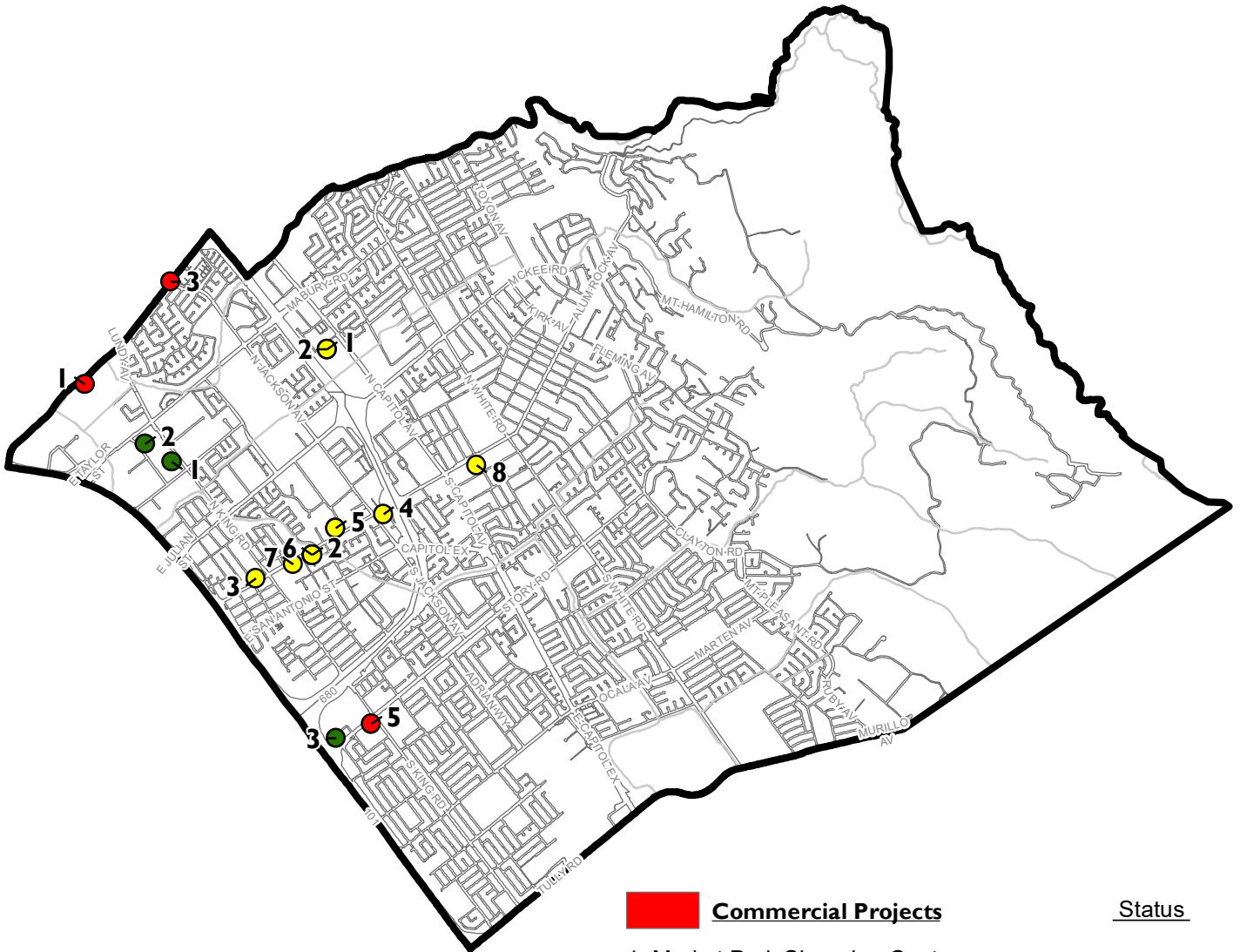
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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

Figure 1: San José Planning Areas



Alum Rock Planning Area Major Development Activity



Residential Projects

- 1. The Orchard (Residential)
- 2. Alum Rock Mixed Use
- 3. Little Portugal Gateway
- 4. Affirmed Housing
- 5. Silicon Sage
- 6. Villa Del Sol Mixed Use
- 7. Alum Rock Multifamily
- 8. 2880 Alum Rock

Total Dwelling Units = 1,707

Status

- Completed
- Completed
- Under Construction
- Under Construction
- Under Construction
- Pending
- Pending

Commercial Projects

- 1. Market Park Shopping Center Under Constructoin
- 2. The Capitol (Commercial) Under Construction
- 3. Pepper Lane Mixed Use Approved
- 4. Alum Rock Mixed Use (Retail) Approved
- 5. Tropicana Shopping Center Expansion Pending
- 6. Sunset at Alum Rock Pending
- 7. Sunset Mixed Use Complex Pending

Status

Total Commercial Square Feet = 294,934

Industrial Projects

- 1. Storage Pro Complete
- 2. Public Storage (Lenfest Rd) Complete
- 3. Knox Trojan Storage Under Construction

Status

Total Industrial Square Feet = 326,626

Alviso Planning Area Major Development Activity



■ Commercial Projects	Status
1. Fairfield Inn & Suites	Completed
2. Top Golf	Under Construction
3. Shillay Stay Hotel	Approved

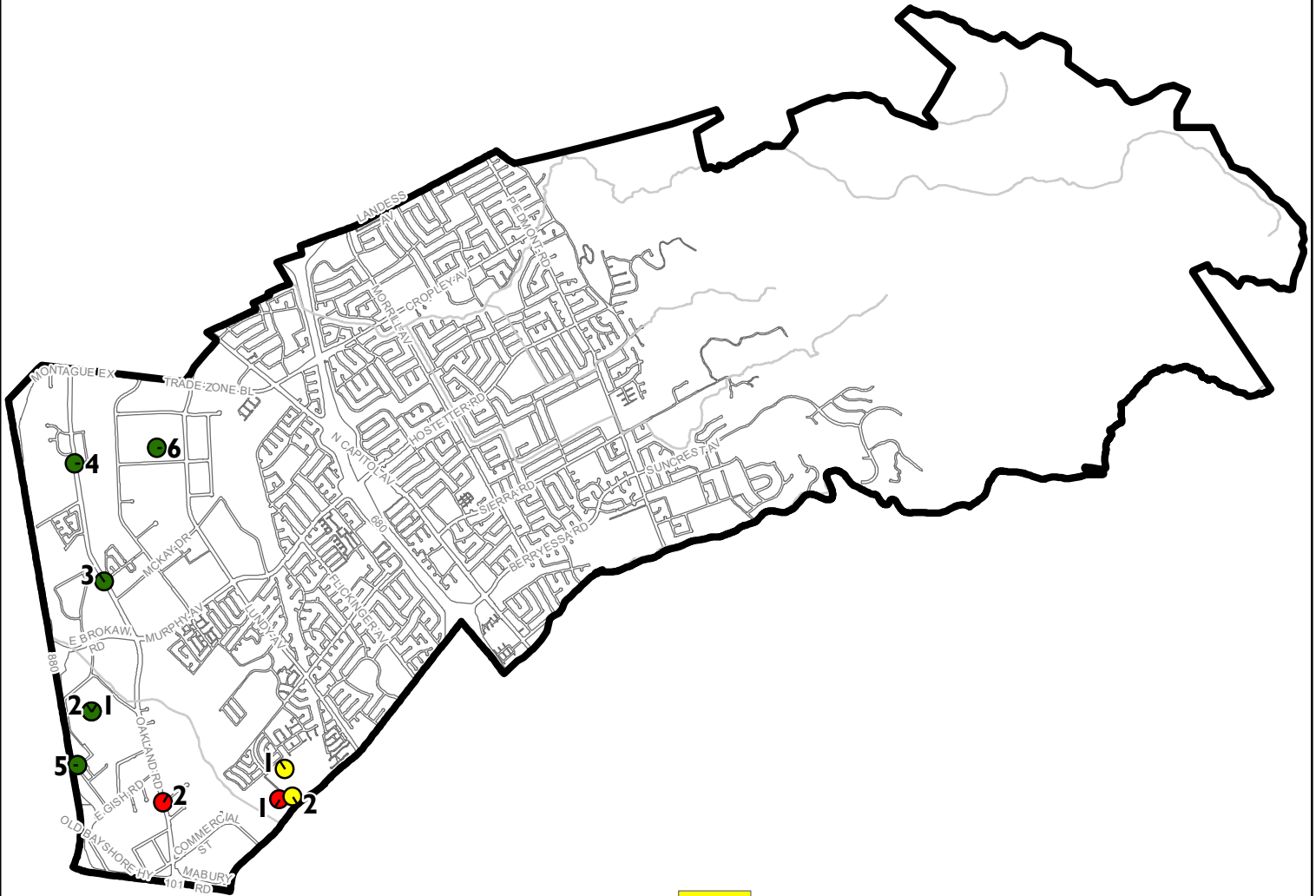
Total Commercial Square Feet = 453,103

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

Total Industrial Square Feet = 1,048,901



Berryessa Planning Area Major Development Activity



Residential Projects

Status

- 1. Berryessa Flea Market (KB)
- 2. Platform

Completed
Completed

Total Dwelling Units = 713

Commercial Projects

Status

- 1. Platform (Retail)
- 2. Oakland Road Comfort Suites

Under Construction
Pending

Total Commercial Square Feet = 85,400

Industrial Projects

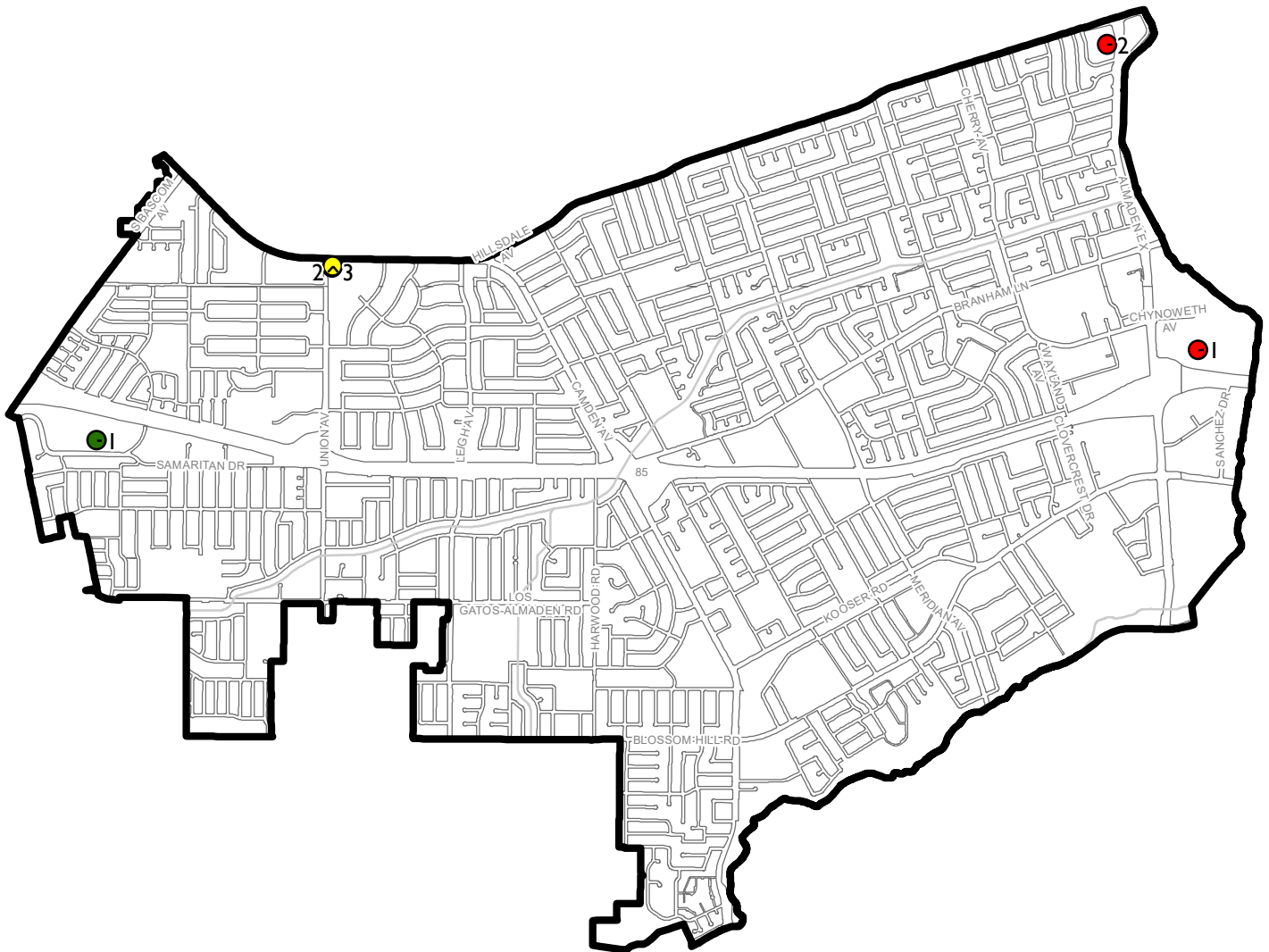
Status

- 1. SuperMicro (Phase 2)
- 2. SuperMicro (Phase 3)
- 3. Oakland Rd Storage
- 4. Panattoni Distribution Center
- 5. 1605 industril Avenue Warehouse
- 6. 1953 Concourse

Complete
Complete
Complete
Complete
Approved
Pending

Total Industrial Square Feet = 826,777

Cambrian/Pioneer Planning Area Major Development Activity



Commercial Projects Status

- 1. Wingate by Windham Completed
- 2. SRM San Jose Assisted Living Pending Approval
- 3. Cambrian Park Plaza (Commercial) Pending Approval

Total Commercial Square Feet = 626,042

Residential Projects Status

- 1. Union Assisted Living Approved
- 2. Cambrian Park Plaza (Residential) Pending Approval

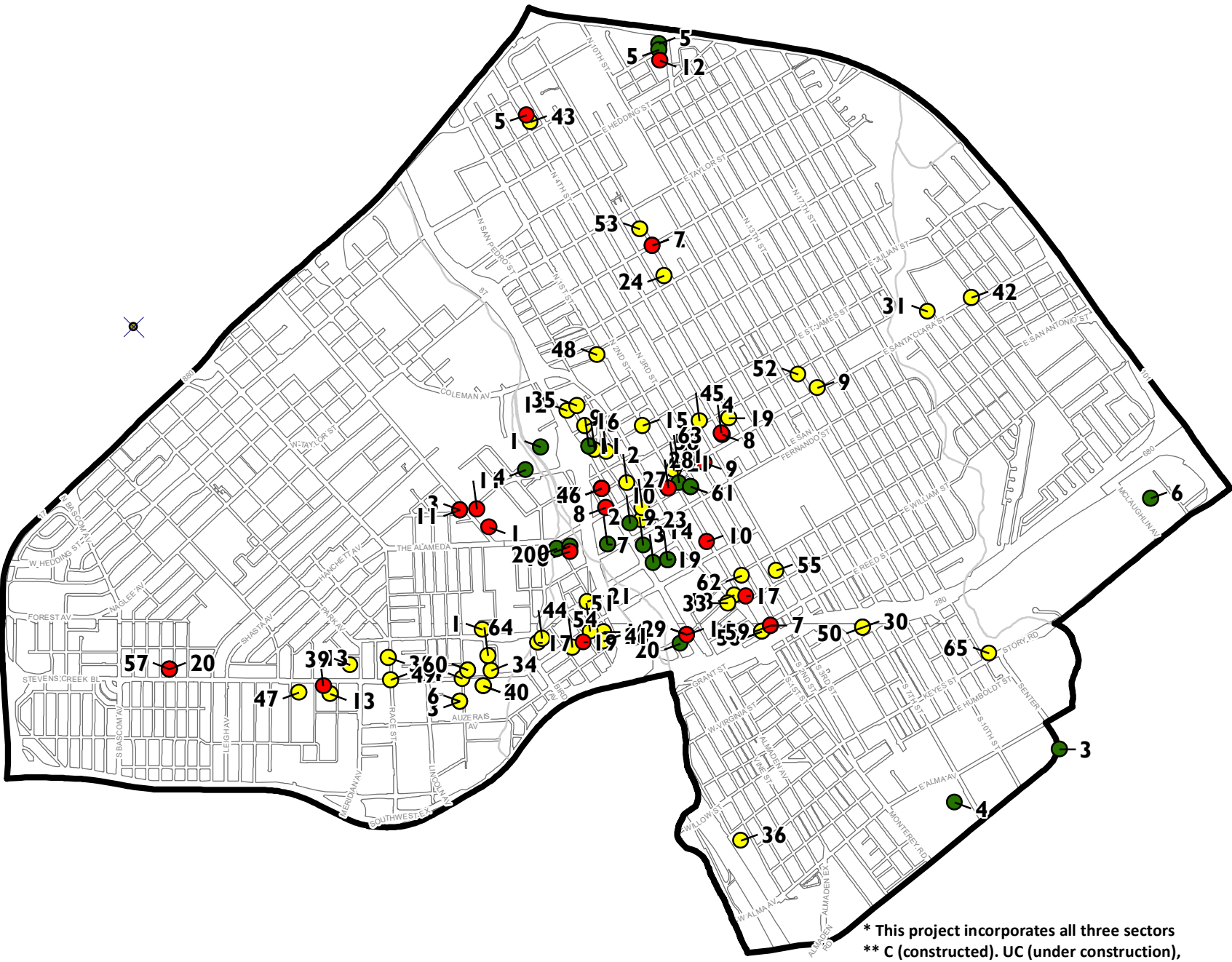
Total Units = 540

Industrial Projects Status

- 1. Samaritan Medical Phase 1 Approved

Total Industrial Square Feet = 350,000

Central Planning Area Major Development Activity

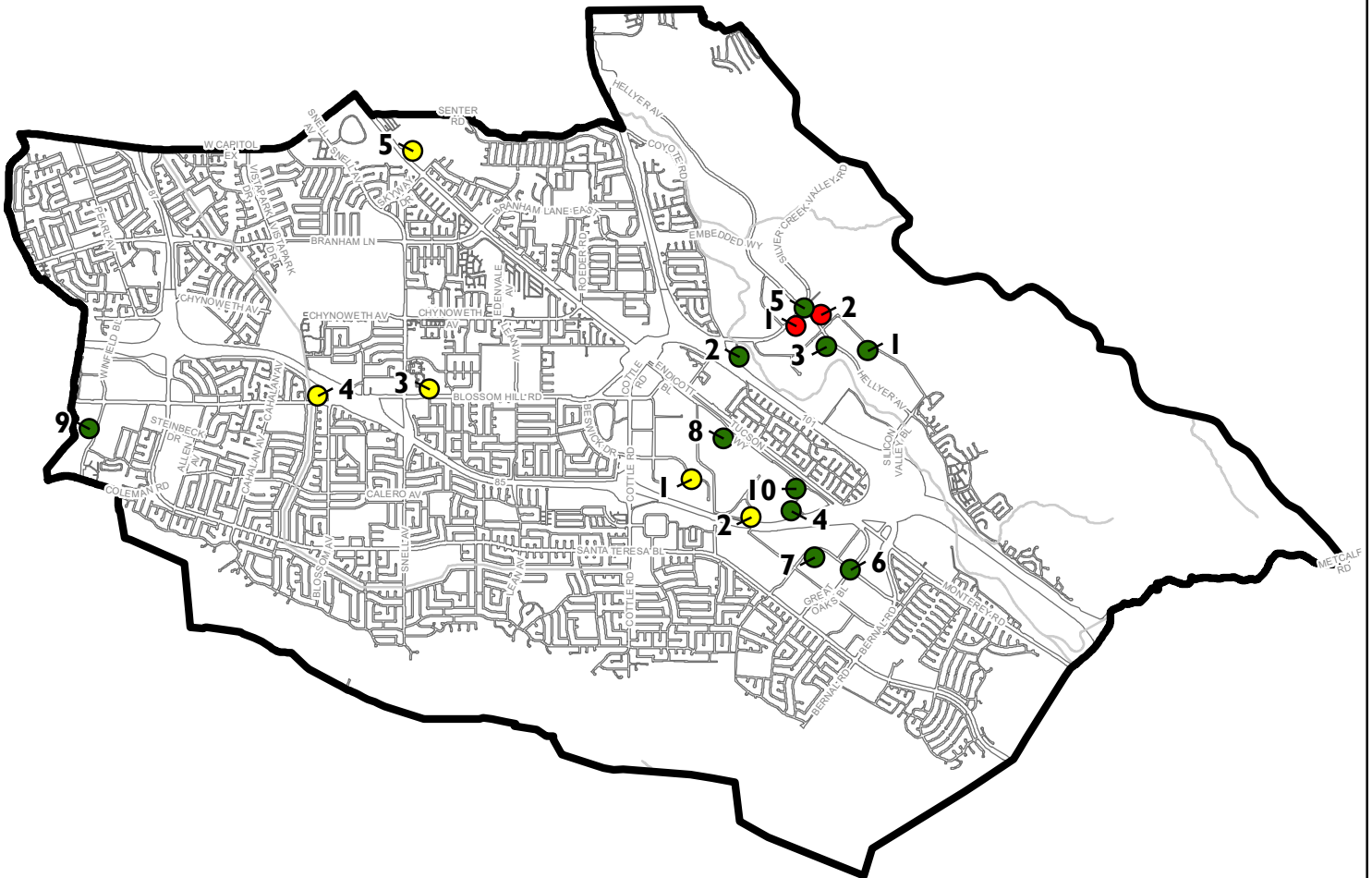


Residential Projects **Industrial Projects**

- | | | | |
|-----------------------------------|----|---|--------------|
| 1. 777 Park Ave | C | 1. River Corp Center III | C |
| 2. Modera San Pedro Square | C | 2. Adobe North Tower | UC |
| 3. Ohlone Block C | C | 3. DiNapolo Office | UC |
| 4. San Pedro Square | UC | 4. Akatiff/Platform 16 | UC |
| 5. Silvery Towers Apts | UC | 5. Oakland Rd Self Storage | UC |
| 6. Ohlone Block B | UC | 6. 970 McLaughlin Industrial | UC |
| 7. Shea Homes/ Japantown | UC | 7. 335 West San Fernando St | A |
| 8. Miro (formerly SJSJ Towers) | UC | 8. Diridon TOD (Office) | A |
| 9. Sparta | UC | 9. City View Plaza | A |
| 10. 363 Delmas Avenue | UC | 10. Almaden Tower | A |
| 11. Julian/Stockton Mixed Use | UC | 11. Google - Downtown West (Office) | P |
| 12. North San Pedro Apts | UC | 12. Museum Place (amendment) | P |
| 13. Page Street Housing | UC | 13. Fountain Alley Office | P |
| 14. Ohlone Mixed Use (Block A) | A | 14. South Almaden Office | P |
| 15. Parkview Towers | A | 15. Davidson Towers | P |
| 16. NSP3 Tower | A | 16. 645 Horning Self Storage | P |
| 17. Montgomery 7 | A | 17. Woz Way | P |
| 18. Gateway Tower | A | 18. Park Habitat | P |
| 19. 6th Street Project | A | 19. 1605 S. 7th st | P |
| 20. Diridon TOD | A | 20. Fountain Alley | P |
| 21. Park Delmas | A | 21. 255 W. Julian | P |
| 22. 777 West San Carlos St | A | 22. Senter/Alma Ministorage | P |
| 23. Greyhound Residential | A | | |
| 24. 7th & Empire | A | Total Industrial Square Feet | = 21,670,435 |
| 25. 750 West San Carlos | A | Commercial Projects | |
| 26. 425 Auzerais Avenue | A | 1. Vespaio @ Diridon (Commercial) | C |
| 27. Post & San Pedro Tower | A | 2. Creative Center for the Arts | C |
| 28. 27 West | A | 3. Julian/Stockton Mixed Use | C |
| 29. Balbach Affordable Housing | A | 4. Miro Retail/Office | UC |
| 30. Spartan Keyes Senior Housing | A | 5. North Hotel | UC |
| 31. Roosevelt Park Apartments | A | 6. 27 West (Retail Component) | A |
| 32. Garden Gate Tower | A | 7. 2nd Street Hotel | A |
| 33. S. Market Mixed Use | A | 8. Almaden Corner Hotel | A |
| 34. McEvoy Affordable Housing | A | 9. Hotel Clariana Addition | A |
| 35. StarCity (Co-Living) | A | 10. Tribute Hotel | A |
| 36. Tamien Station TOD | A | 11. Stockton Ave Hotel | A |
| 37. Carlisle | A | 12. 995 Oakland Road Hotel | A |
| 38. Race Street Housing | A | 13. West San Carlos Hotel | P |
| 39. Meridian Mixed Use | A | 14. South Almaden Office (Retail) | P |
| 40. 750 W San Carlos | A | 15. Stevens Creek Fitness | P |
| 41. Eden Housing | A | 16. Google - Downtown West Mixed Use | P |
| 42. Dahlia Apartments | A | 17. San Jose Stage/Home 2 Hotel | P |
| 43. 4th and Younger Apartments | A | 18. The Carlisle | P |
| 44. 543 Lorraine Ave Mixed Use | P | 19. Delmas Senior Living | P |
| 45. 4th Street Housing | P | 20. West San Carlos | P |
| 46. Carlisle | P | 21. N. 2nd Affordable Senior Housing | P |
| 47. W. San Carlos Mixed Use | P | Total Commercial Square Feet | = 2,768,816 |
| 48. Kelsey Ayer | P | | |
| 49. 1301 West San Carlos | P | 61. Fountain Alley | P |
| 50. Virginia Studios | P | 62. BoTown Residential | P |
| 51. Google/ Downtown West | P | 63. North 2nd Affordable Senior Housing | P |
| 52. 488 St John Urban Residential | P | 64. 244 McEvoy | P |
| 53. Japantown Mixed Use | P | 65. 551 Keyes Affordable Housing | P |
| 54. Madera Multifamily | P | Total Residential Units | = 20,732 |
| 55. The Mark | P | | |
| 56. Garden Gate | P | | |
| 57. West San Carlos | P | | |
| 58. Eterna Tower | P | | |
| 59. 605 Affordable | P | | |
| 60. 777 West San Carlos Res | P | | |

* This project incorporates all three sectors
 ** C (constructed). UC (under construction),
 A (approved planning permits, P (pending planning permit)

Edenvale Planning Area Major Development Activity



Residential Projects	<u>Status</u>
1. South Village (Hitachi)	Under Construction
2. Istar/Great Oaks	Under Construction
3. Blossom Hill Affordable Apartments	Approved
4. VTA Blossom Hill TOD	Pending
5. Monterey Mixed use	Pending

Total Dwelling Units = 1,297

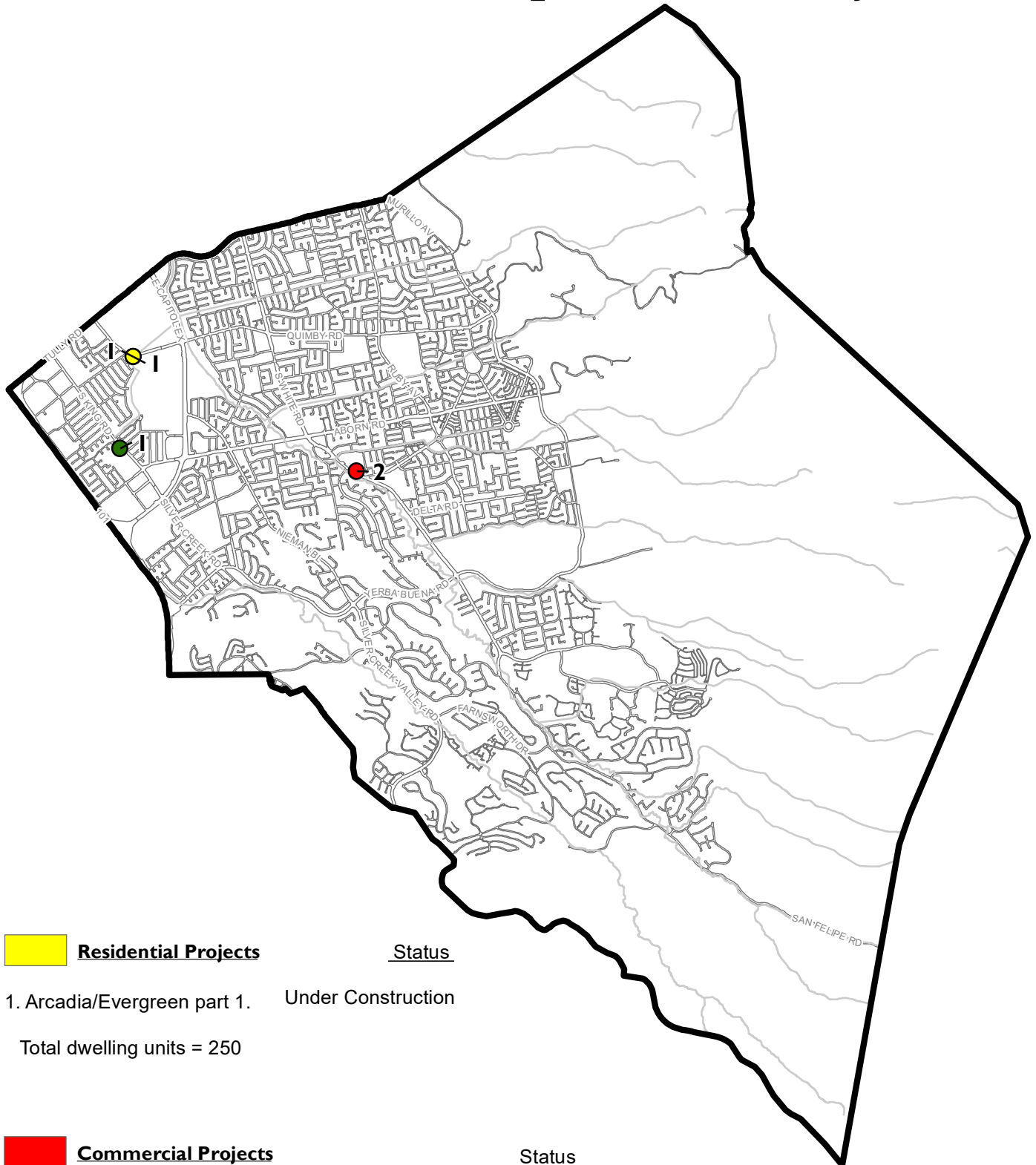
Commercial Projects	<u>Status</u>
1. Silver Creek Valley Road Hotel	Approved
2. Piercy Hotel	Approved

Total Commercial Square Feet = 193,195

Industrial Projects	<u>Status</u>
1. Silicon Valley Industrial Center	Completed
2. Veteran Affairs Outpatient Clinic	Completed
3. Piercy Warehouse	Completed
4. Equinix(iStar)	Completed
5. Ednvale Self Storage Facility	Under Construction
6. Equinix Data Center	Under Construction
7. San Iganacio Data and Office	Under Construction
8. Western Digital Great Oaks Campus	Approved
9. Winfield Self Storage	Approved
10. Bloom Energy at Equinix	Pending

Total Industrial Square Feet = 2,182,567

Evergreen Planning Area Major Development Activity



Residential Projects Status

1. Arcadia/Evergreen part 1. Under Construction

Total dwelling units = 250

Commercial Projects Status

1. Evergreen Square /Evergreen Circle Costco Completed

2. Oakmond Residential Care Under Construction

Total Commercial Square Feet = 554,714

Industrial Projects Status

1. Self-storage (King Rd) Under Construction

Total Industrial Square Feet = 198,000

North Planning Area Major Development Activity



Commercial Projects

- 1.. Hampton Inn/Holiday Inn
2. Hyatt Place
3. Bay 101 Casino/Hotel (Embassy Suites)
4. Hilton Garden Inn
5. Coleman Hotel
6. Bay 101 Hotel

Total Commercial Square Feet = 676,458

Status

- Constructed
- Constructed
- Under Construction
- Under Construction
- Approved
- Planning



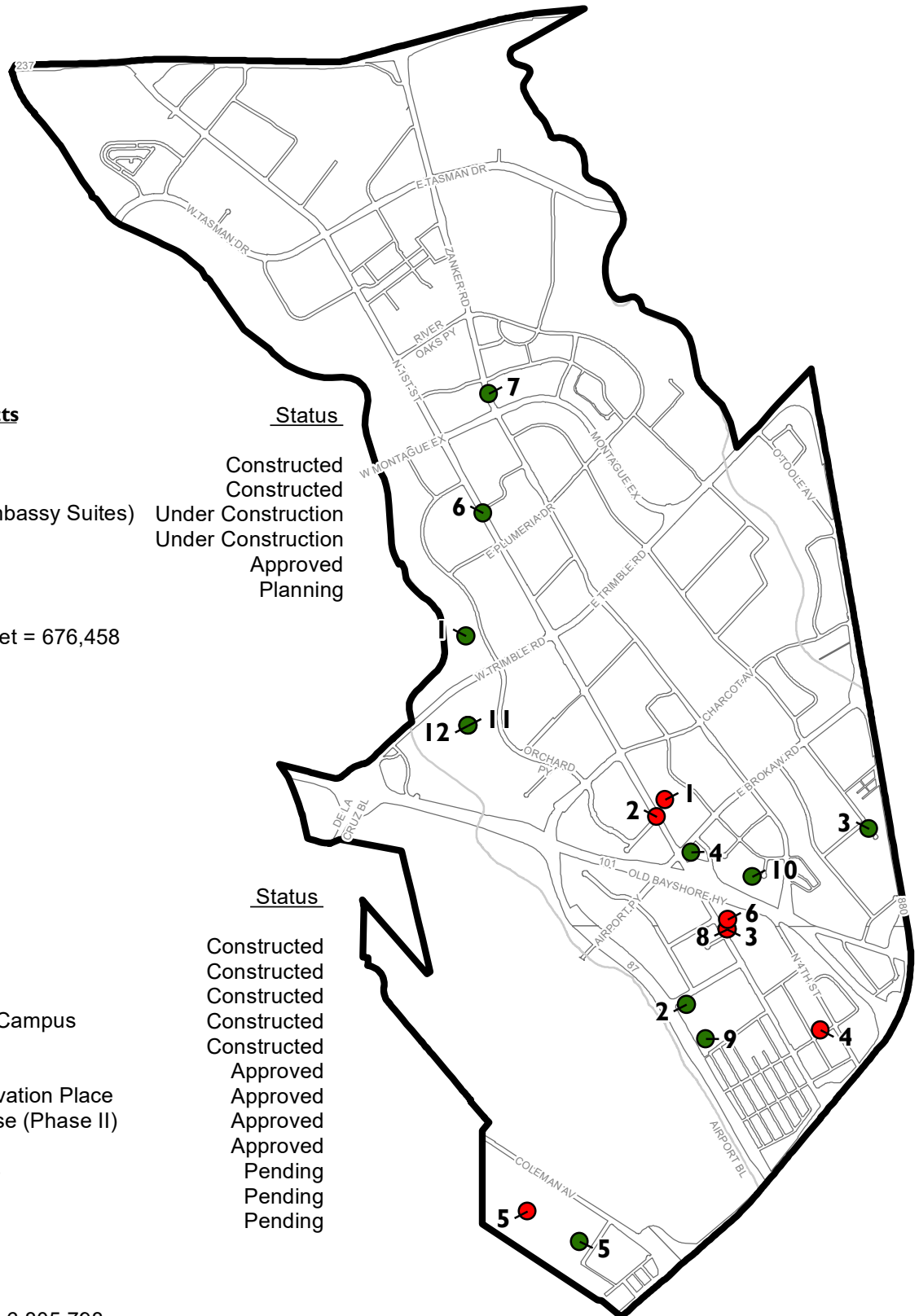
Industrial Projects

1. Orchard Corporate Center
2. Skyport Kaiser
3. SAF Keep Storage
4. Peery Arrillaga Brokaw/1st Campus
5. Coleman Highline Office
6. The Station on N. 1st
7. Broadcom Expansion/ Innovation Place
8. Bay 101 Casino & Mixed Use (Phase II)
9. Cloud 10 Skyport Plaza
10. Brokaw Rd Office Parcel 3
11. 370 Trimble
12. 350 Trimble
9. Coleman Highline Phase 2
10. Cloud 10 Skyport Plaza

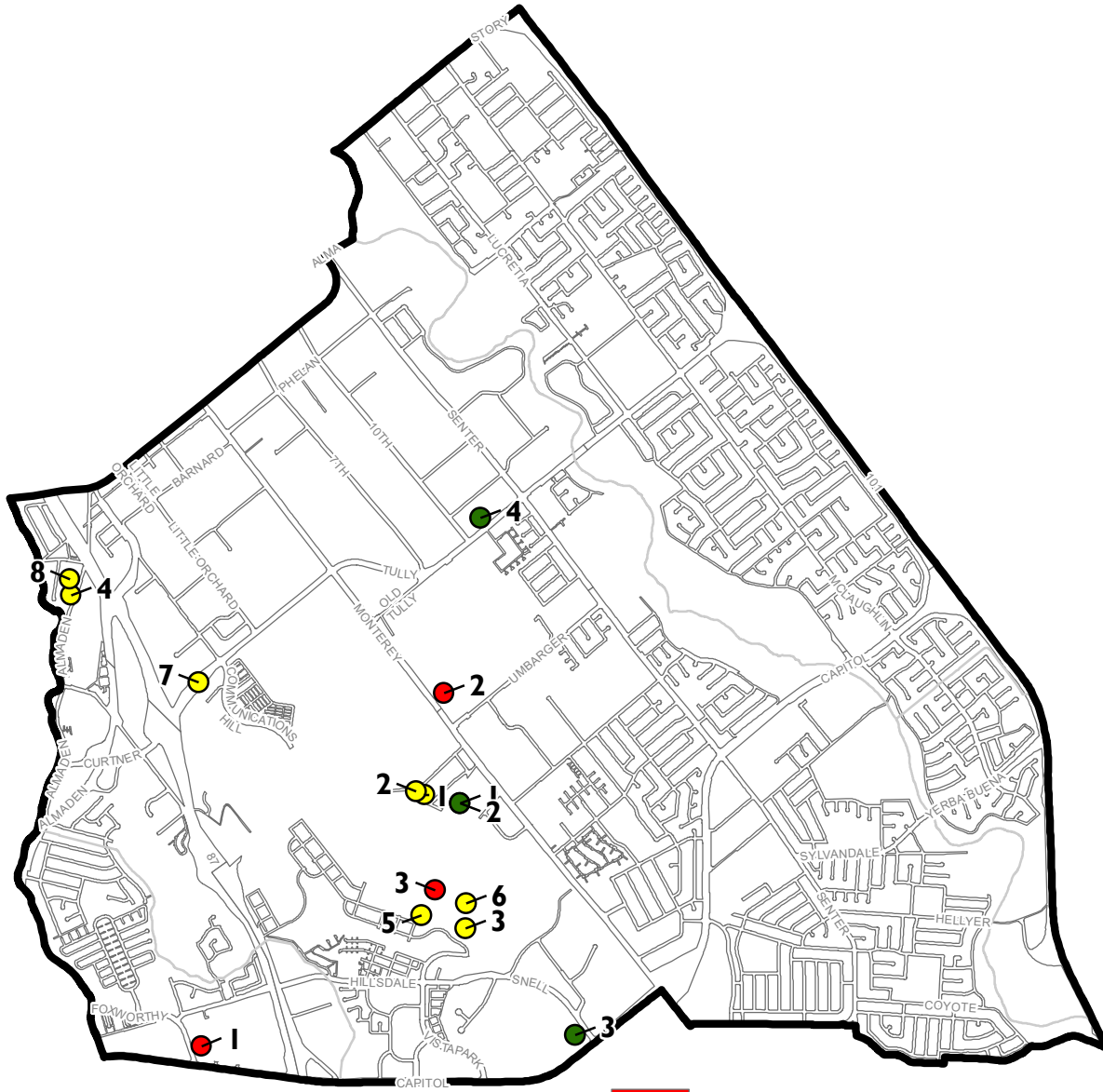
Status

- Constructed
- Constructed
- Constructed
- Constructed
- Constructed
- Approved
- Approved
- Approved
- Approved
- Pending
- Pending
- Pending
- Pending
- Pending

Total Industrial Square Feet = 6,805,798



South Planning Area Major Development Activity



Residential Projects

- | | |
|---------------------------------------|--------------------|
| 1. Murano at Montecito Vista | Constructed |
| 2. Vicenza at Montecito Vista | Constructed |
| 3. Communication Hill Village Center. | Under Construction |
| 4. 1807 Almaden Rd | Under Construction |
| 5. Communication Hill (Phase 1) | Under Construction |
| 6. Communication Hill Village Center | Pending |
| 7. Comm Hill Phase 3 | Pending |
| 8. Almaden Villas | Pending |

Total Dwelling Units = 2,508

Status

Commercial Projects

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

Total Commercial Square Feet = 377,386

Status

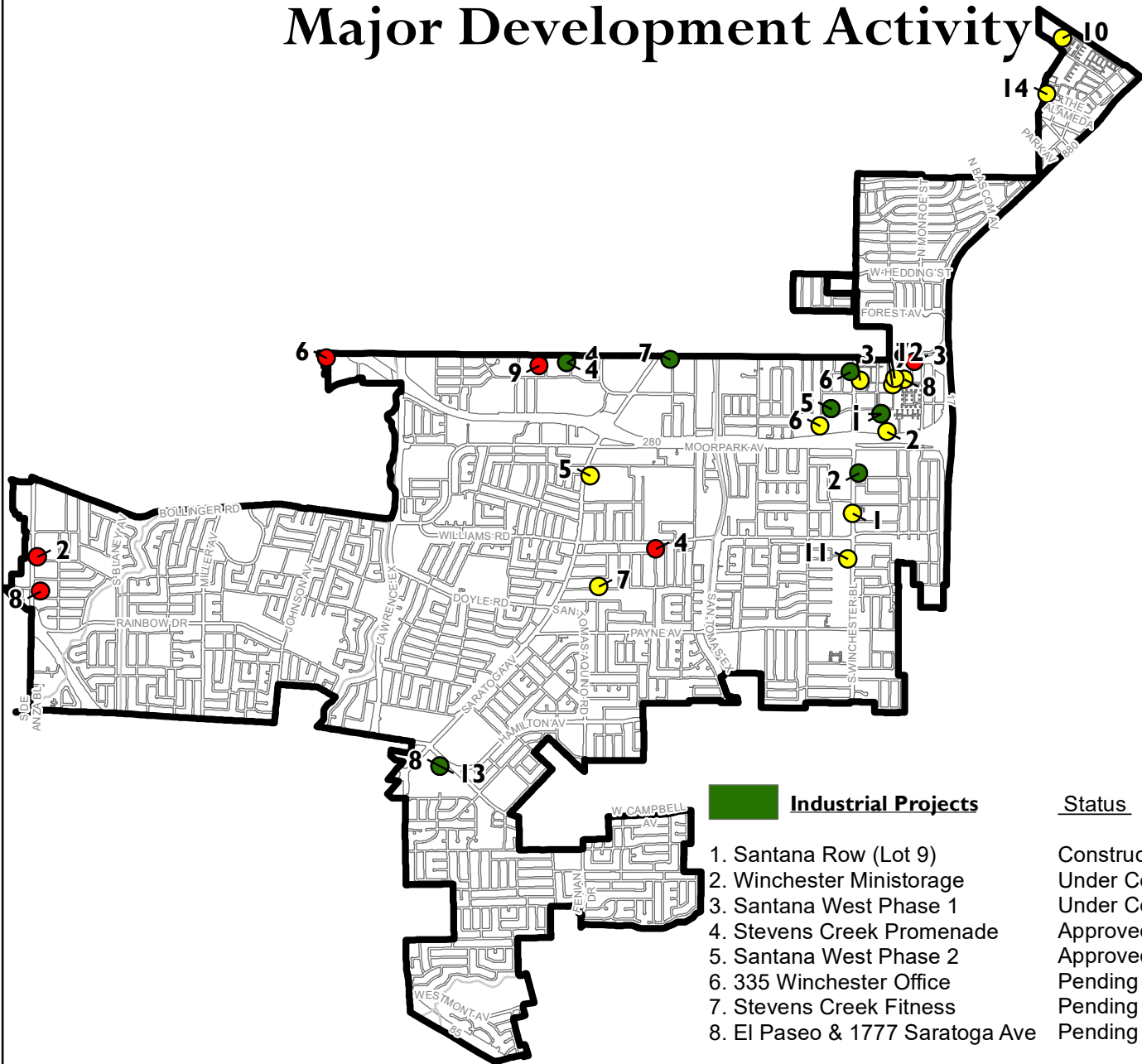
Industrial Projects

- | | |
|--------------------------------|-------------|
| 1. Monterey Rd Self Storage | Constructed |
| 2. 2829 Monterey Distribution | Constructed |
| 3. 231 Captiol Public Storage | Approved |
| 4. 475 Tully Road Mini Storage | Pending |
| 3. 2829 Monterey Distribution | Pending |

Status

Total Industrial Square Feet = 802,380

West Valley Planning Area Major Development Activity



Industrial Projects	Status
1. Santana Row (Lot 9)	Constructed
2. Winchester Ministorage	Under Construction
3. Santana West Phase 1	Under Construction
4. Stevens Creek Promenade	Approved
5. Santana West Phase 2	Approved
6. 335 Winchester Office	Pending
7. Stevens Creek Fitness	Pending
8. El Paseo & 1777 Saratoga Ave	Pending

Total Industrial Square Feet = 2,196,568

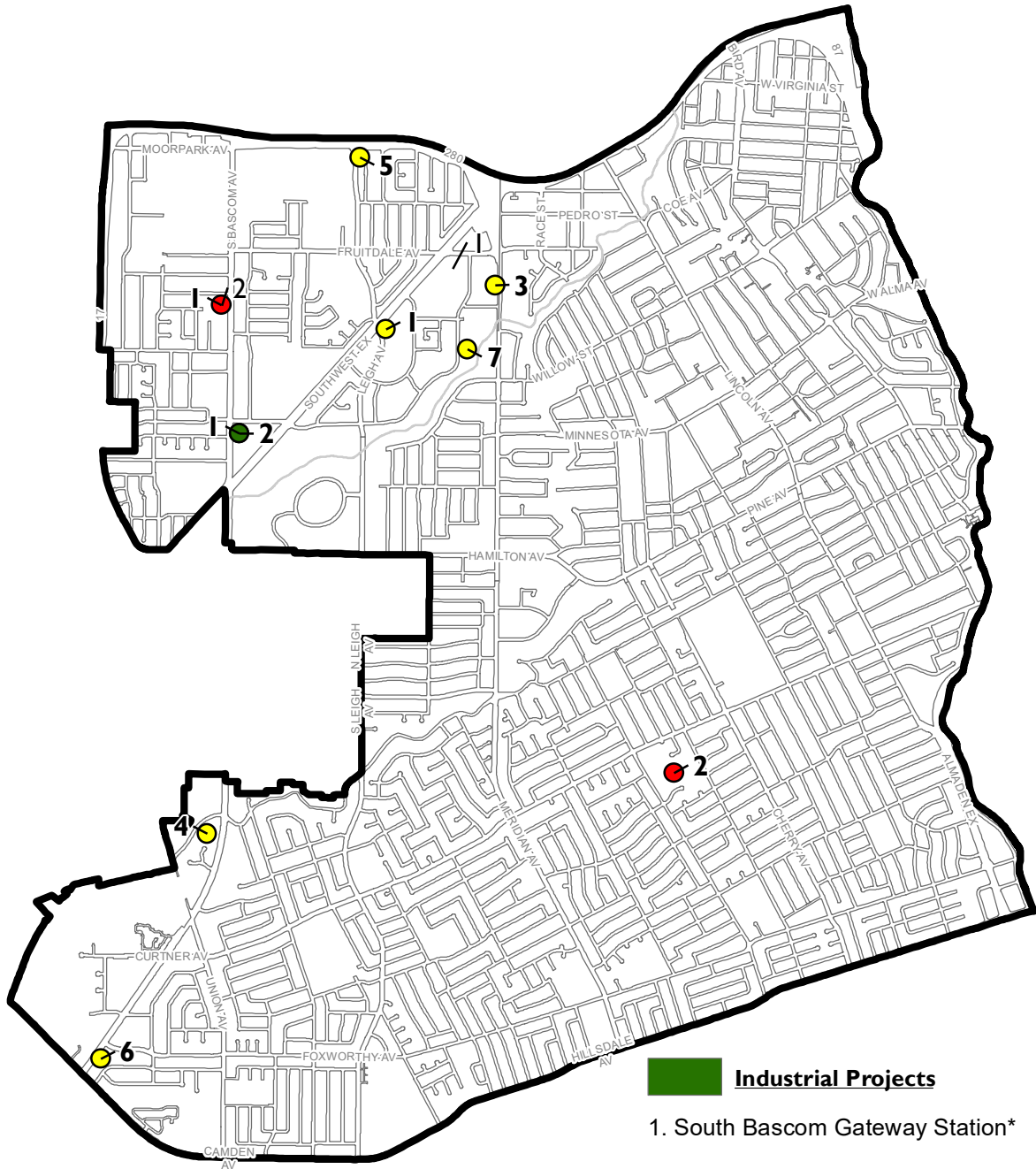
Residential Projects	Status
1. The Reserve	Constructed
2. Santana Row Lot 17	Approved
3. Volar (Residential)	Approved
4. Stevens Creek Promenade	Approved
5. Saratoga Ave Mixed Use	Approved
6. Winchester ranch	Approved
7. Mitzi Place	Approved
8. Hemlock Mixed use Project	Approved
9. Santana Row Lot 12	Approved
10. Santa Claray University Mixed Use	Pending
11. S. Winchester Mixed Use	Pending
12. Baywood Mixed Use	Pending
13. El Paseo & Saratoga Mixed use	Pending
14. 2188 Supportive Housing	Pending

Total Dwelling Units = 4,249

Commercial Projects	Status
1. Santana Row Commercial (Lot 9)	Constructed
2. Hampton Inn	Under Construction
3. Cambria Hotel	Approved
4. Williams Rd Residential Care Facility	Approved
5. AC Hotel Stevens Creek Blvd	Approved
6. Hotel Baywood	Approved
7. Bark Lane Hotel	Approved
8. Mercedes Dealership Expansion	Pending

Total Commercial Square Feet = 688,768

Willow Glen Planning Area Major Development Activity



Industrial Projects Status

- 1. South Bascom Gateway Station* Approved

Total Industrial Square Feet = 213,500

Residential Projects Status

- 1. Leigh Ave Apartments Under Construction
- 2. Bascom Gateway Station Approved
- 3. Roem Affordable Housing Approved
- 4. Bascom Residential Care Approved
- 5. Moorpark Supportive Housing Approved
- 6. 3090 S. Bascom Pending
- 7. 1050 St. Elizabeth Pending

Total Dwelling Units = 1,370

Commercial Projects Status

- 1. Holden Assisted Living on Bascom Under Construction
- 2. Presentation High School Master Plan Approved

Total Commercial Square Feet = 262,270

VII. APPENDIX: SOURCES

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

Data Collection and Analysis

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

Planning staff conducted and/or participated in a series of interviews/discussions with people with a variety of perspectives, including City staff processing development applications, developers or their representatives, and others working in the development industry or related fields.

Review of Publications

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