CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

2013-2014
City Manager's Budget Request

&

2014-2018
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2013

2013-2014
CITY MANAGER'S BUDGET REQUEST
&
2014-2018
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS

For the
General Fund and Capital Improvement Program

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Prepared by
Office of the City Manager
February 2013

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: **2013-2014 CITY MANAGER'S BUDGET REQUEST AND 2014-2018 FIVE-YEAR FORECAST**

DATE: February 28, 2013

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2013-2014 City Manager's Budget Request (Budget Balancing Strategy Guidelines) and the 2014-2018 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. Following are the major highlights of this report:

- As shown in the chart below, a small General Fund shortfall of $5.5 million is projected for 2013-2014. This projection is derived by comparing the estimated revenues with the cost of delivering existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. In the remaining years of the Forecast, small General Fund shortfalls and a surplus are projected, ranging from -$13.7 million to $2.0 million annually. These margins are extremely narrow when put into context of the size of the projected General Fund budget, ranging from -0.8% to 0.1% of the projected annual budget (revenues and expenditures). Over the five-year period, a total shortfall of $27.9 million is anticipated, or approximately $5.6 million annually. This average shortfall figure equates to only 0.3% of the projected General Fund annual budget. In the development of the Forecast, an Employee Compensation Planning Reserve has been factored into the expenditures, which is a change in practice from recent Forecasts as discussed later in this Executive Summary. In recommending the Employee Compensation Planning Reserve, the Administration is also recommending to resolve the $5.5 million shortfall and thus balance the budget through means that would not reduce or eliminate services to the community. Excluding that Reserve, General Fund surpluses would be generated in four of the five fiscal years, including a $5.6 million surplus in 2013-2014.

2014-2018 General Fund Forecast
Incremental General Fund Surplus/(Shortfall)

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
($5.5 M)	($13.7 M)	$2.0	($4.7 M)	($6.0 M)

- This Forecast reflects the Administration's best estimates on the projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the Forecast period, including: 1) impacts associated with the implementation of the remaining elements of the Fiscal Reform Plan (cost savings, such as retirement reform, and additional revenues); 2) tax increment funding for the Successor Agency to the Redevelopment Agency, a public entity, regarding the outcome of litigation with the County of Santa Clara related to the PERS Levy; 3) costs associated with fully funding the annual required contributions for police and fire retiree healthcare; 4) costs associated with services that were funded on a one-time basis in 2012-2013; 5) costs associated with the restoration of key services to January 1, 2011 levels; 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) one time revenue sources or expenditure needs, including the $29.4 million in one-time funding that is currently in the 2013-2014 Future Deficit Reserve. The Forecast also does not factor in the potential impact associated with the sunsetting of the Library Parcel Tax in 2014, which is budgeted in a special fund. If this Tax is not renewed, there will be significant service delivery impacts for the Library, which relies on this tax revenue to support both operations and the capital program, including the purchase of library materials. The Forecast does assume that the Police and Fire Retirement Plan Board will approve the elimination of the Supplemental Retiree Benefit Reserve (SRBR) for the 2013-2014 City retirement contribution amount and rates.

- The City's budget has started to stabilize with very small General Fund shortfalls and a surplus projected over the forecast period. The difficult budget balancing actions implemented over the past several years have played a critical role in bringing revenues and expenditures into close alignment in this Forecast. These actions included a combination of significant service and position reductions, employee total compensation reductions, increased employee benefit cost sharing, changes to service delivery models across the organization, and increasing revenues, including four voter-approved tax measures, to address a decade of cumulative General Fund budget shortfalls totaling $680 million that required the elimination of approximately 2,000 positions. The three-year period from 2009-2010 through 2011-2012 was the most difficult with the deepest service cuts, position eliminations and layoffs, and compensation reductions. In-depth planning efforts were undertaken to strategically address these unprecedented budget challenges. The City first developed a General Fund Structural Deficit Elimination Plan in 2008 that outlined cost reduction and revenue strategies to bring the General Fund into structural balance. This document was later updated by the Fiscal Reform Plan that was approved by the City Council in May, 2011. The Fiscal Reform Plan presented a strategy to achieve long-term financial stability, restore key City services to January 1, 2011 levels (fire, police, libraries, community centers, and street maintenance), and open facilities that had been recently completed or were under construction. This plan identified cost reduction strategies, primarily retirement-related, and revenue strategies, primarily Sales Tax and Business Tax measures, that would generate additional resources to meet these goals.

- The chart on page 4 compares the 2013-2014 Forecast to the 2012-2013 Adopted Budget. The carry-over from the 2012-2013 Adopted Budget of $9.0 million is the first element and represents the ongoing surplus funds that were not allocated in 2012-2013 in order to address a portion of the projected deficit in 2013-2014, as outlined in the February 2012 Forecast document. The next major comparison element is the change in major revenue sources year-over-year. Ongoing revenues are projected to increase by $21.7 million, driven primarily by an increase in the Sales Tax estimate. When comparing expenditures (the third element), base costs are expected to increase by $25.1 million from 2012-2013 ongoing budget levels, with the largest increase in retirement contribution expenditures. The combined impact of those three elements would have otherwise resulted in a General Fund surplus of $5.6 million. However, a fourth element, an $11.1 million Employee Compensation Planning Reserve, has been incorporated into the 2013-2014 Forecast, which causes the surplus to turn into a projected shortfall of $5.5 million for 2013-2014. As discussed in recent prior Forecasts, employee compensation increases are a City Council resource allocation decision in any given year. Starting in 2009-2010, this cost element was not incorporated into the City's budget planning given the severity of the projected General Fund budget shortfalls. During this period, it was necessary to not only implement salary freezes, but to also significantly reduce total employee compensation, rendering it unfeasible to build in salary increases in the Forecast. Moving forward, it is important to recognize that a meaningful long-term fiscal planning strategy needs to incorporate some level of employee compensation adjustments within the City's ability to afford them. Although adding a small set-aside for potential limited salary adjustments in this Forecast causes the General Fund budget position to be slightly negative, the Administration believes that budget balancing solutions can be identified over the next two months to close the 2013-2014 gap without reducing or eliminating General Fund services to our community, bringing the balance to zero. This reserve allocation, representing only a modest amount of funding, would require City Council labor negotiations direction and discussions with the City's bargaining groups before any form of distribution could be made. How this allocation would be applied, if it remains funded, has not been determined.

**2013-2014 General Fund Forecast
Reconciliation from 2012-2013 Adopted Budget**

2013-2014 General Fund Forecast Components (Ongoing)	$ in Millions
Carry-Over from 2012-2013 Adopted Budget	**$ 9.0**
Major Revenue Changes	
- Sales Tax Increase	14.0
- Overhead Reimbursements Increase	4.3
- Property Tax Increase	3.7
- Transient Occupancy Tax Increase	1.9
- Other Revenue Net Decreases	($2.1)
Total Revenue Changes (Increase)	**$ 21.8**
Major Expenditure Changes	
- Retirement Contributions Increases	18.1
- 2013-2014 Committed Additions (capital projects scheduled to come on-line)	3.9
- Healthcare/Dental Cost Increases	3.3
- Non-Management Step Increases/Management Pay-For-Performance	3.1
- Workers' Compensation Claims Payments	2.3
- Successor Agency to the Redevelopment Agency Transfer	(2.3)
- Debt Service/Capital Projects Funding Shift to Capital Funds	(2.6)
- Other Expenditure Net Decreases	(0.7)
Total Expenditure Changes (Increase)	**$ 25.1**
Subtotal 2013-2014 Projected General Fund Surplus	**$ 5.6**
Additional Expenditure Changes	
- Employee Compensation Planning Reserve	$11.1
2013-2014 Projected General Fund Shortfall	**($5.5)**
Budget Balancing Solutions Needed w/o Service Reductions/Eliminations	**$5.5**
Remaining Balance	**$0.0**

- The 2013-2014 projected shortfall of $5.5 million reflects an improvement from the $22.5 million budget shortfall projected for 2013-2014 in the February 2012 Five-Year Forecast. This reduction in the shortfall is the net result of numerous revenue and expenditure changes. Actions taken in the 2012-2013 Adopted Budget and the implementation of fiscal reforms were major contributors to the lower shortfall. As discussed above, in the 2012-2013 Adopted Budget, $9.0 million of ongoing funds were not allocated in 2012-2013 in order to address a portion of the projected deficit in 2013-2014. In addition, reductions in retirement costs associated with the elimination of the SRBR (approved for the Federated Retirement System and pending final approval by the Police and Fire Department Retirement Plan Board) and the implementation of a low cost health plan reduced costs for 2013-2014. Partially offsetting these factors is the inclusion of the Employee Compensation Planning Reserve.

- Retirement costs (pension and retiree healthcare) remain a major cost driver in this Forecast. For 2013-2014, retirement costs are projected to be $211.5 million in the General Fund

- Retirement costs (pension and retiree healthcare) remain a major cost driver in this Forecast. For 2013-2014, retirement costs are projected to be $211.5 million in the General Fund ($275.8 million all funds) representing a total increase of $24.4 million (13.0%) from the 2012-2013 Modified Budget level of $187.1 million. This increase includes base budget increases ($18.1 million) and those associated with committed additions, non-management step increases, management pay-for-performance, and the Employee Compensation Planning Reserve. The cost reductions in the retirement plans due to the elimination of the SRBR for the Retirement Plans (pending final approval by the Police and Fire Department Retirement Plan Board) and the implementation of a low cost/high deductible healthcare plan were more than offset by a lowering of the interest earnings assumption for the Police and Fire Department Retirement Plan from 7.5% to 7.25% and after economic and demographic assumption changes within the plans. The City Council approved the Federated Retirement System Tier 2 plan, a defined benefit plan for new non-sworn employees, with a lower benefit level than existing employees; and a Tier 3, defined contribution plan, for new Unit 99 employees entering the City, the City's unrepresented employee group. During the forecast period, General Fund retirement contributions will increase by approximately $45.1 million (21.3%) from $211.5 million in 2013-2014 to $256.6 million in 2017-2018. During the same period, the City retirement contributions for all funds will increase by $53.8 million (19.5%) from $275.8 million in 2013-2014 to $329.6 million in 2017-2018. Similarly, the budgetary retirement contribution rates show significant increases for the Federated Retirement System Tier 1 plan and the Police and Fire Department Retirement Plan. For the Federated Retirement System Tier 1 plan, the budgetary retirement contribution rate increases from 60.6% in 2013-2014 to 77.1% in 2017-2018; for the Federated Retirement System Tier 2 plan, the budgetary contribution rate increases only slightly from 18.6% in 2013-2014 to 18.9% in 2017-2018; for the Police Retirement Plan the budgetary retirement contribution rate increases from 73.0% in 2013-2014 to 79.7% in 2017-2018; and for the Fire Retirement Plan, the budgetary retirement contribution rate increases from 72.2% in 2013-2014 to 81.1% in 2017-2018. It should be noted that retirement contribution costs and rates for the Police and Fire Retirement Plans do not reflect full funding of the annual required contribution for retiree healthcare. A Tier 2 Plan for Police and Fire has not yet been agreed to by those bargaining units.

- As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. Various cost elements can also vary from year to year. As seen in recent years, retirement costs have been fluctuating and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions as approved by the Federated and Police and Fire Retirement Department Boards. Another cost element that is difficult to project is the amount of funding necessary to ensure payment of Successor Agency to the Redevelopment Agency of the City of San José, a public entity (Successor Agency) obligations which the City is contractually obligated to pay (Convention Center Debt Service, 4th Street Parking Garage Debt Service, HUD 108 Loan payments, and ERAF loan payments) as well as administrative costs. The necessary transfer from the General Fund is difficult to calculate given the complexity in determining the Successor Agency revenue streams and the legal questions regarding the order in which the Successor Agency obligations will be addressed by those revenue streams.

Consistent with past practice, as part of the preparation for the 2013-2014 Proposed and Adopted Budgets, the Administration will continue to update the City Council on both the revenue and expenditure estimates as new information becomes available.

- As is customary in the Forecast, two alternative forecasts have been developed to model the range of financial scenarios possible under varying economic conditions. "Optimistic" and "Pessimistic" Cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case". In 2013-2014, the Optimistic Case results in a small projected shortfall of only $755,000, while the Pessimistic Case results in a shortfall of $13.6 million.

- In approaching the 2013-2014 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2013-2014 City Manager's Budget Request). The Service Restoration Decision Making Framework, the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City of San José Budget Principles combined with City Council priorities identified in prior policy sessions will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2013-2014 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval process.

- Looking forward, the Administration's goal is to build capacity to meet the City's basic service delivery needs, maintain competitiveness as an employer, and address the significant backlog of unmet/deferred infrastructure and maintenance needs. This will require continued diligence on controlling the City's costs and pursuing increased revenues to support City services. The Fiscal Reform Plan approved by the City Council in May 2011 outlined cost reduction and revenue strategies to help build this capacity. If the remaining elements of this Plan were implemented, significant additional savings or new funding could be generated over the five-year period as outlined in the Fiscal Reform Plan Update section that can be found later in this transmittal memorandum.

- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total $281 million over the five-year period and are up 23% from the $229 million included in the 2013-2017 Adopted CIP. Significant growth is anticipated for the Construction and Conveyance (C&C) Tax receipts (38% increase) due to the recovering real estate market, while moderate increases for the Building and Structure Construction Tax (10% increase) and the Construction Excise Tax (8% increase) are anticipated, primarily due to expected residential multi-family housing developments in North San José.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the recommended 2013-2014 City Manager's Budget Request and the 2014-2018 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program (CIP).

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends be used in developing the 2013-2014 Proposed Budget. These guidelines are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated fiscal status for 2013-2014 is an integral part of the Administration's proposed approach to preparing the 2013-2014 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2013-2014, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2013-2014 City Manager's Budget Request; an overview of the 2014-2018 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; a Fiscal Reform Plan Update; and a description of the next steps in the 2013-2014 budget process.

2013-2014 CITY MANAGER'S BUDGET REQUEST

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines that will be used in the development of the 2013-2014 budgets for the General Fund and selected Capital Funds. These proposed guidelines have been formulated in the context of projections for small General Fund deficits and a surplus over the Forecast period. The over-arching goals of these guidelines are to reach fiscal and operational stability, to deliver the services our community deserves in a cost-effective manner, and to provide for modest employee compensation increase. This includes bringing General Fund revenues and expenditures into balance while maintaining, and in some limited cases, expanding service levels in high priority areas that have been impacted by the budget balancing actions required in recent years. These guidelines will be used with the Service Restoration Decision Making Framework and the City Council-approved Guiding Principles for Restoring City Service Levels and the overall City Council approved City of San José Budget Principles that have been previously presented to the City Council.

In accordance with the City Charter, the City is required to adopt a balanced budget each year, addressing any projected shortfall or allocating any surplus. In 2013-2014, a General Fund shortfall of $5.5 million is projected, representing only 0.3% of the General Fund annual budget (revenues and expenditures). In the out years of the Forecast, General Fund shortfalls and a surplus range from -$13.7 million to $2.0 million annually. These surplus and shortfall amounts are very small when put into context of the size of the projected General Fund budget, ranging from -0.8% of the budget to 0.1% of the projected annual budget. With a projected shortfall of less than 1% of the budget, the Administration does not anticipate major service changes in 2013-2014. However, in order to balance the budget and create capacity to add resources in critical areas, the organization will continue to pursue additional revenues, more efficient and cost-effective ways to provide City services, potential restructuring opportunities, and reductions that do not impact direct service delivery.

Although overall service levels are clearly not at adequate levels for our community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support those additions, to the extent possible. Given the projected shortfall in the second year (2014-2015) of the Forecast of $13.7 million, it would also be prudent to consider a two-year strategy when developing the budget for 2013-2014. This effective strategy was implemented in 2012-2013 and, as a result, the projected ongoing shortfall in 2013-2014 was reduced by $9.0 million and there is a 2013-2014 Future Deficit Reserve that currently totals $29.4 million. The Administration recommends that the one-time funding contained in the 2013-2014 Future Deficit Reserve, as well as any additional one-time funds that become available during the budget development process, be strategically invested, with a portion reserved to address the projected shortfall in 2014-2015. Other potential uses of these one-time funds include the continuation of services that were restored on a one-time basis in 2012-2013, infrastructure and maintenance needs, establishment of a Budget Stabilization Reserve, the pay down of debt, and/or a small number of critical service or organizational needs.

Because of the difficult decisions that have been made over the last few years and a slightly improving economy, revenues and expenditures are in close alignment in this Forecast, with annual variances of less than 1% of the budget. Challenges remain, however, in addressing other funding needs that are not included in the Forecast, some of which would be potentially addressed by the remaining Fiscal Reform Plan strategies that have not yet been implemented or factored into the Forecast. When evaluating the annual General Fund shortfalls or surplus projected in this Forecast, it is important to keep in mind that these figures do not include the following:

- Various cost reduction and revenue strategies identified in the City-Council-approved Fiscal Reform Plan, which are not yet implemented. This Plan outlined cost reduction and revenue strategies to eliminate the General Fund structural deficit, restore selected services to January 1, 2011 levels, and open facilities that have been recently completed or are under construction. A total of at least $85.1 - $122 million could be generated over a five-year period from the remaining cost avoidance ($48.2 million) and revenue ($36.9 - $73.8 million) strategies.

- This Forecast anticipates that there will not be sufficient property tax increment revenue to pay all enforceable obligations of the Successor Agency to the Redevelopment Agency of San Jose, a public entity. If the Successor Agency cannot pay all of its obligations, the City is contractually obligated to assume certain payments of the Successor Agency; therefore, General Fund payments to the Successor Agency are included in all five years of this Forecast. However, it should be noted that the Successor Agency continues to dispute the amount of former Redevelopment Agency tax increment distributed by the County Auditor-Controller. A percentage of tax increment has been withheld by the County of approximately $7.5 million annually to fund the County employee's retirement plan (the PERS levy). Should the Successor Agency succeed in its legal challenge of the County's actions, additional tax increment would be distributed to the Successor Agency, thereby partially offsetting City contractually obligated Successor Agency payments and related General Fund payments.

- The costs associated with fully funding retiree healthcare in the out years of the forecast period for the Police and Fire Retirement Plan and the Federated Retirement System. Per the Memoranda of Agreements (MOAs) with the San Jose Police Officers' Association and the San José Fire Fighters, IAFF Local 230, the City and employee retiree healthcare contribution percentage has a limit which, if reached, results in the meet and confer process. Retiree medical costs are shared 50/50 between City and employees and these MOAs expire on June 30, 2013. Per Cheiron, the Board's actuary, in order to fully fund the annual retirement contribution for police and fire retiree healthcare benefits, the City's annual contribution would be in excess of the current limit of the percentage contribution of 11%.

- The costs to continue services funded on a one-time basis in 2012-2013 totaling $5.2 million in the General Fund ($5.7 million all funds). Services that fall in this category include: the San José BEST Program; Medical Marijuana Program; Economic Development Incentive Fund; City Attorney legal support staffing, Senior Transportation Services; Fiscal Reform Plan staffing; Senior Services and Wellness Program support; City Clerk staffing; Safe Summer Initiative; Independent Police Auditor staffing; Volunteer Engagement; Neighborhood Business Districts; Fair Swim Center Program; and Silver Creek Aquatics Program. Many of these programs and services will likely need to be re-evaluated for continued funding in 2013-2014. This analysis will be conducted during the 2013-2014 budget process and funding recommendations for these programs and services will be included in the 2013-2014 Proposed Operating Budget, as appropriate, and in context of other budgetary needs. A listing of the one-time funded services is included in *Appendix A*.

- The costs to restore service levels in critical service areas, including police, fire, libraries, and community centers as outlined in the Fiscal Reform Plan. The net cost to restore those services to January 1, 2011 levels was previously estimated at $33 million.

- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were last calculated in April 2012 at $127 million annually (all funds) are not factored into the Forecast. In addition, there is a one-time backlog of infrastructure needs totaling $811 million (all funds). These figures will be updated and presented to the Transportation and Environment Committee in April 2013.

- One-time revenues that may become available or one-time expenditure needs. This includes the 2013-2014 Future Deficit Reserve of $29.4 million. Because the Forecast compares ongoing revenues and expenditures, it does not factor in one-time funding elements that may be available or required in any given year.

- Impacts associated with the potential elimination of the Library Parcel Tax. The Library Parcel Tax was approved by the voters in 2004 and is scheduled to sunset in 2014. These tax revenues, which are budgeted in a special fund, generate $7.5 million annually that are used to support both library operations and the library capital program, including the purchase of library materials. Without these funds, there will be significant service delivery impacts for the Library.

2013-2014 Budget Balancing Strategy Guidelines

The 2013-2014 Budget Balancing Strategy Guidelines on page 11 provide recommended direction on the general approaches to use in the development of the 2013-2014 Proposed Budget. While these guidelines are similar to those adopted by the Mayor and City Council last year as part of the 2012-2013 Mayor's March Budget Message, they have been modified to increase the focus on rebuilding the organization in a strategic and fiscally responsible manner. For instance, guideline #9 has been added to focus service restorations to meet January 1, 2011 service levels, consistent with previous City Council direction. Guideline #10 has been expanded to incorporate the components of the Service Restoration Decision Making Framework in addition to the City Council-approved Guiding Principles for Restoring City Service Levels. Guideline #11 has been added to recognize the need to start implementing compensation adjustments but in a fiscally responsible manner that does not result in a reduction or elimination of services in the General Fund. As mentioned earlier, a modest Employee Compensation Planning Reserve has been set aside in this Forecast. Due to the improvement in the City's budget position, there is less than a 1% variance between revenues and expenditures in all years of the Forecast. Given these very small budget gaps, the inclusion of this cost component should not result in service reductions and/or eliminations in the General Fund. This reserve allocation, representing only a modest amount of funding, would require City Council labor negotiations direction and discussions with the City's bargaining groups before any form of distribution could be made. How this allocation would be applied, if it remains funded, has not been determined.

There are three guidelines that have been removed, including the direction to explore personal services cost savings. Personal services cost reduction strategies have been previously identified in the City Council approved Fiscal Reform Plan and have either already been implemented or are currently being pursued. The guideline to eliminate vacant positions rather than filled positions to minimize layoffs has also been eliminated. Given the improved financial position of the City and the sizeable number of vacancies available for any employee placements, this item is no longer necessary. The guideline to focus on protecting vital core City services for both the short- and long-term has also been eliminated in recognition of the City's improved financial position that will not require the service reductions that have been necessary in recent years.

2013-2014 Budget Balancing Strategy Guidelines

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

Framework and Guiding Principles for Restoring City Service Levels

As the City brings the General Fund revenues and expenditures into balance and continues to implement the cost reduction and revenue strategies identified in the Fiscal Reform Plan, there is expected to be some capacity to restore City service levels in the future. One of the goals of the Fiscal Reform Plan is to restore services to January 1, 2011 levels and open facilities that were recently completed or were under construction (see *Appendix A* for Service Restorations Previously Identified by City Council (January 1, 2011 Levels)). As discussed at the August 7, 2012 City Council meeting (Item 3.5 Restoration of Selected General Fund Services to January 1, 2011 Levels) and the 2013-2014 Budget Planning Study Session held on February 11, 2013, it is important that the City take a holistic approach regarding the restoration of services as additional resources become available.

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

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

Incorporating Strategies into the 2013-2014 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2013-2014 City Manager's Budget Request combined with the Service Restoration Decision Making Framework, the City Council-approved Guiding Principles for Restoring City Service Levels, and the overall City of San José Budget Principles to approach the 2013-2014 budget development process. In January 2013, the Administration directed the City departments to develop 2013-2014 budget proposals using a draft version of the 2013-2014

Budget Balancing Strategy Guidelines. For planning purposes, General Fund budget reduction targets were set at levels to generate approximately $20 million in General Fund proposals ($15 million from non-public safety departments and $5 million from public safety departments) to address a potential General Fund shortfall. While a much smaller shortfall is projected for 2013-2014 than originally anticipated, the budget balancing strategy guidelines and budget proposals generated from departments will still provide a good starting point for developing the 2013-2014 budget. The Administration will continue to pursue cost reductions and service delivery efficiencies that make sense, but does not anticipate any further direct service reductions in 2013-2014 consistent with the approach in 2012-2013.

As part of the 2013-2014 Mayor's March Budget Message, the Administration requests confirmation of the budget balancing guidelines, with any desired revisions. These guidelines incorporate both short-term and long-term approaches to budget balancing efforts and service level restoration and reflect the City's sound fiscal principles. City Council priorities and goals identified in prior policy sessions will also guide the City's budget balancing efforts. Input from the community through community surveys, various City Councilmember and stakeholder outreach activities, and the 2013-2014 San José Neighborhood Association/Youth Commission Priority Setting Session will also serve as an important tool in this process.

The Mayor is scheduled to issue a proposed March Budget Message on March 8, 2013, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide specific guidance for the preparation of the City Manager's 2013-2014 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 22, 2013 and May 1, 2013, respectively. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Proposed Budget Study Sessions and Public Hearings to discuss the budget proposals and the associated impacts on performance measures and service delivery. The Administration will also work with the City Council to provide informational meetings on the Proposed Budget in each City Council District in April and May 2013. 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 2013.

2014-2018 Five-Year Forecast and Revenue Projections

The 2014-2018 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: 2012-2013 Adopted Budget One-Time Funded Proposals; Service Restorations Previously Identified by City Council (January 1, 2011 Levels); the Service Restoration Decision Making Framework; the City-Council-approved Guiding Principles for Restoring City Service Levels; and the overall City-Council-approved City of San José Budget Principles. *Appendix B* provides descriptions of the City's major General Fund revenue categories. *Appendix C*, prepared by the Planning, Building and Code Enforcement Department, documents the basis for that department's five-year projections for construction activity.

2014-2018 General Fund Forecast

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

2014-2018 General Fund Five-Year Forecast
($ in Millions)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Projected Revenues	$852.7	$873.9	$899.7	$930.5	$963.3
Projected Expenditures	$858.2	$893.1	$916.8	$952.4	$991.2
Total Cumulative Surplus/(Shortfall)	($5.5)	($19.2)	($17.1)	($21.9)	($27.9)
Total Incremental Surplus/(Shortfall)	**($5.5)**	**($13.7)**	**$2.0**	**($4.7)**	**($6.0)**

Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; Tax Increment funding for the Successor Agency to the Redevelopment Agency, a public entity, regarding the outcome of litigation with the County of Santa Clara related to the PERS Levy; costs associated with fully funding the annual required contributions for police and fire retiree healthcare; costs associated with services funded on a one-time basis in 2012-2013; costs associated with restoration of key services to January 1, 2011 levels; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

Assumes that the Police and Fire Retirement Plan Board will approve the elimination of the Supplemental Retiree Benefit Reserve (SRBR) for the 2013-2014 City retirement contribution amount and rates; and includes an Employee Compensation Planning Reserve, which totals $11.1 million in 2013-2014. Without that Reserve, a surplus of $5.6 million is projected for 2013-2014, and surpluses would be generated in all years but 2014-2015.

In the 2014-2018 Forecast, small incremental General Fund shortfalls are anticipated for four of the five years. Similar to last year, overall revenue growth is close to the expenditure growth over the forecast period, with an annual variance of less than 1% of the budget (revenues and expenditures). However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast. The Forecast also does not reflect the Fiscal Reform Plan cost reduction and revenue generation strategies that have not yet been implemented.

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

The 2013-2014 projected shortfall of $5.5 million reflects an improvement from the $22.5 million budget shortfall projected for 2013-2014 in the February 2012 Five-Year Forecast. Some of the major drivers of the reduction to the projected shortfall include actions taken in the 2012-2013 Adopted Budget and the implementation of fiscal reforms. In the 2012-2013 Adopted Budget, $9.0 million of ongoing funds were not allocated in 2012-2013 in order to address a portion of the projected deficit in 2013-2014. In addition, changes to the retirement plans such as the elimination of the SRBR (approved for the Federated Retirement System and pending final approval for the Police and Fire Department Retirement Plan) and the implementation of a low cost health plan reduced costs for 2013-2014. Partially offsetting these factors is the inclusion of funding in the Employee Compensation Planning Reserve for modest compensation increases. This reserve allocation, representing only a modest amount of funding, would require City Council labor negotiations direction and discussions with the City's bargaining groups before any form of distribution could be made. How this allocation would be applied, if it remains funded, has not been determined.

When reconciling next year's Forecast to the 2012-2013 Adopted Budget, the projected shortfall of $5.5 million for 2013-2014 is the result of the following: the carryover of unexpended ongoing funds from the 2012-2013 Adopted Budget of $9.0 million, improved revenues of $21.7 million, offset by increased costs of $36.2 million. As discussed previously, a new expenditure component added to this Forecast is the Employee Compensation Planning Reserve of $11.1 million, which allows for modest compensation increases. Without this expenditure component, there would be a projected surplus of $5.6 million. In recommending the Employee Compensation Planning Reserve, the Administration is also recommending to resolve the $5.5 million shortfall and thus balance the budget through means that would not reduce services to the Community. Following is addition detail on the projected changes to General Fund revenues and expenditures.

General Fund revenues are estimated to improve $21.7 million when compared to the ongoing revenue performance assumed in the 2012-2013 Adopted Budget. Revenue performance in 2012-2013 continues to reflect moderate growth and is estimated to at least meet current budgeted levels. Revenue categories that have improved year-over-year include: Sales Tax to reflect improved growth rates ($14.0 million); Overhead Reimbursements based on the revised overhead rates and the personal services costs to which the rates are applied ($4.3 million); Property Tax based on the most recent information provided by the County of Santa Clara ($3.7 million); Transient Occupancy Tax receipts based on current year activity levels ($1.9 million); and miscellaneous categories that have experienced a net decrease based on actual collections experience ($2.1 million).

On the expenditure side, several upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of $36.2 million in 2013-2014. The most significant expenditure changes are the following: increase in retirement contributions based on rates provided by the Retirement Boards ($18.1 million); 2013-2014 Committed Additions ($3.9 million), the most significant of which are expenditures related to the opening of the South San José Police Substation in January 2014 and the annualization of operating costs of four branch libraries scheduled for opening in 2012-2013; healthcare and dental cost increases ($3.3 million); non-management step increases/management pay-for-performance ($3.1 million); increases for workers' compensation claims ($2.3 million); a decreases in the transfer to the Successor Agency to the Redevelopment Agency ($2.3 million); debt service and capital projects funding shifts to Capital Funds ($2.6 million); and other net expenditure decreases ($0.7 million). In addition, an increase related to the establishment of an Employee Compensation Planning Reserve ($11.1 million) is included to account for this funding need.

Given the severity of the projected General Fund budget shortfalls, starting in 2009-2010, employee compensation increases were not incorporated into the City's budget planning. Rather, during this period, it was necessary to implement salary freezes and reduce total employee compensation. Moving forward, it is important to recognize that a meaningful long-term fiscal planning strategy needs to incorporate some level of employee compensation adjustments within the City's ability to afford them. Due to the improvement in the City's budget position, there is less than a 1% variance between revenues and expenditures in all years of the Forecast. Given these very small budget gaps, the inclusion of this cost component should not result in service reductions and/or eliminations in the General Fund.

It is important to note that the Development Fee Programs (Building, Fire, Planning, and Public Works) are designed to be 100% cost recovery and have been programmed to have a neutral impact on the Forecast by adjusting the revenue and costs to be equal. In the Fire and Public Works Fee Programs, revenues are sufficient to cover the Base Budget costs. In the Planning and Building Fee Programs, however, small budget gaps are currently projected for 2013-2014. Sufficient Fee Program Reserves are available in each of these programs to address these small variances and have been programmed into the Forecast.

City Retirement Contributions

Given the major impact of retirement costs on the City's budget in recent years, detailed information is provided on the retirement projections incorporated into this Forecast. Overall, the City Retirement contribution costs are determined by the two Retirement Boards as guided by actuarial recommendations and take into account overall benefit levels, the funding status of each retirement plan, and economic and demographic assumptions. The retirement costs in this Forecast assume the pre-payment of the annual required City contribution for the Federated Retirement System Tier 1 plan and the Police and Fire Department Retirement Plan. As detailed in the table below, General Fund retirement contributions are projected to increase by $24.4 million, or 13.0%, from 2012-2013 to 2013-2014 (by $29.9 million, or 12.2%, in all funds). Over the Forecast period, the General Fund retirement contributions are estimated to increase by $45.1 million, or 21.3% from $211.5 million in 2013-2014 to $256.6 million in 2017-2018. During the same period, the City retirement contribution for all funds will increase by $53.8 million, or 19.5%, from $275.8 million in 2013-2014 to $329.6 million in 2017-2018. Similarly, the budgetary retirement contribution rates show significant increases for the Federated Retirement System Tier 1 plan and the Police and Fire Department Retirement Plan. For the Federated Retirement System Tier 1 Plan, the budgetary retirement contribution rate increases from 60.6% in 2013-2014 to 77.1% in 2017-2018; for the Federated Retirement System Tier 2 Plan, the budgetary contribution rate increases only slightly from 18.6% in 2013-2014 to 18.9% in 2017-2018; for the Police Retirement Plan the budgetary retirement contribution rate increases from 73.0% in 2013-2014 to 79.7% in 2017-2018; and for the Fire Retirement Plan, the budgetary retirement contribution rate increases from 72.2% in 2013-2014 to 81.1% in 2017-2018. It should be noted that retirement contribution costs and rates for the Police and Fire Retirement Plans do not reflect full funding of the annual required contribution for retiree healthcare and that a Tier 2 Plan for Police and Fire has not yet been agreed to by those bargaining units.

2014-2018 City Retirement Contribution Costs
And Budgetary City Retirement Contribution Rates
($ in Millions)

Retirement Plan	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Fed. Ret. System Tier 1 – Pension	$56.5	$55.6	$58.5	$59.1	$60.4	$62.9
Fed. Ret. Syst. Tier 1 – Ret. Healthcare	10.0	13.1	12.7	12.4	11.9	11.3
Fed. Retirement Plan Tier 1 - Total	**$66.5**	**$68.7**	**$71.2**	**$71.5**	**$72.3**	**$74.2**
Budgetary Contribution Rates	*50.5%*	*60.6%*	*65.9%*	*68.1%*	*71.6%*	*77.1%*
Fed. Ret. System Tier 2 – Pension	N/A	$1.5	$1.5	$2.0	$2.5	$3.1
Fed. Ret. Syst. Tier 2 – Ret. Healthcare	N/A	2.6	2.7	3.6	4.6	5.7
Fed. Retirement Plan Tier 2 - Total	N/A	**$4.1**	**$4.2**	**$5.6**	**$7.1**	**$8.8**
Budgetary Contribution Rates	N/A	*18.6%*	*18.9%*	*18.9%*	*18.9%*	*18.9%*
Police Retirement Plan – Pension	$66.3	$74.3	$82.0	$83.1	$86.5	$92.2
Police Ret. Plan – Retiree Healthcare	10.5	11.8	12.9	13.2	13.7	14.2
Police Retirement Plan – Total	**$76.8**	**$86.1**	**$94.9**	**$96.3**	**$100.2**	**$106.4**
Budgetary Contribution Rates	*65.7%*	*73.0%*	*78.3%*	*77.3%*	*77.6%*	*79.7%*
Fire Retirement Plan – Pension	$38.9	$46.5	$51.1	$52.1	$54.3	$57.9
Fire Ret. Plan – Retiree Healthcare	4.4	5.5	6.7	7.9	8.4	8.7
Fire Retirement Plan - Total	**$43.3**	**$52.0**	**$57.8**	**$60.0**	**$62.7**	**$66.6**
Budgetary Contribution Rates	*64.0%*	*72.2%*	*78.0%*	*78.4%*	*79.1%*	*81.1%*
Other Retirement Costs	$0.5	$0.6	$0.6	$0.6	$0.6	$0.6
Total General Fund	**$187.1**	**$211.5**	**$228.7**	**$234.0**	**$242.9**	**$256.6**
Total All Funds	**$245.9**	**$275.8**	**$295.1**	**$301.6**	**$312.6**	**$329.6**

Source: 2012-2013 Modified Budget; Cheiron Letters dated January 9, 2013, January 30, 2013, and January 31, 2013 with applied pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan, and the Fire Retirement Plan.

In June 2012, the voters approved Measure B, which included the elimination of the SRBR. On December 4, 2012, the City Council approved an ordinance change, which eliminated the SRBR for the Federated Retirement System. On January 29, 2013, the City Council approved an ordinance change, which eliminated the SRBR for the Police and Fire Department Retirement Plan. The SRBR in the respective retirement plans provided for supplemental benefits to retirees which were derived from plan "excess" earnings. When the plans' actual investment returns exceeded the expected returns, a portion of these "excess" returns was transferred into the SRBR for later distribution as a supplemental benefit. This transfer also took place even when the plans were underfunded. Through the elimination of the SRBRs, the City's contribution amount and rate were reduced by a total of $13.4 million in the General Fund and $17.8 million in all funds. It should be noted, though, that the reduction of the City's annual required contribution (ARC) for 2013-2014 due to the City Council's elimination of the SRBR for the Police and Fire Department Retirement Plan is pending approval of the Police and Fire Department Retirement Board. This Forecast assumes that the Board will approve the reduction of the City's 2013-2014 ARC in the amount of $8.6 million due to the elimination of the SRBR.

In June 2012, the City Council approved a low cost/high deductible healthcare plan for employees and retirees effective December 23, 2012. Additionally, effective July 1, 2012, Federated Retirement System members are required to enroll in Medicare A and B supplemental plans at the age of 65. These changes significantly reduced the Federated Retirement System Retiree Healthcare contributions for the City and employees.

With the aforementioned healthcare plan modifications, the 2013-2014 Cheiron projected City and employees combined Federated Retirement System retiree healthcare rate in this Forecast reflects a significant reduction to the 2013-2014 contribution rate that had been included in the February 2012 Forecast. For the City, the 2013-2014 Cheiron projected contribution rate decreased by 4.9 percentage points from 16.8% to 11.9% resulting in a decrease of $6.5 million in the General Fund ($12.5 million all funds).

In 2009, the City and Federated bargaining units reached an agreement to begin a five-year phase-in to fully fund the annual required contribution for retiree healthcare benefits. The last year of the phase-in was 2012-2013 (with a contribution rate of 7.69% for employees and 7.9% for the City) with the full funding of the ARC starting with 2013-2014 (with a contribution rate of 10.74% for employees and 11.93% for the City). It is important to note that in December, as part of ongoing retiree healthcare negotiations, the Administration made a proposal to the Federated Retirement System bargaining groups that included a continuation of the phase-in of the Retiree Healthcare contribution rates because of the significant increase in the contribution rates from 2012-2013 to 2013-2014. If an agreement is reached on that proposal, a further reduction to both the employees' and City retiree healthcare contribution rates for 2013-2014 is anticipated.

Similarly, due to City Council approval of a low cost/high deductible healthcare plan for employees and retirees and Medicare A and B supplemental plans, the Police and Fire Department Retirement Plan's unfunded liability offset by the reduction in the interest earnings assumption for this plan from 7.5% to 7.25% was reduced. This would result in a lowering of the City's and employees' contribution rates, if the annual required contribution for Retiree Healthcare were fully funded. However, per the Memoranda of Agreements (MOAs) with the San Jose Police Officers' Association and the San José Fire Fighters, IAFF Local 230, the City and employee retiree healthcare contribution percentage has a limit which, if reached, results in the meet and confer process. Per Cheiron, the Board's actuary, in order to fully fund the annual retirement contribution for police and fire retiree healthcare benefits, the City's annual contribution would be in excess of the current limit of the percentage contribution of 11%.

In the four out years of the General Fund Forecast, retirement costs (pension and retiree healthcare) remain a major cost driver, although the escalation of costs is less than just two years ago. As part of the February 2011 Five-Year General Fund Forecast, the then projected costs for 2015-2016 were estimated at $400.7 for all funds. For this Five-Year General Fund Forecast, the retirement costs for 2015-2016 are projected to be approximately $301.6 million for all funds. The significant reduction of retirement costs is primarily due to a combination of factors such as the Retirement Boards' actuaries adjustment of pensionable payroll reflective of the ongoing 10% total compensation reductions for all employee groups and the reduction of over 1,000 positions as part of the 2010-2011 and 2011-2012 Adopted Budgets, the elimination of the

SRBR, the implementation of the low cost/high deductible plan, offset by a lowering of the plans' interest earnings assumptions.

General Fund Committed Additions

Cost estimates for a number of specific "Committed Additions" that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2013-2017 Adopted Capital Improvement Program or for projects approved by the City Council during 2012-2013. The costs of the additions total $2.0 million in 2013-2014 and increase to approximately $7.7 million by the end of the Forecast period.

2014-2018 General Fund Committed Additions

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
New Parks and Recreation Facilities Maintenance & Operations	$51,000	$331,000	$560,000	$795,000	$862,000
New Police Maintenance & Operations	336,000	399,000	413,000	326,000	340,000
New Traffic Infrastructure Assets Maintenance & Operations	31,000	56,000	83,000	108,000	136,000
Measure O (Library) Maintenance & Operations	0	0	648,000	725,000	742,000
Measure P (Parks) Maintenance & Operations	0	0	50,000	87,000	81,000
Measure O (Public Safety) Maintenance & Operations: Fire	0	8,000	24,000	3,026,000	3,146,000
Measure O (Public Safety) Maintenance & Operations: Police	1,616,000	2,253,000	2,303,000	2,355,000	2,405,000
Total	$2,034,000	$3,047,000	$4,081,000	$7,422,000	$7,712,000

Some of the larger facilities expected to come on-line during this forecast period include: the South San José Police Substation, Southeast Branch Library, Softball Complex, and Fire Station 37 (South Willow Glen). A detailed listing of all capital project operating and maintenance costs included in this 2014-2018 General Fund Forecast can be found in the Committed Additions Section of this document.

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

General Fund Capital Operating and Maintenance/Budget Principle #8 requires City Council certification that funding will be made available in the General Fund for capital projects with an estimated operating budget impact greater than $100,000 at the time of taking beneficial use of the facility or project. Capital projects with operating and maintenance costs over $100,000 and previously certified are included in the Capital Improvement Program and displayed in Chart A in Section III. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast that have not been approved by the City Council may be recommended for certification as part of the 2014-2018 Proposed Capital Improvement Program. If certified by the City Council, the operating and maintenance costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

Alternative Forecast Scenarios

In order to model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2013-2014 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

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

The Optimistic Case assumes a much faster and more robust recovery than currently anticipated. When compared to the Base Case scenario, the real estate market improves significantly with increases not only in the price of housing, but also the volume of homes sales, out pacing the growth rates assumed in the Base Case. This housing market recovery would also drive growth in employment levels. This vigorous recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax. In the Optimistic Case, the City would experience small shortfalls of $755,000 and $7.1 million in the first two years of the Forecast, followed by surpluses in the last three years ranging from $5.8 million to $14.0 million.

The Pessimistic Case assumes that a combination of adverse factors interact to impede the moderate recovery underlying the Base Case and continue a sluggish recovery. Under this scenario, looming impacts in the world economy in areas such as Europe, Japan, and China are anticipated to ripple through to the U.S. economy at a national level as well as at the State and local levels. Housing prices are anticipated to fall both locally and nationally as the Federal Reserve monetary and fiscal policies result in higher inflation, which in turn, results in higher mortgage rates. Higher mortgage rates would negatively impact both home sales and prices. In this scenario, the City's revenues, particularly Property Tax and Sales Tax, would be impacted by an economic slowdown. In the Pessimistic Case, the City would experience shortfalls in all years of the Forecast ranging from $11.6 million to $24.4 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 2013-2014 Capital Budget and the 2014-2018 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 [2014-2018]). 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 2013-2017 Adopted CIP. As shown below, higher collections are projected in all revenue categories. Based on improved real estate activity, construction activity estimates, and a review of revenue collection patterns, a significant increase in these taxes and fees of $51.7 million, or 23%, is expected when comparing the 2014-2018 Forecast to the 2013-2017 Adopted CIP estimates.

Capital Revenue Forecast Comparison Summary
($ in Thousands)

	2013-2017 CIP	2014-2018 Forecast	Difference	% Change
Construction and Conveyance Tax	$109,000	$150,000	$41,000	38%
Building and Structure Construction Tax	50,000	55,000	5,000	10%
Construction Excise Tax	65,000	70,000	5,000	8%
Municipal Water System Fees	750	750	0	0%
Residential Construction Tax	500	925	425	85%
Sanitary Sewer Connection Fee	3,000	3,250	250	8%
Storm Drainage Connection Fee	700	750	50	7%
TOTAL	**$228,950**	**$280,675**	**$51,725**	**23%**

Real estate activity (primarily housing resales) determines the collection level of one of the major capital revenue sources, the Construction and Conveyance Tax. As the housing market shows continued improvement from the sharp declines experienced after the collapse of the financial market, action was taken as part of the 2012-2013 Mid-Year Budget Review to increase the 2012-2013 Construction and Conveyance Tax revenue estimate from $21.0 million to $30.0 million based on actual collections. This category is projected to generate $150 million over the next five years, which is 38% higher than the estimates assumed in the 2013-2017 Adopted Capital Improvement Program. However, the average annual collection level is still well below the actual collection levels in the mid-2000's that reached a peak of $49 million in 2005-2006.

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

Enforcement Department, construction activity valuation is projected to continue at slightly lower levels than experienced last year: $800 million for 2012-2013, or an 11% decrease compared to $894 million in 2011-2012. This level of activity is expected to drop to $775 million in 2013-2014 and 2014-2015, and then drop slightly again to $750 million for 2016-2017 and 2017-2018. These assumptions show a slight improvement of 12% or $425 million from the levels presented in the 2013-2017 Forecast ($675 million in 2012-2013 through 2014-2015 and increased to $700 million in 2015-2016 and 2016-2017). For the largest categories, modest revenue increases are projected, including a 10% ($5 million) increase to the Building and Structure Construction Tax and an 8% ($5 million) increase to the Construction Excise Tax, due primarily to expected residential multi-family housing developments in North San José.

Fiscal Reform Plan Update

In May 2011, the City Council approved the Fiscal Reform Plan, which contained various cost savings/avoidance and revenue strategies to achieve $216 million in General Fund savings by 2015-2016. The table below provides an update, or score card, for these strategies by identifying the amount of General Fund savings for the fiscal year it was implemented or specific notes regarding the implementation status. For strategies that are not yet implemented, the potential cost savings/avoidance amount or the anticipated revenue amount for the respective fiscal year are depicted below. Please note that the lowering of the retiree pension cost-of-living adjustment from 3% to 1% is not included as the voter approved ballot measure would require a declaration of fiscal and service level emergency.

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

	Implement. Status	Not Yet Implemented 2013-2014	2014-2015	2015-2016	2016-2017	Total
Cost Reduction Strategies						
10% Total Compensation Reduction	Net $39.6M (2011-2012)					
Workers' Compensation Reform	(1)					TBD
Additional Retirement Contribution (or Opt-In)		$12.0M	$12.0M	$12.1M	$12.1M	$48.2M
Supplemental Retiree Benefit Reserve Elimination	$13.4M (2013-2014)					
Retiree Healthcare Modifications (2)	$6.5M (2013-2014)					
Tier 2 – Federated Ret. System	(3)					
Tier 3 for Unit 99 – Defined Contribution Plan	(4)					
Sick Leave Payments Upon Retirement ($6.0M)	(5)					TBD
Overtime ($1.2M)	(6)					TBD
Organ. Changes/ Efficiencies	(7)					
Subtotal Cost Red. Strategies	***$59.5M***	***$12.0M***	***$12.0M***	***$12.1M***	***$12.1M***	***$48.2M***
Revenue Strategies						
Sales Tax (1/4% - 1/2%)			$9.2M - $18.4M	$27.7M- $55.4M		$36.9M- $73.8M
Business Tax Modernization ($10.0M)						TBD
Disposal Facility Tax/Munic. Water System Tax ($7.5M)						TBD
Subtotal Revenue Strategies			***$9.2M- $18.4M***	***$27.7M- $55.4M***		***$36.9M- $73.8M***
TOTAL	**$59.5M**	**$12.0M**	**$21.2M- $30.4M**	**$39.8M- $67.5M**	**$12.1M**	**$85.1M- $122.0M**

(1) Workers' Compensation Reform includes implementation of the workers' compensation offset as part of Measure B (not yet implemented) and the Workers' Compensation Pilot Program (in progress).

(2) These savings due to the retiree healthcare modifications only include savings for non-sworn employees. Per the Memoranda of Agreements with SJPOA and IAFF, Local 230, the City and employees' retiree healthcare contributions are capped at 11.0% and 10.0%, respectively.

(3) The Tier 2 plan for non-sworn employee groups became effective on September 30, 2012. A Tier 2 Plan for Police and Fire has not yet been agreed to by those bargaining units.

(4) The Tier 3 plan for new employees in Unit 99 is effective on February 4, 2013.

(5) Sick Leave Payments Upon Retirement were eliminated for MEF, CEO, IBEW, OE#3 and for new employees for non-sworn employee groups effective September 30, 2012 (tentative with ALP).

(6) Elimination of overtime pay for management employees (Police Captain, Battalion Chief, and maintenance supervisory positions) requires negotiation with affected Bargaining Groups (SJPOA; IAFF, Local 230; AMSP).

(7) As part of the annual budget process, during the last three years, departments and services were consolidated (e.g., Public Works and General Services), lower cost service models were put in place (e.g., Police sworn civilianization and Parks Maintenance), services were outsourced (e.g., custodial, graffiti eradication, and in-state prisoner transport services), and technologies were implemented in order to gain efficiencies and reduce costs.

Next Steps in the 2013-2014 Budget Process

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

March 2013

- 2013-2014 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2013

- 2013-2014 Proposed Capital Budget and 2014-2018 Capital Improvement Program Released

April-May 2013

- Community Budget Meetings in Each City Council District

May 2013

- 2013-2014 Proposed Operating Budget and 2013-2014 Proposed Fees and Charges Released
- City Council Study Sessions and Initial Public Hearing on 2013-2014 Proposed Operating Budget, 2014-2018 Proposed Capital Budget and Capital Improvement Program, and 2013-2014 Proposed Fees and Charges

June 2013

- 2013-2014 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2013-2014 Operating Budget, 2013-2014 Capital Budget and 2014-2018 Capital Improvement Program, and 2013-2014 Fees and Charges adopted by City Council

CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. In 2013-2014, a small General Fund shortfall of $5.5 million is projected, which the Administration seeks to balance without service reductions or eliminations. In the remaining years of the Forecast, small General Fund shortfalls and a surplus ranging from -$13.7 million to $2.0 million annually are projected. These margins are very narrow when put into context of the size of the projected General Fund budget, ranging from -0.8% to 0.1% of the projected annual budget (revenues and expenditures).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document and it is important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the Forecast period, including: 1) impacts associated with the implementation of the remaining elements of the Fiscal Reform Plan (cost savings, such as retirement reform, and additional revenues); 2) outcome of the PERS Levy litigation with the County of Santa Clara; 3) costs associated with fully funding the annual required contributions for police and fire retiree healthcare; 4) costs associated with services that were funded on a one-time basis in 2012-2013; 5) costs associated with the restoration of key services to January 1, 2011 levels; 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) one time revenue sources or expenditure needs. This Forecast also does not factor in the impacts associated with the sunsetting of the Library Parcel Tax in 2014, which is budgeted in a special fund.

The revenue and expenditure projections for 2013-2014 will continue to be refined over the next several months as additional information becomes available. This is particularly important in the areas of Sales Tax and Property Tax. Sales Tax data for the second quarter of 2012-2013, which covers the 2012 holiday period, will be received in March 2013. Based on this additional data, any necessary adjustments will be incorporated into the 2013-2014 Proposed Operating Budget. Similarly, as additional Property Tax data becomes available, it may be necessary to adjust the 2013-2014 revenue estimates.

This document also provides the recommended 2013-2014 City Manager's Budget Request (Budget Balancing Strategy Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. With a projected shortfall of less than 1% of the budget, the Administration does not anticipate major service changes this year. However, in order to balance the budget and create capacity to add resources in critical areas, the organization will continue to pursue additional revenues, more efficient and cost-effective ways to provide City services, potential restructuring opportunities, and reductions that do not impact direct service delivery.

Even though overall service levels are not at adequate levels for our community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support those additions, to the extent possible. Given the projected shortfall in the second year (2014-2015) of the Forecast of $13.7 million, it would also be prudent to consider a two-year strategy when developing the budget for 2013-2014. The 2013-2014 Future Deficit Reserve of $29.4 million, along with any additional one-time funds identified in the budget development process, provides the resources necessary to implement this two-year strategy and to address critical infrastructure and service delivery needs.

Although the margins are thin, this Forecast is a positive indicator, so far, that the hard work and difficult decisions and sacrifices that have been made over the past few years are paying off. Continued focus and commitment to strategies that will get the City to stable fiscal ground in order to rebuild services and our workforce is required.

Debra Figone
City Manager

Five-Year Economic Forecast and Revenue Projections

2014-2018

Section 1

Elements of the General Fund Forecast

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three alternative Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2013-2014 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast; however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment.

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

- **Optimistic Case** – The Optimistic Case assumes a much faster and more robust recovery than currently anticipated. When compared to the Base Case scenario, the real estate market improves significantly with increases not only in the price of housing, but also the volume of home sales, out pacing the growth rates assumed in the Base Case. This housing market recovery drives growth in employment levels and inflation. This vigorous recovery results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.

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

Base Case Forecast

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

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the City Manager's 2013-2014 Proposed Operating Budget, scheduled to be published on May 1, 2013.

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

Current National Conditions

Currently, the U.S. economy is growing at a relatively subdued pace. US Gross Domestic Product (GDP) increased 2.2% in 2012, which is 0.4 percentage points higher than the 1.8% increase experienced in 2011, according to the "advance" released by the Bureau of Economic Analysis. In the fourth quarter of 2012, GDP decreased by an annual rate of 0.1%, according to the "advance" estimate, after increasing 3.1% in the third quarter. The Bureau emphasized that the fourth quarter advance estimate is based on source data that is incomplete or subject to further revision. The "second" estimate for the fourth quarter 2011, based on more complete data, will be released on February 28, 2013. The fourth quarter decrease primarily reflected negative contributions from private inventory investment, federal government spending, and exports, partly offset by positive contributions from personal consumption expenditures (PCE), non-residential fixed investment, and residential fixed investment.

Consumer confidence, as reflected by The Conference Board Consumer Confidence Index, has declined in the last two months. In January, the Index declined 8.1 points, to 58.6. This follows a decline of 6.4 points in December. According to Lynn Franco of The Conference Board, "Consumer Confidence posted another sharp decline in January, erasing all of the gains made through 2012. Consumers are more pessimistic about the economic outlook and, in particular, their financial situation. The increase in the payroll tax has undoubtedly dampened consumers' spirits and it may take a while for confidence to rebound and consumers to recover from their initial paycheck shock."[1]

Employment continues to reflect a very slow recovery from the "Great Recession" of 2009. The U.S. unemployment rate stood at 7.9% in January 2013, according to the Bureau of Labor Statistics. It has been at or near this level since September 2012. The 7.9% level shows improvement from a high of 9.6% in 2010; however, unemployment remains well above pre-recession levels of 4-5%. In order to keep up with population growth, the economy needs to generate 150,000 new jobs each month. Employment has been growing at approximately that

[1] The Conference Board, Press Release/News, January 29, 2013.

rate for the last year; however, growth of around 250,000 new jobs per month should be occurring at this point in the recovery period.

Despite the suluggish performance in these areas, there are a few bright spots in the economy including: the housing market, the auto industry, and the energy sector. The housing sector is a strong point in the recovery with both existing sales and new starts growing at strong rates. Nationwide, privately-owned housing starts in January 2013 reflected a 23.6% increase from the prior year level.[2] Existing home sales in December 2012 were also 12.8% above the December 2011 level and the preliminary annual total for existing home sales in 2012 was up 9.2% from the prior year.[3] While housing starts remain below the 1990-2007 average of 1.5 million units per year[4], the sector is showing a strong recovery and is expected to continue growing.

The National Economic Outlook

Moderate economic growth appears likely for the next two to three years, driven by growing strength in the housing market and, in the longer term, the expansion of domestic energy production, according to the UCLA Anderson Business School Forecast. Weighing on the economy, however, are economic weakness abroad, anticipated tax increases and spending cuts at the Federal level, and, in the near-term, decreases in economic output that are the result of Hurricane Sandy.

As described above, the housing sector, which had been slow to recover after the 2009 recession, is growing. The UCLA Anderson Business School Forecast anticipates that the expansion in this sector will continue into 2014. Expansive domestic fiscal and monetary policy is forcing interest rates down to historic lows, enticing millions of Americans to buy homes. This rebound in housing brings a boost to other sectors of the economy. New housing starts are particularly important to economic growth because they create construction jobs and demand for materials and components, such as appliances, many of which are domestically produced. Additionally, rising prices for existing homes also translate to economic growth, as the equity they create for homeowners provides them with greater spending power, and may make them more confident in making larger purchases.

Over the longer term, domestic energy development is expected to be a significant economic engine. According to the International Energy Agency, the U.S. will become the world's largest oil producer by 2020. Domestic natural gas production is also soaring. The new technology of hydraulic fracturing, a process by which highly pressurized water, sand, and chemicals are injected into rock, has made it possible to release hydrocarbon reserves from previously inaccessible shale formations. This has led to an energy boom in Pennsylvania and Ohio, and turned North Dakota into a leading energy producing state.[5] Industries that support oil and gas, for example the manufacture of steel pipe and drilling equipment, are also being revived. It should be noted, however, that concerns over the potential impacts of the chemicals used in the

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[2] U.S. Census Bureau and U.S. Department of Housing and Urban Development, News Release, February 20, 2013.
[3] National Association of Realtors, News Release, January 22, 2013.
[4] UCLA Andersen Forecast, December 2012.
[5] UCLA Andersen Forecast, December 2012.

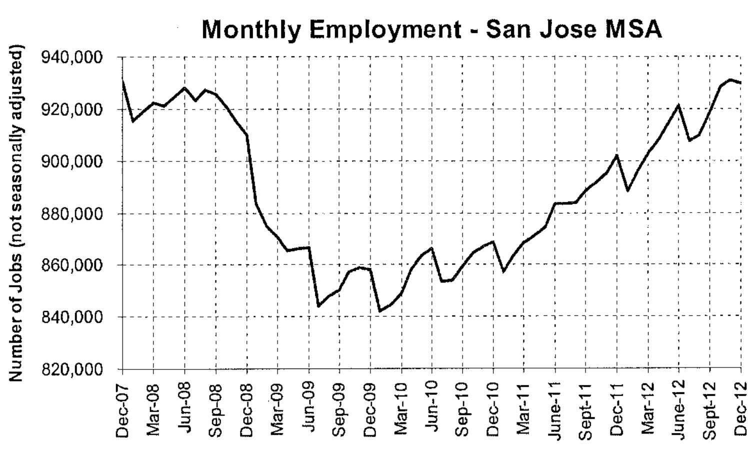
hydraulic fracturing process on groundwater and the environment may lead to regulation in the future that would limit the growth in this type of production.

The growth led by the housing and energy sectors is dampened by economic weakness abroad, anticipated tax increases and spending cuts at the Federal level, and, in the near-term, decreases in economic output that are the result of Hurricane Sandy. According to the UCLA Andersen Forecast, Europe and Japan are in recession, and growth is slowing in Brazil, China, and India, causing a slowdown in demand for U.S. exports, which up to this point have been a driver in the economic recovery. At the federal level, austerity looms, as Congress grapples with ways to reduce the federal deficit. In early January, Congress passed a bill that forestalled the impacts of the "fiscal cliff", "the expiration of previously enacted tax cuts combined with some automatic spending cuts totaling about $600 billion (about 4% of the economy) that (were) scheduled to take effect in January 2013"[6]. The bill kept the majority of tax cuts in place for the time being, and pushed the automatic spending cuts out until March. With automatic spending cuts looming again on March 2nd, and the continuing resolution on the federal budget, which has kept the federal government in operation ending on March 27th, the same questions regarding the balance between our Nation's spending, taxation levels, and deficit level will be revisited soon. It is likely that some measure of austerity will arise from the upcoming negotiations in Congress, causing a drag on the economy. ,

Current City of San José Economic Conditions

The economic performance in Silicon Valley and San José continues to show strength. In its most recent update, Beacon Economics noted that nonfarm employment growth between October 2011 and October 2012 in the South Bay area was 3.5%, which was noticeably higher than the State of California average of 2.1%. Private sector growth of 4% year over year came in even higher, than non-farm growth[7].

Data from the State of California Employment Development Department paints a similar picture. The employment levels in the San Jose Sunnyvale Santa Clara Metropolitan Statistical Area (MSA) continues to increase. The preliminary estimate of the December 2012 employment level in the MSA was 929,700, a 3.1% increase from the December 2011 level of 901,800. The employment level is now equivalent to the most the recent peak of 930,500 experienced in December 2007.



[6] The UCLA Anderson Forecast for the Nation and California, "Beyond the Cliff", December 2012.
[7] Beacon Economics, The Regional Outlook – South Bay, Quarterly Update – as posted January 16, 2012.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

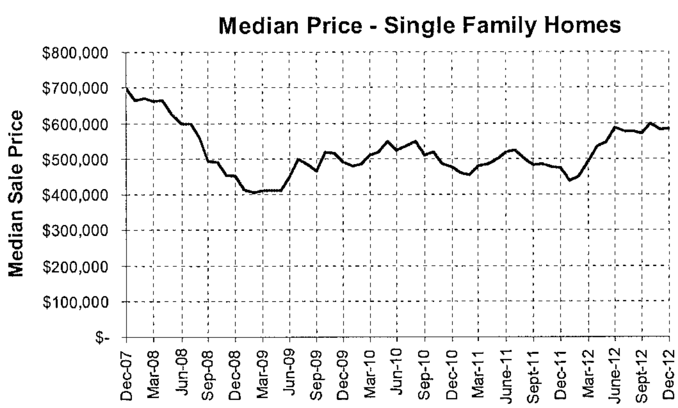
Unemployment Rate (Unadjusted)

	Dec. 2011	Nov. 2012	Dec. 2012**
San José Metropolitan Statistical Area*	8.8%	7.8%	7.6%
State of California	10.9%	9.6%	9.7%
United States	8.3%	7.4%	7.6%

* San Benito and Santa Clara Counties
Source: California Employment Development Department
** Preliminary Estimate

The unemployment rate in the MSA continues to decline, reaching its lowest point since November 2008. The preliminary December 2012 unemployment rate of 7.6% decreased from the November 2012 rate of 7.8% and is lower than the 8.8% rate experienced a year ago. The preliminary December 2012 unemployment rate in this region is less than the unadjusted 9.7% unemployment rate for the State, and is equal to that of the nation, which currently has an unadjusted unemployment rate of 7.6% as well.

Overall, construction activity remains strong in the City. Permits for 1,592 residential dwelling units have been issued since the beginning of 2012-2013, which is well above the 1,186 units issued during the same period in 2011-2012. At $128.2 million, permit valuation for commercial construction activity through January is tracking 2.5% below last year, but January 2013 was the strongest month in two and a half years ($35.3 million). Industrial permit activity is up significantly, with valuation at $137.5 million through January, compared to valuation of $75.1 million through the same period last year.



Housing prices have improved significantly since the same period in 2011. The December 2012 median single-family home price of $584,500 showed a slight decline from a recent peak of $599,000 in October 2012, but was far above the December 2011 median home price of $474,500. Cumulatively, property transfers from July through December totaled 4,171, which was up 3.4% from 4,032 transfers during the first six months of 2011-2012. The average days-on-market for single family and multi-family dwellings totaled 36 days in December 2012, reaching the lowest point since June 2006. Average days-on-market in December 2011 was 84.

Economic conditions will continue to be closely monitored and factored into the development of the 2013-2014 Proposed Budget, due to be released May 1, 2013.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

City of San José Economic Outlook

The outlook for Silicon Valley overall, and San José in particular, is positive in the near term, with growth likely to level off in the out years of this Forecast. Due to the concentration of technology firms in the Silicon Valley, this region is heavily influenced by the technology sector.

The strength in the technology sector as well as continued improvement in the housing sector are expected to grow the local economy through 2014.

In the near term, the strength in the technology industry will keep employment levels increasing. However, signs such as the exorbitant stock valuations of many startups indicate that the current technology product cycle may be over its peak. As this technology cycle, which has been defined by the emergence of mobile-social networking, recedes, employment will continue to grow, but at a more sustainable long term level. Mild rebounds in State and local government hiring, as well as construction are also expected to bolster the employment rate in the long term.

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

Additionally, in the long term, as politics and policies are developed around the Federal Budget and the U.S. debt, the residual effects are anticipated to be felt as they ripple through state and local economies. In particular, cuts in defense, which may result from the upcoming Federal Budget debates, would likely impact the local technology industry. In the out years of this Forecast, the strong growth associated with technology is anticipated to level off and growth will begin to temper.

In summary, the recovery from the economic recession is expected to continue to impact the City's economic performance in 2013-2014 and beyond. The economically sensitive revenues, such as Sales Tax and Property Tax receipts, are expected to experience moderate growth over the forecast period. The deep decline in the City's revenue collections over the past few years have continued to recover through 2012-2013 and are anticipated to grow through 2013-2014 and the out years of this Forecast.

Optimistic Case

In the Optimistic Case, the economy is assumed to rebound at a much more rapid pace than assumed in the Base Case. This growth is primarily due to a more robust rebound in housing at both the national and local levels primarily due to the continued assistance from the Federal Reserve through monetary and fiscal policy. This case reflects the continuation of historically low mortgage rates and an increase in housing construction and all ancillary economic activities associated with this activity as a result. Consistent with the growing housing market, this Optimistic Case forecasts that development activity, employment, and inflation are all well above levels assumed in the Base Case. With these higher levels, the economy will react more quickly and result in considerably higher rates of growth in revenues.

Under the Optimistic Case, the economically sensitive revenues are expected to experience much stronger performance as general increases in employment and consumer attitudes promote increased spending, which generate Sales Tax for the City. Improvement in the real estate market will result in higher Property Tax revenues. Development activity is also expected to improve as well as business tax collections and Transient Occupancy Tax receipts. Conversely, Gas taxes are slightly lower as a result of higher oil prices and continued increases in mandated fuel economy, which is anticipated to cause the number of taxable gallons consumed to fall. By the end of the Forecast period, revenues are $46.4 million above the Base Case.

Pessimistic Case

The Pessimistic Case assumes that a combination of adverse factors interact to impede the recovery underlying the Base Case. These factors include the impact of the world economy, including the current financial troubles in the European and Asian markets, and increasing weakness in housing markets as home prices both locally and nationally fall as a result of rising mortgage rates.

In the Pessimistic Case, one of the most significant changes is the anticipated impact of the world economy. This case assumes that the European economy, Japan and China all continue to face economic challenges and the potential to sink into a much deeper recession. The Japanese economy is struggling with large debt, declining prices, and falling exports with controversial fiscal and monetary policies in place which could result in a currency war. The Chinese economy continues to recover from a weak point, however, its focus on investment rather than consumption has the potential to fail and once again bring the Chinese economy to a weak point. Given the current fragile state of the U.S. economy, the effects of the status of these world markets could reverberate through the U.S. and significantly dampen growth during the forecast period.

As such, home prices are expected to fall and resale activity is forecasted to drop significantly compared to those assumed in the Base Case. The contracting national economy triggers state and local governments to lapse back into deficits, once again contracting the labor market. With the declining economy, unemployment rates are projected to increase and employment growth rates are expected to fall.

The housing market is a critical assumption in the Base Case, and this Pessimistic Case reflects lower home prices than the Base Case. It is estimated that on both a local and national level, housing prices may fall as mortgage rates rise. Aggressive monetary and fiscal policies of the Federal Reserve run a risk of producing higher inflation rates. Because mortgage rates are very sensitive to inflation rates, this case assumes an adverse affect on the housing market. With increasing mortgage rates, home sales and prices will fall. Conversely, the Base Case assumes

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

that despite this potential for a dampened market, that housing prices will see strong growth locally.

As a result of these negative impacts to the economy, revenue collections in categories such as Property Tax and Sales Tax collections are lower in this scenario than in the Base Case, driven by the lack of job creation, which slows demand for residential and commercial property and business and consumer goods. Franchise Fee and Utility Tax revenue are slightly lower and economically sensitive revenues and activities such as Transient Occupancy Tax and development activity are expected to be suppressed in this Pessimistic Case as well. Conversely, Gas Taxes are slightly up due to projected reductions in oil prices which typically results in increases in gas consumption. By the end of the Forecast period, total revenues are $59.0million below the Base Case.

Impact of Forecasted Economic Conditions on Revenue Collections

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

An in-depth analysis of the General Fund revenue categories was completed to develop 2013-2014 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2012-2013 and build upon those projections to develop the 2013-2014 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 2013-2014 Proposed Operating Budget that will be released on May 1, 2013.

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 $801.9 million in 2013-2014 to $908.6 million in 2017-2018, for an average growth rate of 3.1% per year.

February 2013 Forecast Revenue Summary

	Modified Budget	Forecast				
Revenue Category	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
General Revenues						
Property Tax	$ 202,925,000	$ 209,050,000	$ 217,809,000	$ 228,547,000	$ 240,866,000	$ 254,017,000
Sales Tax	161,270,000	166,660,000	173,843,000	180,884,000	188,770,000	196,680,000
Transient Occupancy Tax	10,100,000	10,600,000	11,024,000	11,354,000	11,694,000	12,104,000
Franchise Fees	43,625,000	43,923,000	44,885,000	45,998,000	47,341,000	48,752,000
Utiltiy Tax	90,973,000	91,895,000	93,705,000	95,776,000	98,295,000	100,861,000
Telephone Line Tax	20,525,000	20,600,000	20,600,000	20,600,000	20,600,000	20,600,000
Business Tax	42,400,000	40,700,000	40,875,000	41,047,000	41,207,000	41,355,000
Other Licenses and Permits	39,085,517	39,804,000	41,117,000	42,474,000	43,918,000	45,631,000
Departmental Charges	32,934,892	33,739,000	35,547,000	36,720,000	37,968,000	39,449,000
Fines, Forfeitures & Penalties	15,458,500	15,862,000	16,184,000	16,579,000	17,005,000	17,277,000
Money and Property	2,910,500	2,625,000	2,678,000	2,731,000	2,786,000	2,841,000
Revenue From Local Agencies	37,823,606	26,140,000	26,839,000	27,499,000	28,226,000	29,009,000
Revenue from the State	12,539,765	10,606,000	10,450,000	10,450,000	10,450,000	10,450,000
Federal Revenue	22,785,970	6,934,000	1,577,000	-	-	-
Other Revenue	121,762,920	14,955,000	15,141,000	15,380,000	15,631,000	15,905,000
Gas Tax	14,500,000	14,000,000	13,628,000	13,228,000	12,936,000	12,589,000
Total General Revenues	$ 871,619,670	$ 748,093,000	$ 765,902,000	$ 789,267,000	$ 817,693,000	$ 847,520,000
Transfers and Reimbursements						
Overhead Reimbursements	$ 32,348,979	$ 36,385,000	$ 37,586,000	$ 38,826,000	$ 40,146,000	$ 41,712,000
Transfers	20,126,726	16,734,000	17,336,000	17,647,000	18,016,000	18,489,000
Reimbursements for Services	684,579	737,000	762,000	787,000	814,000	845,000
Total Transfers and Reimbursements	$ 53,160,284	$ 53,856,000	$ 55,684,000	$ 57,260,000	$ 58,976,000	$ 61,046,000
Total General Fund Revenues	$ 924,779,954	$ 801,949,000	$ 821,586,000	$ 846,527,000	$ 876,669,000	$ 908,566,000
Beginning Fund Balance	$ 168,299,570	$ 50,800,000	$ 52,341,000	$ 53,137,000	$ 53,823,000	$ 54,707,000
Grand Total Sources	$ 1,093,079,524	$ 852,749,000	$ 873,927,000	$ 899,664,000	$ 930,492,000	$ 963,273,000
Growth %			2.48%	2.94%	3.43%	3.52%

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 2013-2014 General Fund Forecast.

Property Tax

Property Tax receipts of $204.0 million are projected for 2012-2013, which represents 1.1% growth from the prior year and is slightly above the modified budget estimate of $202.9 million. This projected increase continues the modest growth seen in 2011-2012, where actual Property Tax receipts were up 2.3% year-over-year for the first time since 2008-2009. Growth is reflected in the Secured, Unsecured, and Airplane Property Tax categories. Overall, in 2013-2014, collections are expected to continue to increase 2.5% to $209.1 million primarily due to a 2% California Consumer Price Index (CCPI) increase, which will be assessed in the Secured Property Tax category. Additional information about each of the Property Tax sub-categories is provided below.

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Secured Property Taxes account for over 90% of the revenues in this category. In 2012-2013, Secured Property Tax receipts are expected to total $186.0 million, reflecting growth of only 1.1% from the prior year. Although this slight increase marks the second year of positive performance after two years of declines in this category, estimated receipts remain below the most recent peak of $192.3 million in 2008-2009. In 2013-2014, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2013, are expected to increase by 2.5% to $190.7 million. This projected increase is related to two factors: the change in the CCPI and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2013-2014 tax roll is an increase of 2.0%, consistent with the prior year. A net increase in residential and commercial valuation is also anticipated from the combination of changes in ownership, new construction, and the partial restoration of property values that had previously been reassessed downward under Proposition 8 due to declining home values. All properties that have received a reduction under Proposition 8 do not automatically receive the 2% CCPI adjustment as these properties are assessed annually and adjusted upward or downward depending on the changes to property values. As property values increase, the property taxes can be restored up to the factored base year value. With the improvement in the real estate market, it is anticipated that some upward adjustments will be realized in 2013-2014. In calendar year 2012, residential real estate experienced gains as the December 2012 median sales price of $584,500 for single-family homes was 23% above of the December 2011 level.

It should be noted that final data on the actual tax levy for 2013-2014 is not yet available as adjustments are made through June 30, 2013. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Many of the adjustments, however, are not reflected until the latter months of a given fiscal year (April-June). The impact of reassessments of commercial property will not be known until the end of 2012-2013. As this information becomes available, refinements to the Property Tax estimates may be brought forward in the 2013-2014 Proposed Budget or during the Proposed Budget review process in May and June.

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections, receipts in this category are expected to grow to $11.5 million in 2012-2013, which is 2.7% above the prior year collection level of $11.2 million. Collections are expected to increase another 2.6% in 2013-2014 to $11.8 million based on improving business conditions and increasing employment.

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. In recent years, collections in this category had fallen significantly, due, in part, to a substantial number of refunds that were due to property owners as a result of declining home values. In 2011-2012, collections of $3.3 million experienced strong growth, but remained well below the peak of $10.1 million received in 2005-2006 and below levels seen just a few years ago (e.g., $8.0 million in 206-2007 and $7.9 million in 2007-2008). Based on the most recent estimate from the County of Santa Clara Controller's Office, receipts in this category are expected to total $3.3 million in 2012-2013, consistent with the prior year collection level. In 2013-2014, collections in this category are projected to increase 2.6% to $3.4 million.

The Homeowners Property Tax Relief category is projected at $1.1 million for 2013-2014, which is consistent with the 2012-2013 revenue estimate and 2011-2012 actual collections.

In the out-years of the Forecast, annual Property Tax performance is expected to range from growth of 4.2% in 2014-2015 to an increase of 5.5% in 2017-2018. Moderate annual growth is expected throughout the Forecast period, with a portion of this growth due to an estimated 2% CPI increase annually.

Sales Tax

The Sales Tax category includes General Sales Taxes and Proposition 172 Sales Taxes. Overall, 2012-2013 collections are expected to increase 4.9% over prior year levels to $161.5 million. In 2013-2014, year-over-year growth of 3.2% is expected, bringing the projected revenue to $166.7 million. It is important to note that the total revenue anticipated for 2012-2013 includes a number of one-time adjustments. After adjusting for those one-time payments, year-over-year growth of 2.9% is expected in 2012-2013 and additional underlying growth of 4.0% is expected in 2013-2014.

For the General Sales Tax revenue category, only one quarter of 2012-2013 data is available. Based on this limited information, year-over-year growth of 4.6% is projected in 2012-2013, resulting in collections of $156.2 million. This increase from the $149.4 million collected in 2011-2012 does factor in one-time accounting adjustments to reflect prior-year collections ($1.7 million) and the "Triple Flip" true-up payment from the State for 2012-2013 ($1.4 million). Excluding those adjustments, the 2012-2013 estimate reflects actual growth of 6.4% in the first quarter and projected underlying growth of 3% in the remaining three quarters based on recent sales tax performance and current economic conditions. With continued improvement in the economy, sales tax growth is expected to continue.

For 2013-2014, the General Sales Tax revenue projection of $161.2 million assumes moderate growth of 4.0% in taxable sales from 2012-2013 levels. Because there are again one-time accounting adjustments to reflect prior-year collections and the "Triple Flip" true-up payment from the State in 2012-2013 that are not reflected in 2013-2014, as discussed above, the year-over-year growth in 2013-2014 is estimated to be approximately 3.2%. To put the 2013-2014 estimate into perspective, the projected revenue of $161.2 million is only $3.1 million (1.9%) below the peak collections of $164.3 million collected in 2000-2001, bringing revenues above pre-recession levels and close to levels seen during the dotcom boom.

The Sales Tax revenue projections for 2012-2013 will continue to be refined over the next couple of months as additional information becomes available. Sales Tax data for the second quarter of 2012-2013, which covers the 2012 holiday period, will be received in March 2013. Based on this additional data, any necessary adjustments to the estimate will be incorporated into the 2013-2014 Proposed Operating Budget.

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total $5.3 million in 2012-2013, which represents a 13.5% increase from the prior year collections of $4.7 million based on activity through the first seven months of 2012-2013. In 2013-2014, collections are projected to increase 4.0%, to $5.5 million.

Transient Occupancy Tax

Currently Transient Occupancy Tax (TOT) receipts in 2012-2013 are projected to reach $10.1 million, reflecting an increase of 12.4% from the 2011-2012 collection level. Current year receipts mark the third year of growth in this category which is in stark contrast to prior year declines of 11.5% and 18.5% in 2009-2010 and 2008-2009, respectively. Despite the renovation and expansion construction activity at the Convention Center and the expected adverse impact on those hotels most reliant on convention-related business, the hotel industry continues to experience a period of strong growth with increases in occupancy levels and average daily room rates. Projected 2012-2013 receipts exceed the pre-recession level of $9.6 million collected in 2007-2008 by approximately 5.2%.

In 2013-2014, growth of 5.0% from the 2012-2013 estimate is anticipated which allows for the stabilization of the current high level of growth and allow for potential disruption associated with the ongoing Convention Center renovation and expansion project. Over the five year forecast period, revenues are anticipated to grow steadily at 3% to 4%, however, it is important to note that no assumption for additional room capacity is included in this forecast. If additional hotel rooms are added to the City's inventory, additional TOT revenues should be generated. By 2017-2018, collections are projected to reach $12.1 million, which is above pre-recessionary levels as well as above the level seen in 2000-2001 ($10.9 million) during the dotcom boom. The completion of the Convention Center renovation and expansion project, which will add 125,000 square feet of new flexible space, as well as improvements to the existing space, in late 2013, is expected to drive additional room night activity in the market.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at $43.7 million in 2012-2013, an increase of 4.7% from prior year receipts of $41.7 million. The projected increase in 2012-2013 is due to higher collections in the Commercial Solid Waste category, reflecting the new methodology for assessing this fee effective July 1, 2012. In 2013-2014, Franchise Fees are expected to increase 0.6% to $43.9 million due to growth in the Water (5.1%) and Electric (2.0%) categories, partially offset by declines in Gas (-4.9%).

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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 2012-2013 are based on the calendar year 2012). Year-end estimates are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories. When comparing 2011 and 2012 calendar year Utility Tax Receipts, Gas receipts showed a decline of approximately 5% and Electric receipts remained flat. The reconciliation of annual receipts from PG&E for 2012-2013 will be received in April 2013.

In the Electric Franchise Fee category, collections in 2012-2013 are expected to reach $18.2 million, which is flat compared to actual receipts in 2011-2012 and consistent with the actual Electric Utility Tax receipts in calendar year 2011 compared to 2012. In 2013-2014, growth of 2.0% from 2012-2013 estimates is anticipated reflecting a California Public Utilities Commission approved rate increase of 2.6% effective January 2013. It should be noted that due to the uncertainty regarding the outcome of rate cases, no rate increases associated with any pending rate cases have been assumed.

In the Gas Franchise Fee Category, the 2012-2013 estimated collections of $4.2 million reflect a 4.0% decline from the $4.4 million received in the prior year. This decline primarily reflects a decline in gas prices, consistent with information from PG&E and with calendar receipts of Utility Users Gas Tax in 2011 compared to 2012. In 2013-2014, Gas Franchise Fee collections are projected to decline further by 5% based on the assumption that costs and consumption will continue to decline. It should be noted that due to the uncertainty regarding the outcome of any rate cases, no rate increases associated with pending rate cases have been assumed in 2013-2014.

In City Generated Tow, revenues are growing compared to prior year levels and are estimated to reach $875,000 in 2012-2013, an increase of 13.7% from the $770,000 received in 2011-2012. Collections are anticipated to dampen slightly in 2013-2014 with a decline of 2.9% to reflect the continued change in procedures by the Police Department, which reduced the number of tow and impounds for persons with violations that are not related to serious driving offenses.

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of $11.0 million in 2012-2013, a 14.7% increase from the prior year collections ($9.6 million) reflecting the new methodology for assessing this fee that became effective July 1, 2012. On October 19, 2010 the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The new fee structure is $5 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District. This revised structure is subject to an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years. It should be noted that this increase is not automatic; therefore, the 2013-2014 estimate currently assumes no growth from 2012-2013 as City Council approval of a rate increase will be required.

Remaining categories, including Cable, Water, and Nitrogen Gas Pipeline, are estimated to end the year at $9.3 million, which is slightly above ($505,000) budgeted levels of $8.8 million. Activity levels in 2013-2014 are expected to increase slightly compared to 2012-2013 levels, with 1.4% growth in Cable (to $9.1 million), 5.1% growth in Water (to $289,000), and no growth in the Nitrogen Gas Pipeline ($55,000) categories. Increases are anticipated due to estimated changes in consumption levels as well as rates.

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase from 2.2% to 3.0% annually. Over the next five years, however, it should be noted that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels. In addition, the City's current Cable Franchise Fee agreement is scheduled to sunset in 2016.

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2012-2013 are anticipated to total $90.2 million, representing a slight decrease of 0.3% from the 2011-2012 collection level. A portion of this decrease from the prior year is the result of a one-time settlement of $1.6 million from PG&E received in 2011-2012. This settlement corrected for underpayments and related penalties and interest of Gas and Electric franchise fees, surcharges and utility users taxes from January 1, 2007 through December 21, 2010 that were not coded as San José properties in PG&E's billing system. After adjusting for this one-time settlement, 2012-2013 revenues are estimated to increase 1.5% from prior year levels. This 1.5% growth reflects approved rate increases for Water (5% increase in July 2012) and Electric (2.6% effective January 2013), declines in the Gas Utility Tax category, and changes in consumption levels.

In 2013-2014, Utility Tax collections are projected to increase 1.9% to $91.9 million. Overall, a number of proposed rate cases have been filed that would affect electricity, gas, and water rates and consequently revenues. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases. Rate cases will continue to be monitored and adjustments will be bought forward as appropriate based on the final outcomes.

The Electricity Utility Tax is anticipated to generate $39.4 million in 2012-2013, a 0.8% increase from prior year levels. Estimated current year collections reflect the average 2.6% rate increase effective January 2013 as well actual collection trends. In 2013-2014, revenues are estimated to increase 2.0% to $40.2 million based on the annualization of the January 2013 rate increase with minimal changes in anticipated consumption levels. Gas Utility Taxes are anticipated decline to $8.0 million in 2012-2013, a 9.0% decrease from 2011-2012 levels, based on current collection trends. This decline is consistent with information from PG&E on the drop in gas prices. In 2013-2014, revenues are anticipated to increase by approximately 1% to $8.1 million. The PG&E gas rate projections for 2013 do show some expected growth in the average bills in the latter part of 2013. Actual collections continue to be subject to significant fluctuations from the impact of weather conditions and/or rate changes, as such no assumptions for changes due to rate cases are included and revenues will be monitored closely for projected performance.

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Water Utility Tax receipts of $10.9 million are anticipated to be received in 2012-2013, a 13.9% increase from 2011-2012. This growth reflects approved rate increases, including a 5% rate increase in January 2012 and a 5% increase July 2012. In 2013-2014, receipts are expected to increase 5.0% to $11.4 million based on the rising wholesale price of water. No change in consumption levels is assumed. It should be noted that a significant rate case is under review by the Public Utilities Commission and no assumption for these proposed increases are assumed for 2013-2014.

In the Telephone Utility category, revenues are collected on landlines, wireless, and VoIP. Based on current tracking, receipts in 2012-2013 are anticipated to reach $31.9 million, a 1.6% increase from 2011-2012. In 2013-2014, revenues are estimated to increase an additional 1.0% to $32.2 million based on collection trends in recent years.

In the out years of the Forecast, growth ranging from 2.0% to 2.6% annually is expected in the Utility Tax category. As discussed above, there is significant volatility and uncertainty regarding the performance in this category based on outstanding rate cases as well as consumption levels. The Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts in both 2012-2013 and 2013-2014 are anticipated to total $20.6 million, which is very close to the collection levels seen since 2009-2010. Given the steady nature of collections in this category, receipts are anticipated to remain flat in the out years of the Forecast for this category.

Business Taxes

This category includes General Business Tax, Disposal Facility Tax, Cardroom Tax, and Marijuana Business Tax. In 2012-2013, Business Taxes are estimated to reach $42.6 million, a 3.6% increase from prior year levels. This increase is primarily due to higher than anticipated Cardroom Tax receipts (7.1% increase) as well as Marijuana Business Tax (4.4%) and General Business Tax (1.9%). In 2013-2014, revenues are estimated to decrease 4.5% to $40.7 million due to a decrease in Disposal Facility Tax as well as the normalization of one-time activities in the current year for both General Business Tax and Cardroom Tax.

In 2012-2013, General Business Tax proceeds are expected to reach $11.5 million, a 1.9% increase from the prior year level of $11.3 million. This positive collection trend reflects the gradual economic recovery, efforts by the Finance Department to maximize the receipt of this tax, and the early results of the City Council approved Business Tax Amnesty Program. As part of the Amnesty Program, a business owner may file a request for amnesty between December 1, 2012 and March 29, 2013. An extension to this program is recommended for City Council consideration on March 5, 2013 and, if approved, would extend the program to May 31, 2013. In 2013-2014, a decline of 1.7% to $11.3 million is projected and reflects the elimination of the one-time revenues generated by the Amnesty Program and remains consistent with the historical trend. Once the ongoing results of the Amnesty Program are known, any necessary revenue estimate adjustment will be brought forward as part of the 2013-2014 budget process.

Based on current performance, collections in the Cardroom Tax category are estimated at $16.0 million in 2012-2013, an increase of 7.1% from the prior year collection level ($14.9 million). This increase primarily reflects a spike in activity resulting from the opening of Casino M8trix in August 2012. Though this accounts for the majority of the upward growth in the current year, the continued economic recovery is also a contributing factor in the additional activity. In 2013-2014, a decline of 3.1% from 2012-2013 is anticipated, normalizing the spike in activity for the opening of M8trix. When compared to 2011-2012 receipts that did not have these one-time impacts, estimated 2013-2014 collections of $15.5 million reflect growth of 3.7%.

In the Disposal Facility Tax category, collections are estimated at $11.2 million in 2012-2013 based on current collection trends, which assumes no growth from prior year collection levels. Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream varies due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. In recent years, revenues in this category have declined due, in large part, to increased waste diversion and the overall slowdown in the economy. In 2012-2013, receipts have been tracking to meet or slightly exceed the prior year collection level. However, improvements in the processing of waste for the commercial program are expected to reduce DFT collections beginning in the second half of 2012-2013. The commercial program represents approximately 10-15% of total DFT associated waste. To account for the potential impact of this change as well as the historical downward trend in this category, the 2013-2014 revenue estimate of $10.0 million allows for a decline of 10.7% from the projected 2012-2013 collection level.

On November 2, 2010, San José voters approved Ballot Measure U, which allows the City to tax all marijuana businesses (medical and non-medical; legal and illegal) at a rate of up to 10% of gross receipts. The City Council approved a 7% rate and the tax became effective on March 1, 2011. In 2012-2013, collections are anticipated to reach $3.9 million, reflecting growth of 4.4% from the prior year collection level. As a result of the continued uncertainty surrounding this tax and the Marijuana Regulatory Program, 2013-2014 estimates are anticipated to remain flat at the prior year level until more information is known.

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

Licenses and Permits and Departmental Charges

The Licenses and Permits and Departmental Charges categories contain fees and charges collected by various departments. The most significant revenue sources are development-related fees. Revenue collection levels are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. In 2013-2014, the Licenses and

Permits category is estimated at $39.8 million and the Departmental Charges category is estimated at $33.7 million.

For 2013-2014, the development-related revenues are expected to continue the strong performance experienced in the past two years. In cases where the development-related costs are projected to exceed revenues, there are sufficient earmarked program reserves to bring projected revenues and expenditures into alignment for a net-zero General Fund impact. For 2013-2014, the Building Fee Program and Planning Fee program expenditures are projected to exceed the base revenue estimates. This Forecast assumes that Fee Program Reserves will be used to address these shortfalls as outlined in the Ending Fund Balance section of this document. In the Fire and Public Works Development Fee Programs, revenues are projected to exceed the base program costs; and, for purposes of this Forecast, the revenues in these programs have been set at the base cost level. Budget actions will be brought forward in each of these fee programs to maintain cost-recovery and ensure resources are available to address service needs.

For the non-development-related fees and charges, the 2013-2014 estimates are based on current collection trends. In the out years of the forecast, both the Licenses and Permits and Departmental Charges categories are expected to experience growth ranging from 3.3% to 5.4%. The growth rates in the out years are tied to the expected increases in costs which the fees are designed to recover, including increased retirement and health costs.

Fines, Forfeitures and Penalties

In 2012-2013, the Fines, Forfeitures and Penalties category is expected to generate $15.0 million. The largest component of this revenue category is Parking Fines, which are currently expected to generate approximately $9.8 million in 2012-2013, a decrease of 17.2% from the 2011-2012 receipts of $11.8 million. In the 2012-2013 Adopted Budget, it was assumed that Parking Fine revenues would decline to $11.0 million as a result of the transition of parking compliance officers that were transferred from the Airport Department to the Transportation Department. The actual reduction has been much larger than anticipated due to more significant impacts of training and transition, a reduction in activity in neighborhoods around the HP Arena due to the delayed hockey season, and a higher level of staff absences. Given the temporary nature of some of these impacts, Parking Fines revenues are expected to improve in 2013-2014 with collections estimated again at $11.0 million, which is below recent actual levels. Total revenue in 2013-2014 is estimated at $15.9 million in the Fines, Forfeitures, and Penalties category. In the out years of the Forecast, annual growth of approximately 1.6% to 2.6% is projected.

Money and Property

This category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, and interest income and is projected to generate $2.6 million in 2013-2014. Of this amount, $2.1 million is expected to be generated from the rental of City-owned facilities. An additional $250,000 is projected from subrogation recovery efforts and $299,000 is projected from various interest earnings. For the General Fund portion of pooled funds, the 2013-2014 estimate for interest earnings assumes an average interest rate of only 0.33% applied to an average cash balance of approximately $50 million for a total collection level of $175,000. In the out years of the Forecast, approximately 2.0% growth annually is assumed.

Revenue from Local Agencies

In 2013-2014, revenue of $26.1 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency, the Central Fire District, and the County of Santa Clara to reimburse the City for services provided. This is significantly lower than levels in the 2012-2013 Modified Budget due to a number of one time payments from various grants.

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

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. For 2012-2013, Central Fire District payments are expected to end the year at $4.9 million based on information from the Central Fire District staff, reflecting a 6.1% increase from the prior year. In 2013-2014, collections are projected to increase 2.5%, to $5.0 million, consistent with the increase in Secured Property Tax assumed in this forecast.

In 2013-2014, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed to total $2.2 million. In addition, payments of $2.5 million from other local agencies are expected to reimburse the City for the Police Department CAL-ID and SB 720 program.

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately 2.5% to 2.8%.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach $10.6 million in 2013-2014 and decline to $10.5 million in 2014-2015 through 2017-2018. Tobacco Settlement payments, which are estimated at $9.0 million in 2013-2014 and the remaining years of the Forecast, account for the majority of revenue in this category.

The following State grants and reimbursements are expected in 2013-2014: Abandoned Vehicles Abatement Program ($500,000); Auto Theft reimbursement ($370,000); Highway Maintenance Charges reimbursement ($105,000); Planning Grants Planner ($82,000); and California Gang Reduction, Intervention and Prevention (CALGRIP) Grant ($74,000). Vehicle License Fees

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Collection In Excess are also estimated at $475,000 annually and account for the Vehicle License Fee revenues that are collected by the Department of Motor Vehicles as a result of certain compliance procedures are equally apportioned to counties and cities on a population basis.

Adjustments to the grant amounts are reflected in the remaining years of the Forecast. A net decrease of $156,000 is expected in 2014-2015 to reflect the elimination the following grants which are set to expire in 2013-2014: the Planning Grants Planner and CALGRIP Grants. No annual growth is projected in the remaining three out years of the Forecast.

Revenue from the Federal Government

The Revenue from the Federal Government category, including the American Recovery and Reinvestment Act (ARRA) revenue, consists of grant revenues. The following grants are anticipated in 2013-2014: Staffing For Adequate Fire & Emergency Response Grant 2011 (SAFER) ($4.1 million); Community Oriented Policing Services (COPS) Hiring Grants ($2.6 million); Community Based Violence Prevention OJJDP Grant ($100,000); Clean Creeks and Healthy Community Grant ($93,000); and National Forum Capacity-Building Grant OJJDP 2012-2015 ($63,000).

Adjustments to these grant amounts are reflected in the remaining years of the Forecast. In the out years of the Forecast, only the SAFER 2011 grant ($1.1 million), the COPS 2011 Hiring Grant ($406,000), and the Clean Creeks and Healthy Community Grant ($93,000) are assumed in 2014-2015. All other grants are anticipated to sunset in 2013-2014.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including proceeds from the Sale of Surplus Property, cost reimbursements for the Investment Program, and Arena Rental, Suite, Parking, and Naming revenues. In 2012-2013, this category is expected to generate $122.8 million. The 2012-2013 estimate includes $100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits. Factoring out the TRANs issuance, 2012-2013 collections for this category are estimated to total $22.8 million.

In 2013-2014, the revenue estimate of $15.0 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2013-2014 costs or agreements and the elimination of one-time funding sources. This figure excludes revenues associated with the issuance of the TRANs that will be brought forward in 2013-2014 with an offsetting expenditure based on estimated cash flow needs. It also excludes a one-time sale of property of $5.0 million for the sale of 14.5 acres to the Earthquakes, LLC.

In 2013-2014, the proceeds from the Sale of Surplus Property category has been set at $1.3 million based on the anticipated assets that will be sold next fiscal year and is slightly down from the $1.4 million assumed in the 2012-2013 Adopted Budget. The cost reimbursement for the Investment Program is estimated at $2.4 million based on the current allocation of staff to this function. In addition, $5.3 million is projected from Arena Rental, Suite, Parking, and Naming revenues.

In the out years of the Forecast, annual increases range from 1.2% to 1.8%. According to the contract with the San Jose Arena Management, the Arena Parking revenue is scheduled to end in 2012-2013 and the Arena Naming revenue is schedule to end in 2014-2015. In this Forecast, it is assumed that the contract for these items will be extended and these revenues will continue through the full five years of this forecast.

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2012-2013 are projected to reach $14.0 million, a drop of 4.7% from the prior year level of $14.7 million. Collections are expected to remain flat at $14.0 million in 2013-2014. In recent years, revenues in this category have declined. Several factors may have impacted collections, including volatile gas prices, the lingering impacts of the economic downturn, and a move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In the out years of the Forecast, collections are expected to decline by between 2.2% and 2.9% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2013-2014, a total of $36.4 million in reimbursements are projected based on 2013-2014 overhead rates prepared by the Finance Department applied against the projected 2013-2014 salaries for those positions for which an overhead rate is applied.

In the remaining years of the Forecast, annual increases ranging from 3.3% to 3.9% are assumed, reflecting increases in costs which the overhead rate is designed to recover, including increased personal services costs.

Transfers

The Transfers category is projected at $16.7 million in 2013-2014, which reflects a drop from the $20.2 million anticipated in 2012-2013, primarily due to the elimination of one-time transfers in 2012-2013. The largest component of this category ($9.0 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs. In 2013-2014, these reimbursements have been set to cover the base 2013-2014 costs. As discussed in an information memorandum to the City Council dated September 24, 2012, it should be noted that contingent on an extension of the SAFER 2010 period of performance, the Administration has developed a strategy that would allocate the $2.4 million of SAFER 2010 grant reimbursement that is expected to be received in 2013-2014 towards the estimated $2.6 million cost differential between providing the Fire services in-house and contracting out those services ($2.3 million) during the 16-month period in which the Fire Department would continue to provide services. This use of the $2.4 million grant reimbursement for this purpose will not impact the General Fund Forecast as these grant funds were not assumed to be received in 2013-2014. It is anticipated that the Administration will incorporate this strategy into the 2013-2014 budget development process as appropriate.

Additional large transfers programmed for 2013-2014 include the Construction and Conveyance Tax Fund transfer ($2.9 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($1.8 million) for pavement maintenance activities; and the Workforce Investment Act Fund transfer ($528,000) for use of various community centers and Workforce Investment Act program services.

Annual increases in the out years range from 1.8% to 3.6%. The reimbursement from the Airport Maintenance and Operations Fund for police and fire services is expected to increase in the out years based on the increased costs for those services.

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2013-2014 of $737,000. In the remaining years of the Forecast, annual increases are expected to recover the projected cost increases.

Beginning Fund Balance

The $50.8 million forecast estimate of available 2013-2014 Beginning Fund Balance is based on the following assumptions:

- The 2013-2014 Contingency Reserve, $29.3 million, is projected at the current level based on the assumption that this amount will not be used in 2012-2013 and will be carried over to 2013-2014. This reserve level complies with the City Council policy to maintain a minimum 3% Contingency Reserve. The Contingency Reserve is approximately enough to cover General Fund payroll costs for one pay period or two and one-half weeks.

- A total of $18.5 million in fund balance will be achieved from a combination of excess revenues and expenditure savings ($16.0 million) as well as the liquidation of prior-year carryover encumbrances ($2.5 million). As part of the 2012-2013 Mid-Year Budget Review actions, $12.0 million of the excess revenues ($7.6 million) and expenditure savings were ($4.4 million) were identified and set aside in a 2012-2013 Ending Fund Balance Reserve to meet a portion of this fund balance estimate. Based on General Fund performance through January, it is anticipated that the remaining $4.0 million needed for the ending fund balance will be determined and recommended as part of the year-end clean-up memorandum. The liquidation of prior-year carryover encumbrances in 2012-2013 are tracking to meet the $2.5 million estimate.

REVENUE FORECAST

- An additional $2.5 million from the Building Development Fee Program Reserve and $436,000 from the Planning Development Fee Program Reserve has been identified in the fund balance estimate to cover 2013-2014 costs associated with these programs, and $53,000 from the Wellness Program Reserve is included to support Wellness Program costs programmed in 2013-2014.

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue of 1.0% and expenditure savings of 1.5% would be generated annually; that the Contingency Reserve of $29.3 million would be carried over each year; and the use of the Building and Planning Fee Program Reserve would continue in the out years to support development fee projected program costs in excess of revenues. This Contingency Reserve level in the out years of the Forecast complies with the City Council approved policy to maintain a minimum 3% Contingency Reserve level. In total, the Beginning Fund Balance ranges from $52.3 million in 2014-2015 to $54.7 million in 2017-2018.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

An in-depth analysis of the General Fund expenditure categories was completed to develop the 2013-2014 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2013-2014 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $858.2 million in 2013-2014 to $991.3 million in 2017-2018, for an average growth rate of 3.7% per year.

February 2013 Forecast Expenditure Summary

	Modified Budget	Forecast				
Expenditure Category	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Personal Services						
Salaries and Other Compensation	$ 365,995,898	$ 365,707,000	$ 375,250,000	$ 384,671,000	$ 394,180,000	$ 403,924,000
Retirement	187,128,582	211,496,000	228,740,000	233,980,000	242,911,000	256,648,000
Health and Other Fringe Benefits	49,908,532	53,821,000	59,842,000	66,764,000	73,147,000	80,141,000
Total Personal Services	$ 603,033,012	$ 631,024,000	$ 663,832,000	$ 685,415,000	$ 710,238,000	$ 740,713,000
Total Non-Personal/Equipment	$ 89,923,935	$ 81,970,000	$ 83,348,000	$ 84,194,000	$ 86,226,000	$ 88,225,000
City-Wide						
City-Wide Expenses	$ 232,157,363	$ 81,130,000	$ 79,618,000	$ 79,251,000	$ 82,908,000	$ 87,552,000
Capital Projects	16,559,000	6,050,000	6,718,000	6,713,000	6,716,000	6,716,000
Transfers	29,008,552	26,085,000	26,596,000	27,253,000	28,971,000	30,226,000
Earmarked Reserves	93,088,662	600,000	600,000	600,000	600,000	750,000
Contingency Reserve	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000
Total City-Wide	$ 400,122,577	$ 143,174,000	$ 142,841,000	$ 143,126,000	$ 148,504,000	$ 154,553,000
Committed Additions						
New Parks and Recreation Facilities Maint. & Operations		$ 51,000	$ 331,000	$ 560,000	$ 795,000	$ 862,000
New Police Maintenance & Operations		336,000	399,000	413,000	326,000	340,000
New Traffic Infrastructure Assets Maint. & Operations		31,000	56,000	83,000	108,000	136,000
Measure O (Library) Maint. & Operations				648,000	725,000	742,000
Measure P (Parks) Maint. & Operations				50,000	87,000	81,000
Measure O (Public Safety) Maint. and Operations - Fire			8,000	24,000	3,026,000	3,146,000
Measure O (Public Safety) Maint. & Operations - Police		1,616,000	2,253,000	2,303,000	2,355,000	2,405,000
Total Committed Additions		$ 2,034,000	$ 3,047,000	$ 4,081,000	$ 7,422,000	$ 7,712,000
Total Base Exp. w/ Committed Additions	$ 1,093,079,524	$ 858,202,000	$ 893,068,000	$ 916,816,000	$ 952,390,000	$ 991,203,000
Growth %			4.1%	2.7%	3.9%	4.1%

It is important to note that adjustments are made to the Forecast to eliminate one-time additions/deletions and annualize partial year allocations that were included in the 2012-2013 Adopted Budget. Various one-time additions totaling $5.2 million that are scheduled to expire in June 2013 include funding for San José BEST Program; Medical Marijuana Program; Economic Development Incentive Fund; City Attorney legal support staffing, Senior Transportation Services; Fiscal Reform Plan staffing; Senior Services and Wellness Program support; City Clerk staffing; Safe Summer Initiative; Independent Police Auditor staffing; Volunteer Engagement; Neighborhood Business Districts; Fair Swim Center Program; and Silver Creek Aquatics Program. Many of these programs and services will likely need to be re-evaluated for continued funding in 2013-2014. This analysis will be conducted during the 2013-2014 budget process and funding recommendations for these programs and services, will be included in the 2013-2014 Proposed Operating Budget, as appropriate, and in context of other budgetary needs. A listing of the one-time funded services is included in *Appendix A.*

EXPENDITURE FORECAST

This Forecast assumes that the General Fund will assume the full costs for expenditures related to the Staffing for Adequate Fire and Emergency Response (SAFER) Grants and Community Oriented Policing Services (COPS) Grants after the expiration of grant funding. This includes expenditures related to the SAFER 2010 Grant totaling $8.0 million for 49 Fire Fighter positions starting in 2013-2014 and the SAFER 2011 Grant totaling $3.1 million for 27 Fire Fighter positions starting in 2014-2015 ($4.2 million annually). General Fund expenditures for the 2010 COPS Grant total $2.9 million for 16 Police Officers starting in 2014-2015 and 2011 COPS Grant expenditures total $568,000 for three Police Officers starting in 2015-2016. Without the continuation of these positions, significant service level reductions would occur.

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 (2013-2014) projection for personal services costs in this Forecast has been calculated at a detailed level. An extract of payroll system information as of August 2012 was used as the starting point. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, accurate salary step status, as well as any position reallocations. Also, 2012-2013 ongoing position reductions (cost savings) and additions (cost increases) were annualized and all categories of benefit costs in the coming year were projected. In January 2013, the most recent retirement plan and health plan information for each position was also updated from the payroll system.

For the 2013-2014 General Fund Forecast, personal services costs continues to account for approximately three-quarters of the General Fund's total costs. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $631.0 million projected personal services total for 2013-2014, salaries and other compensation costs amount to $365.7 million (58.0% of projected personal services), retirement costs amount to $211.5 million (33.5% of projected personal services), and health and other fringe benefits costs amount to $53.8 million (8.5% of projected personal services). Growth in retirement costs and other personnel cost components (e.g., scheduled non-management step increases, management pay for performance, health and other fringe benefits) continue to impact personal services costs and are the primary factor for the expenditure growth in this category. In addition, a small employee compensation planning reserve has been assumed in this Forecast to set aside funds for potential limited salary adjustments.

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

ELEMENTS OF THE GENERAL FUND FORECAST

expected growth from salary and benefit cost increases. For this Forecast, the out years are projected to inflate at a composite rate of approximately 4.1%.

Salaries and Other Compensation:

Salary step increases for current non-management employees and pay for performance for management employees for 2013-2014 is projected at $3.2 million, or an increase of 0.51%. With the exception of employees represented by the POA and IAFF, non-management step increases have been calculated at a 2.5% step increase rate. For POA and IAFF, a 5% step increase rate was applied in this forecast. The out years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

Overtime expenditures in the General Fund total $19.1 million for 2013-2014, with the majority of the expenditures for Police Department ($12.1 million) and Fire Department ($5.2 million) operations. The out years of the Forecast continue these costs, with small adjustments for salary step growth.

An employee compensation planning reserve is included in this Forecast ($11.1 million) in order to set aside funds for potential limited salary adjustments. This reserve allocation, representing only a modest amount of funding, would require City Council labor negotiations direction and discussions with the City's bargaining groups before any form of distribution could be made. How this allocation would be applied, if it remains funded, has not been determined.

Retirement:

For 2013-2014, retirement costs total $211.5 million for the General Fund assuming the pre-payment of the City's Annual Required Contribution (ARC) for the Federated Retirement System Tier 1 plan as well as the Police and Fire Department Retirement Plan. This amount, which is an increase of $24.4 million from the 2012-2013 Modified Budget of $187.1 million, represents 24.6% of the total General Fund base expenditure budget. Based on the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions, of the $211.5 million of the General Fund's annual required contribution (ARC) for pension and retiree healthcare, $72.8 million is projected to be paid to the Federated Retirement System ($68.7 for Tier 1 and $4.1 million for Tier 2) and $138.1 million to the Police and Fire Department Retirement Plan ($86.1 million for the Police Retirement Plan and $52.0 million for the Fire Retirement Plan). Effective September 30, 2012, as approved by the City Council, the City provides for a lower defined benefit plan (Tier 2) for new employees, who are members of the Federated Retirement System, than for existing employees (Tier 1).

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

In 2010-2011, the Retirement Boards adopted an annual required contribution methodology, which requires the City to pay a minimum ARC or a percentage of payroll, whichever is greater. With this ARC funding methodology, if the City's pensionable payroll amount changes due to staffing reductions or vacancies, the City's retirement cost will not change unless the City's ARC is based on a percentage of payroll. Due to the independently estimated payroll projections by the Retirement Boards' actuary and the City Manager's Budget Office, the City calculations for the City retirement contributions for the Federated Retirement System Tier 1 plan and the Police and Fire Department Retirement Plan are based on the minimum ARC as required by the Boards or the ARC based on Board approved percentage of budgeted payroll as calculated by the City Manager's Budget Office, whichever is greater. Please note that in November 2012, the Federated Retirement System Board approved that for the Federated Retirement System Tier 2 plan, the City's contribution shall only be based on a percentage of payroll.

In comparison to the February 2012 Forecast for the 2013-2014 retirement cost projections, the 2013-2014 retirement costs experienced a slight decrease of $3.6 million from $215.1 million to $211.5 million primarily due to retirement cost decrease for the Federated Retirement System offset with an increase to the Police and Fire Department Retirement Plan. The overall decrease is primarily due to structural retirement cost changes for both plans through the elimination of the Supplemental Retiree Benefit Reserve (SRBR) and the approval of a Low Cost/High Deductible Health Care Plan for retirees, partially offset with a higher budgeted payroll than assumed by the Boards' actuary. For the Police and Fire Department Retirement Plan, the retirement cost reductions due to these structural changes were also offset by the lowering of the interest earnings assumption for this plan from 7.5% to 7.25% as approved by the Police of Fire Department Retirement Plan Board in December 2012.

In June 2012, the voters approved Measure B, which included the elimination of the SRBR. The City Council approved an ordinance change to eliminate the SRBR for both the Federated Retirement System and the Police and Fire Department Retirement Plan on December 4, 2012 and January 29, 2013, respectively. The SRBR in the respective retirement plans provided for supplemental benefits to retirees which were derived from plan "excess" earnings. When the plans actual investment returns exceeded the expected returns, a portion of these "excess" returns was transferred into the SRBR for later distribution as a supplemental benefit. This transfer also took place even when the plans were underfunded. Through the elimination of the SRBRs, the City's contribution amount and rate were reduced. Specifically, for the Federated Retirement System Tier 1 plan, the City's ARC for the General Fund was reduced by $4.4 million ($9.2 million all funds) from $59.0 million to $54.2 million based on the 2013-2014 Forecast budgeted payroll; and for the Police and Fire Retirement Plan, the City's ARC for the General Fund was

EXPENDITURE FORECAST

reduced by $8.6 million from $129.4 million to $120.8 million based on the 2013-2014 Forecast budgeted payroll. It should be noted, though, that the reduction of the City's ARC for 2013-2014 due to the City Council's elimination of the SRBR for the Police and Fire Department Retirement Plan is pending final approval of the Police and Fire Department Retirement Board. This Forecast assumes that the Board will approve the reduction in the coming months.

In June 2012, the City Council approved a low cost/high deductible healthcare plan for employees and retirees effective December 23, 2012. Additionally, effective July 1, 2012, Federated Retirement System members are required to enroll in Medicare A and B supplemental plans at the age of 65. With these healthcare plan modifications, the projected City and employees combined Federated Retirement System retiree healthcare rate previously forecasted for 2012-2014 as of February 2012 was reduced by 7.55 percentage points from 30.22% to 22.67%. For the City, the 2013-2014 projected contribution rate decreased by 4.9 percentage points from 16.8% to 11.9%. In comparison to the February 2012 Forecast for 2013-2014 retiree healthcare cost projections, the 2013-2014 retiree healthcare costs experienced a decrease of $6.5 million in the General Fund ($12.5 million all funds). The Federated Retirement System Board's actuary, Cheiron, noted that the changes to healthcare plans reduced the retiree healthcare unfunded liability by approximately $200 million. Similarly, due to City Council approval of a low cost/high deductible healthcare plan for employees and retirees and required enrollment in Medicare A and B at age 65, the Police and Fire Retirement Plan's unfunded liability was reduced by $196 million but was offset significantly by an $187 million increase in the liability due to the reduction in the interest earnings assumption for this plan from 7.5% to 7.25%.

Although the low cost/high deductible plan reduced the overall cost for Retiree Healthcare in the Police and Fire Department Retirement Plan, per the respective Memoranda of Agreements with the San Jose Police Officers' Association (SJPOA) and the International Association of Firefighters (IAFF), Local 230, the annual Retiree Healthcare contribution rate is capped at 11.0% for the City and 10.0% for employees. The City's Retiree Healthcare contribution rate for the Police Retirement Plan is increasing by 0.7 percentage points from 10.3% in 2012-2013 to 11.0% in 2013-2014. The City's Retiree Healthcare contribution rate for the Fire Retirement Plan is increasing by 1.3% percentage points from 8.0% in 2012-2013 to 9.3% in 2013-2014.

In 2009, the City and Federated bargaining units reached an agreement to begin a five-year phase-in to fully fund the annual required contribution for retiree healthcare benefits. The last year of the phase-in was 2012-2013 (with a contribution rate of 7.69% for employees and 7.9% for the City) with the full funding of the ARC starting with 2013-2014 (with a contribution rate of 10.74% for employees and 11.93% for the City). It is important to note that in December, as part of ongoing retiree healthcare negotiations, the Administration made a proposal to the Federated Retirement System bargaining groups that included a continuation of the phase-in of the Retiree Healthcare contribution rates because of the significant increase in the contribution rates from 2012-2013 to 2013-2014. If an agreement is reached on that proposal, a further reduction to both the employees' and City retiree healthcare contribution rates for 2013-2014 is anticipated.

EXPENDITURE FORECAST

Based on projections received from the Retirement Boards' actuary (Cheiron) and the Budget Office's independent analysis, the table on the following page details the General Fund's retirement costs and budgetary retirement contribution rates for the Federated Retirement System and the Police and Fire Retirement Plan and the respective pension and retiree healthcare costs for the forecast period. These figures assume the pre-payment of the ARC for the Federated Retirement System Tier 1 plan and the Police and Fire Department Retirement Plan over the five-year period. The budgetary retirement contribution rates set aside sufficient funds to either pay the City's retirement costs based on the minimum ARC or a percentage of payroll, whichever is greater. For this Forecast, only the City's 2013-2014 ARC for all three retirement plans as well as the 2014-2015 ARC for the Police Retirement Plan are based on a percentage of payroll. Additionally, the retirement costs associated with part-time employees, the Mayor and City Council, and Tier 3 are identified in the table below.

During the forecast period, General Fund retirement contributions will increase by approximately $45.1 million, or 21.3%, from $211.5 million in 2013-2014 to $256.6 million in 2017-2018. For

2014-2018 CITY RETIREMENT CONTRIBUTION COSTS AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES
($ in Millions)

Retirement Plan	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Fed. Ret. System Tier 1 – Pension	$56.5	$55.6	$58.5	$59.1	$60.4	$62.9
Fed. Ret. Syst. Tier 1 – Ret. Healthcare	10.0	13.1	12.7	12.4	11.9	11.3
Fed. Retirement Plan Tier 1 - Total	**$66.5**	**$68.7**	**$71.2**	**$71.5**	**$72.3**	**$74.2**
Budgetary Contribution Rates	*50.5%*	*60.6%*	*65.9%*	*68.1%*	*71.6%*	*77.1%*
Fed. Ret. System Tier 2 – Pension	N/A	$1.5	$1.5	$2.0	$2.5	$3.1
Fed. Ret. Syst. Tier 2 – Ret. Healthcare	N/A	2.6	2.7	3.6	4.6	5.7
Fed. Retirement Plan Tier 2 - Total	N/A	**$4.1**	**$4.2**	**$5.6**	**$7.1**	**$8.8**
Budgetary Contribution Rates	N/A	*18.6%*	*18.9%*	*18.9%*	*18.9%*	*18.9%*
Police Retirement Plan – Pension	$66.3	$74.3	$82.0	$83.1	$86.5	$92.2
Police Ret. Plan – Retiree Healthcare	10.5	11.8	12.9	13.2	13.7	14.2
Police Retirement Plan – Total	**$76.8**	**$86.1**	**$94.9**	**$96.3**	**$100.2**	**$106.4**
Budgetary Contribution Rates	*65.7%*	*73.0%*	*78.3%*	*77.3%*	*77.6%*	*79.7%*
Fire Retirement Plan – Pension	$38.9	$46.5	$51.1	$52.1	$54.3	$57.9
Fire Ret. Plan – Retiree Healthcare	4.4	5.5	6.7	7.9	8.4	8.7
Fire Retirement Plan - Total	**$43.3**	**$52.0**	**$57.8**	**$60.0**	**$62.7**	**$66.6**
Budgetary Contribution Rates	*64.0%*	*72.2%*	*78.0%*	*78.4%*	*79.1%*	*81.1%*
Other Retirement Costs	$0.5	$0.6	$0.6	$0.6	$0.6	$0.6
Total General Fund	**$187.1**	**$211.5**	**$228.7**	**$234.0**	**$242.9**	**$256.6**
Total All Funds	**$245.9**	**$275.8**	**$295.1**	**$301.6**	**$312.6**	**$329.6**

Source: 2012-2013 Modified Budget; Cheiron Letters dated January 9, 2013, January 30, 2013, and January 31, 2013 with applied pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan, and the Fire Retirement Plan.

2017-2018, projected Retirement costs are estimated to be 26.3% of the General Fund. During the same period, as indicated in the table below, the City retirement contribution for all funds will increase by $53.8 million from $275.8 million in 2013-2014 to $329.6 million in 2017-2018.

Similarly, the budgetary retirement contribution rates show significant increases for the Federated Retirement System Tier 1 plan and the Police and Fire Department Retirement Plan. For the Federated Retirement System Tier 1 plan, the budgetary retirement contribution rate increases from 60.6% in 2013-2014 to 77.1% in 2017-2018; for the Federated Retirement System Tier 2 plan, the budgetary contribution rate increases only slightly from 18.6% in 2013-2014 to 18.9% in 2017-2018; for the Police Retirement Plan the budgetary retirement contribution rate increases from 73.0% in 2013-2014 to 79.7% in 2017-2018; and for the Fire Retirement Plan, the budgetary retirement contribution rate increases from 72.2% in 2013-2014 to 81.1% in 2017-2018.

For illustration purposes, the table on the following page depicts the Board approved contribution rates for 2013-2014 and the Cheiron projected rates for the out years of the Forecast. For the Federated Retirement System Tier 1 plan, the Board approved pension contribution rate increased from 44.4% for 2012-2013 to 50.9% for 2012-2013 and is projected to increase to 67.3% for 2017-2018. The retiree healthcare contribution rate increased from 7.9% for 2012-2013 to 11.9% for 2013-2014 and is projected to increase to 12.2% for 2017-2018. Over the Forecast period, the Federated Retirement System Tier 1 contribution rates increase by nearly 17 percentage points from 50.9% to 67.3%. For the Federated Retirement System Tier 2 plan, the Board approved pension contribution rate stays flat at 6.68% for the Forecast period and the retiree healthcare contribution rates are the same than for Tier 1.

For the Police Retirement Plan, the Board approved pension contribution rate increased from 56.6% for 2012-2013 to 65.3% for 2013-2014 and is projected to increase to 71.5% for 2017-2018; and per the Memorandum of Agreement (MOA) between the City and the San Jose Police Officers' Association (SJPOA), the retiree healthcare contribution rate increased from 9.0% for 2012-2013 to 10.3% for 2013-2014 and will be held at 11.0% for the out-years even if the ARC for Retiree Healthcare is not fully funded. Over the Forecast period, the total Police Retirement Plan City contribution rates increase from 75.6% to 82.5%. Similarly, for the Fire Retirement Plan, the Board approved pension contribution rate increased from 58.4% for 2012-2013 to 66.8% for 2013-2014 and is projected to increase to 73.0% for 2016-2017; and per the MOA between the City and the International Association of Firefighters (IAFF), Local 230, the retiree healthcare contribution rate increased from 6.6% for 2012-2013 to 8.0% for 2013-2014 and is projected to increase to 11.0% for 2016-2017 and will be held at 11.0% for the remaining Forecast period even if the ARC for Retiree Healthcare is not fully funded. Over the Forecast period, the total Fire Retirement Plan contribution rates increase from 74.8% to 84.0%. In the out years of the Forecast period, the retiree healthcare contribution percentage has a limit of 11%, which, if reached, results in the meet and confer process per the MOAs with SJPOA and IAFF, Local 230. The cost for retiree healthcare is shared approximately 50/50 between the City and employees and these MOAs expire June 30, 2013. Per the Board's actuary, in order to fully fund the ARC for retiree healthcare benefits, preliminary results indicate that the City's annual contributions would be in excess of the current limit of the percentage contribution of 11%.

EXPENDITURE FORECAST

It should be noted that this Forecast does not assume potential savings due to additional active employees' retirement contributions or the Voluntary Election Program (Opt-In program) of approximately $12 million for 2013-2014 to 2016-2017 as included in the voter approved Measure B due to the unknown outcome of current litigation of Measure B and the pending approval from the IRS for the Voluntary Election Program.

2014-2018 BOARD APPROVED AND PROJECTED CITY CONTRIBUTION RATES

Retirement Plan	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Fed. Ret. System Tier 1 – Pension	44.4%	50.9%	56.1%	58.4%	62.1%	67.3%
Fed. Ret. System Tier 1 – Ret. Healthcare	7.9%	11.9%	12.2%	12.2%	12.2%	12.2%
Federated Retirement System – Total	**52.3%**	**62.8%**	**68.3%**	**70.6%**	**74.3%**	**79.5%**
Fed. Ret. System Tier 2 – Pension*	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
Fed. Ret. System Tier 2 – Ret. Healthcare*	7.9%	11.9%	12.2%	12.2%	12.2%	12.2%
Federated Retirement System – Total	**14.6%**	**18.6%**	**18.9%**	**18.9%**	**18.9%**	**18.9%**
Police Retirement Plan – Pension	56.6%	65.3%	70.1%	69.0%	69.4%	71.5%
Police Ret. Plan – Retiree Healthcare	9.0%	10.3%	11.0%	11.0%	11.0%	11.0%
Police Retirement Plan – Total	**65.6%**	**75.6%**	**81.1%**	**80.0%**	**80.4%**	**82.5%**
Fire Retirement Plan – Pension	58.4%	66.8%	71.5%	70.5%	70.9%	73.0%
Fire Retirement Plan – Retiree Healthcare	6.6%	8.0%	9.3%	10.7%	11.0%	11.0%
Fire Retirement Plan – Total	**65.0%**	**74.8%**	**80.8%**	**81.2%**	**81.9%**	**84.0%**

* The Federated Retirement System Tier 2 rates were approved by the Federated Retirement System Board on September 20, 2012.

Source: Cheiron Letters dated January 9, 2013, January 30, 2013, and January 31, 2013 with a pre-payment discount applied for the Federated Retirement System Tier 1 plan, the Police Retirement Plan, and the Fire Retirement Plan.

Health and Other Fringe:

A forecasted health rate increase of 11% is included in the 2013-2014 Forecast based on national and City trend information received from the City's Human Resources Department benefits consultant. For the out years of the Forecast, the annual rate increase assumptions are held constant to the 2013-2014 rate increases.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, a 2% increase is anticipated in 2013-2014. For the out years, the Forecast assumes annual rate increase assumptions of up to 6% based on City trends and actuarial analysis.

There are no changes to the life insurance rates in this Forecast based on projected provider charges. For the payment of Unemployment Benefit Claims, the City is self-insured. Based on actual claims experienced in 2012-2013, current funding available in the Unemployment Insurance Fund, and projected future claims, the unemployment insurance rate continues to be suspended through 2014-2015. Starting in 2015-2016 and through the remaining out years, $1.2 million is included to cover projected future claims.

Suspension of the Benefit Administrative Fee is assumed in 2013-2014, generating one-time savings of $875,000 in the General Fund ($1.2 million all funds). A one-time reserve in the Benefit Fund is available to cover operating costs for one year. This fee is assumed to resume in 2014-2015 in this forecast model.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total $81.9 million in 2013-2014. In general, the process utilized by the Budget Office includes adjusting each department's current year budget to eliminate one-time cost allocations, annualizing all partial-year reductions or additions approved for 2012-2013, and including projected increases or decreases for specific large non-personal/equipment allocations (e.g., utilities, contractual services, vehicle maintenance and operations costs, and Police Department vehicle replacement). The resulting 2013-2014 estimates represent a decrease of $8.0 million from the 2012-2013 Modified Budget level of $89.9 million, primarily due to the elimination of rebudgets or carryover projects.

Departmental gas and electricity funding for 2013-2014 totaling $12.3 million has been slightly adjusted in this Forecast to reflect projected rate increases, full year costs of new facilities coming online, and consumption changes. Minimal increases for negotiated contractual contracts are included, primarily in the Police Department ($336,000) academy and County lab costs. Vehicle maintenance and operations costs in the General Fund including fuel, inventory, and fleet staffing reflect a $1.3 million increase (total of $14.7 million) from the 2012-2013 Adopted Budget, primarily due to increased fuel and personnel costs. The 2013-2014 non-personal/equipment base includes an adjustment for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles from the Adopted Budget level of $3.9 million to $3.7 million based on the current replacement schedules and projected costs for these vehicles. In the out years of the Forecast, the police vehicle replacement costs are expected to decline in the first three Forecast years and increase in the last year of the Forecast, based on the anticipated replacements that will be necessary in those years. Over the five-year period, police vehicle replacement costs are expected to total $14.1 million.

For the out years of the Forecast, a growth rate of 2.0% has been assumed from the 2013-2014 non-personal/equipment base levels in each of the four years, adjusted for police vehicle replacement costs in those years. With this adjustment, the average growth rate for the non-personal/equipment category is 1.86% annually.

City-Wide

City-Wide Expenses in the first year of the Forecast (2013-2014) total $81.1 million, a decline from the 2012-2013 Modified Budget of $232.2 million. This large reduction primarily reflects the impact of deleting the $100.8 million of borrowing proceeds from the Tax and Revenue

Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; deleting allocations that were rebudgeted to 2012-2013 ($29.1 million); and the elimination of one-time grants ($7.3 million).

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB 1X 26 and AB 1484. As part of the legislation, Successor Agencies are charged with winding down operations and overseeing the dissolution process in an orderly manner. On January 24, 2012, the City Council adopted Resolution No. 76128 documenting its decision to serve as the Successor Agency to the former Redevelopment Agency ("Successor Agency").

As part of determining the current financial state of the Successor Agency, the Administration recently projected future property tax increment revenues and analyzed the current level of enforceable obligations for the forecast period. For the purpose of this Forecast, assumptions regarding Property Tax Increment receipts over the five year period as well as sale of property timing have been made. As more detailed information becomes available regarding the amount and or timing of these items, the Forecast will be refined as appropriate. There is currently no resolution of the City's legal challenge of the County's actions of withholding a percentage of former agency tax increment (approximately $7.5 million annually) to fund the County employees' retirement plan (the PERS levy), therefore this forecast does not include these revenues. Based on these assumptions, it is projected that there will not be sufficient property tax increment revenue to pay all enforceable obligations during the forecast period. It should be noted that if the Successor Agency cannot pay all of its obligations, the City is contractually obligated to assume certain payments of the Successor Agency as follows: 4th Street Garage Debt Service, Convention Center Debt Service, HUD 108 Loan payments, and ERAF Loan Payments.

Based on the current budget projections as detailed below, in addition to City contractually required enforceable obligations, it is assumed that the City will also fund Successor Agency administrative support costs over the forecast period. No assumption for City repayment of $10.0 million in interfund loans associated with the former Redevelopment Agency Supplemental Educational Revenue Augmentation Fund (SERAF) loan is included at this time. With the approval of AB 1484 in June 2012, loans such as the interfund loans made in connection with SERAF loan may be deemed an enforceable obligation contingent upon 1) a finding by the State Department of Finance that all required audits of the Successor Agency have been completed, and 2) finding by the Oversight Board that these loans were for legitimate redevelopment purposes. Currently, principal plus interest is due by June 30, 2015 for the Ice Centre Revenue Fund ($2.0 million), Sewage Treatment Plant Connection Fee Fund ($5.0 million), and Subdivision Park Trust Fund ($3.0 million). The Administration continues to work through these requirements.

It is currently projected that City funds may need to be advanced to provide for payment of Successor Agency enforceable obligations in all funds amounts of $14.1 million in 2013-2014, $9.8 million in 2014-2015, $1.9 million in 2015-2016, and $1.3 million in both 2016-2017 and 2017-2018. Per the bond covenants for the 4th and San Fernando Street Parking Garage, revenues of both the Successor Agency and the General Purpose Parking Fund are pledged to make the loan repayment for the annual debt service of $3.4 million related to this facility (through 2014-2015). In the event the Successor Agency has insufficient revenues to make the payment, the General Purpose Parking Fund is expected to cover the payment. Per the agreement between the Federal Department of Housing and Urban Development, if the Successor Agency is not able to make the loan repayment for the HUD Section 108 loan program, Community Development Block Grant (CDBG) funds are pledged to cover this obligation (approximately $2 million annually through 2014-2015). Since these other City Funds are pledged to make these payments, the potential General Fund impact for contractually obligated Successor Agency payments and administrative costs is currently estimated at $8.7 million in 2013-2014, $4.3 million in 2014-2015, and $1.3 million annually in 2015-2016 through 2017-2018. Although a cash flow mismatch occurs between the payment obligation dates and the receipt of tax increment revenues from the County of Santa Clara, these projected additional costs to the General Fund only reflect projected structural deficits and assume that any necessary Successor Agency short-term borrowing to align anticipated revenues with anticipated expenditures will occur with a net-zero impact on the General Fund.

It should be noted that the City Attorney's Office and the Administration continue to review all of the Successor Agency obligations to minimize the impact on the General Fund, the Community Development Block Grant Fund, and the General Purpose Parking Fund. Similarly, as part of the 2013-2014 Proposed Budget process, the Administration will carefully review the administration for the Successor Agency and the City to adequately support the winding down of operations and overseeing the dissolution process in an orderly manner. Any related cost savings from these efforts will be presented as part of the 2013-2014 Proposed Operating Budget.

The remaining line-items in this category are adjusted to reflect anticipated costs for 2013-2014 based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2013-2014 allocations in this category include: Workers' Compensation Claims ($19.5 million); Convention Center Lease Payments ($15.3 million); Successor Agency Legal Obligations Subsidy ($8.7 million); Sick Leave Payments Upon Retirement ($6.0 million); City-owned Facility Operating Agreements ($3.4 million); FMC Debt Service Payments ($3.3 million); San José BEST Program ($2.6 million); Parking Citations/Jail Courthouse Fees ($2.5 million); Children's Health Initiative ($2.1 million); General Liability Claims ($2.0 million); and Property Leases ($1.9 million).

In the out years of the Forecast, City-Wide Expenses are projected to increase at an average growth rate of 2.0%. While several of the individual line items are expected to remain at 2013-2014 levels over this period, there are some categories that are expected to experience growth over the five years, including Workers' Compensation Claims (from $19.5 million to $25.4 million). Increases to workers' compensation claims have been driven by higher medical costs and changes in State legislation. The FMC debt service payment is expected to increase significantly in the out years (from $3.6 million to $7.0 million) based on higher variable rate assumptions.

The anticipated administrative costs to issue TRANs Debt Service is also expected to climb (from $1.0 million to $4.3 million over the forecast period) based on a conservative estimate of the size of the issuance required and anticipated increases in variable interest rates and higher bank fees. Prefunding the City's portion of retirement contributions over the past several years was successful in generating budgetary savings. Over the five-year period, however, prefunding amounts are projected to increase to levels where the City's short-term borrowing capacity may be reached. Additionally, to fulfill the larger cash requirements, the maturity horizon of the City's investment portfolio may need to shorten, reducing investment returns. Should this scenario materialize during the five-year projected period, switching back to a pay-as-you-go method of funding retirement contributions may be considered.

The General Fund **Capital Projects** category totals $6.1 million in 2013-2014 and increases to $6.7 million in each of the out years of the Forecast. The largest items in this category include fire apparatus replacement ($5.0 million annually) and debt service payments for Central Service Yard – Phase I ($668,000 in 2014-2015 and relatively flat payments in the remaining out years). The investment in fire apparatus replacement in this Forecast is based on an analysis of projected replacement schedules, replacement costs, and apparatus changes to meet safety needs. It also assumes that the Fire C&C Fund will pay $300,000 annually for these costs. In the Service Yards C&C Fund, this forecast assumes $1.6 million in 2013-2014 and $1.0 million in the out years would pay for Central Service Yards debt service payments. The Capital Projects category also includes the continuation of annual allocations for Arena repairs ($100,000 in the out years), unanticipated maintenance of City facilities ($400,000), fuel tanks and methane monitoring control and replacement ($350,000), and annual capital expenditures ($150,000) to maintain sufficient power backup for the City Hall and the 9-1-1 Police Communications Building.

The **Transfers** category totals $26.1 million in 2013-2014 and ranges from $26.6 million to $30.2 million in the remaining years of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for City Hall is the largest line-item in this category and totals $15.1 million in 2013-2014 ($16.2 million to $19.3 million in the remaining years of the Forecast). Other large transfers include the following: funding to cover a portion of the debt service payments and operating costs for the Hayes Mansion Conference Center ($4.7 million in 2013-2014 to $5.9 million in the out years) and Rancho del Pueblo and Los Lagos Golf Courses ($2.0 million in 2013-2014 and $1.8 million in the out years); payments in accordance with the San José Arena Management agreement extension ($2.3 million in 2013-2014 and $1.3 million to $1.0 million in the out years of the Forecast) for Arena repairs and capital enhancements; and a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement ($800,000 annually).

All of the debt service and maintenance and operations costs for the Hayes Mansion Conference Center and golf courses are funded in the Community Facilities Revenue and Municipal Golf Course Funds; however, revenues in those funds are not projected to be sufficient to completely cover these costs. The transfer for the Hayes Mansion Conference Center decreased from a $6.8 million subsidy level in the out years of the last forecast to $4.8 million required in 2012-2013 and then increases to $5.9 million in the last year of this forecast based on projected debt service payments for that facility. The transfer for the golf course subsidy, however, has increased from the $1.8 million annual level assumed in the February 2012 Forecast to $2.0 million in 2013-2014 based on current operational activity.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

The payments for Arena repairs and capital enhancements are in compliance with the San José Arena Management Agreement Extension from 2009-2018. In 2013-2014, an additional $1.25 million is necessary to pay for the City's share of the $16.5 million of improvements at the Arena, as approved by the City Council in May 2007. Savings from the interest paid on the commercial paper issued for these improvements are realized in out years of this forecast.

The transfer to the Vehicle Maintenance and Operations Fund ($800,000 annually) is included to fund a vehicle replacement schedule for the General Fleet as well as transfers to the Communications C&C Fund ($412,500 in 2013-2014 to $575,000 in the out years) to fund the City's share of capital costs for the Silicon Valley Regional Interoperability Authority and reimburse that fund for Civic Center video equipment.

The Transfers category also includes payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($828,000 to $870,000 annually).

The **Earmarked Reserves** category includes a Deferred Infrastructure and Maintenance Reserve of $600,000 to fund critical capital maintenance or address technology needs. These resources would be allocated as part of the 2013-2014 Proposed Budget.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2012-2013, and would be recommended for rebudget or use in 2013-2014. Some of the larger current Earmarked Reserves include the Workers' Compensation/General Liability Catastrophic Reserve, Development Fee Program Reserves, Salaries and Benefits Reserve, and Retirement Pre-Payment Reserve.

Per City Council policy, the **2013-2014 Contingency Reserve** is projected at the level necessary to comply with the City Council policy to maintain a minimum 3% Contingency Reserve ($29.3 million). This amount would be sufficient to cover approximately one pay period of payroll costs (two and one-half weeks). Amounts necessary to remain in compliance with that policy are also included in each of the remaining four years of the Forecast.

Committed Additions to the Base General Fund Forecast

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

Committed Additions total $2.0 million in 2013-2014 and increase to approximately $7.7 million by 2017-2018. These Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

The approved bond measures from the elections of November 2000 and March 2002 will result in new and expanded library (Measure O), park (Measure P), and police and fire (Measure O) facilities and will require additional Maintenance and Operations funding ($1.6 million in 2013-2014 and increasing to approximately $6.4 million in 2017-2018). Some of the new facilities anticipated to be open during this forecast period include: Southeast Branch Library, Softball Complex, Fire Station 37 (South Willow Glen), and the South San José Police Substation.

Also included in the **Committed Additions** are maintenance and the operations costs associated with non-bond projects such as new parks and recreation facilities and new traffic infrastructure. The Police Department's new Automated Field Reporting/Records Management System maintenance costs are also included in this Forecast. The non-bond projects committed additions costs in the Forecast range from $418,000 in 2013-2014 and increases to $1,338,000 by 2017-2018.

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

Budget Principle #8 states that Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 without City Council certification that funding will be made available in the applicable year of the cost impact. Consistent with that direction, this Forecast includes a detailed list and discussion of capital projects that were previously certified by the City Council with annual operating and maintenance costs in the General Fund greater than $100,000. Capital funding for these projects have been included as part of approved Capital Improvement Programs or approved by City Council in 2012-2013. The majority of these costs are associated with the voter-approved General Obligation bonds for Park, Library, and Public Safety facilities. The operating and maintenance costs for these facilities are included in the figures presented in this Forecast. There are no new projects identified in the Forecast that would need certification.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2013-2014, a shortfall of $5.5 million is projected, followed by a shortfall of $13.7 million in 2014-2015. A modest surplus of $2.0 million is projected in 2015-2016, followed by shortfalls of $4.7 million in 2016-2017 and $6.0 million in 2017-2018. Base Case expenditures, including committed additions, increase from $858.2 million in 2013-2014 to $991.2 million in 2017-2018, for an average annual growth rate approximately 3.7%. The sources of revenue total $852.7 million in 2013-2014 and grow to $963.3 million in 2017-2018, increasing at a slightly lower average annual growth rate of 3.1%.

The following table shows how the projected surpluses and deficits have changed in the most recent forecasts. It is assumed that each preceding surplus or deficit is addressed completely with ongoing solutions in the year it appears. Each year of the February 2013 Forecast is compared to the comparable year in the February 2012 Forecast.

2014-2018 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
February 2012 Incremental Surplus/(Shortfall)	**($22.5)**	**($1.3)**	**$19.0**	**$10.7**	**N/A**
June 2012 Incremental Surplus/(Shortfall)	$9.0	N/A	N/A	N/A	N/A
Revised Forecast	**($13.5)**	**($1.3)**	**$19.0**	**$10.7**	**N/A**
February 2013 Incremental Surplus/(Shortfall)	**($5.5)**	**($13.7)**	**$2.0**	**($4.7)**	**($6.0)**

Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; Tax Increment funding for the Successor Agency to the Redevelopment Agency, a public entity, regarding the outcome of litigation with the County of Santa Clara related to the PERS Levy; costs associated with fully funding the annual required contributions for police and fire retiree healthcare; costs associated with services funded on a one-time basis in 2012-2013; costs associated with restoration of key services to January 1, 2011 levels; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

Assumes that the Police and Fire Retirement Plan Board will approve the elimination of the Supplemental Retiree Benefit Reserve (SRBR) for the 2013-2014 City retirement contribution amount and rates; and includes an Employee Compensation Planning Reserve, which totals $11.1 million in 2013-2014. Without that Reserve, a surplus of $5.6 million is projected for 2013-2014, and surpluses would be generated in all years but 2014-2015.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

In the February 2012 Forecast, an incremental shortfall of $22.5 million for 2013-2014 was projected. This figure was based on the assumption that the entire 2012-2013 surplus would be allocated on an ongoing basis. In the 2012-2013 Adopted Budget, the ongoing budget surplus was reserved and carried over to 2013-2014 as part of a two-year budget balancing strategy. The carryover impact of this action ($9.0 million) is reflected in the June 2012 incremental shortfall line item, resulting in a revised forecast of $13.5 million.

For the February 2013 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2013-2014 and the remaining four years of the forecast period. The 2013-2014 projected shortfall of $5.5 million reflects an improvement from the $13.5 million budget shortfall projected in June 2012. This reduction in the shortfall is the net result of numerous revenue and expenditure changes. A major factor contributing to this shortfall improvement is the decrease to retirement costs associated with the elimination of the SRBR (approved for the Federated Retirement System and pending final approval by the Police and Fire Department Retirement Plan Board) and the implementation of a low cost health plan reduced costs for 2013-2014. Partially offsetting these factors is the inclusion of the Employee Compensation Planning Reserve of $11.1 million, which is a change in practice from recent forecasts. This reserve allocation, representing only a modest amount of funding, would require City Council labor negotiations direction and discussions with the City's bargaining groups before any form of distribution could be made. How this allocation would be applied, if it remains funded, has not been determined.

In the remaining years of the Forecast, small General Fund shortfalls and a surplus are projected, ranging from -$13.7 million to $2.0 million annually. These margins are extremely narrow when put into context of the size of the projected General Fund budget, ranging from -0.8% to 0.1% of the projected annual budget (revenues and expenditures). Over the five-year period, a total shortfall of $27.9 million is anticipated, or approximately $5.6 million annually. This average shortfall figure equates to only 0.3% of the projected General Fund annual budget. Excluding the Employee Compensation Planning Reserve, General Fund surpluses would be generated in four of the five years of the Forecast, including a $5.5 million surplus in 2013-2014.

The second year of the Forecast (2014-2015) projects a General Fund shortfall of $13.7 million. This shortfall is primarily driven by an increase in personal services expenditures and the expiration of one-time grants. While revenues are anticipated to grow by an additional $21.2 million; this revenue growth is outpaced by expenditure growth ($34.9 million). Expenditure increases are primarily attributable to an increase in retirement contributions ($17.2 million), salaries and other compensation ($9.5 million), and health and other fringe benefits ($6.0 million). This Forecast assumes that the General Fund will assume the full costs for expenditures related to the Staffing for Adequate Fire and Emergency Response (SAFER) Grants and Community Oriented Policing Services (COPS) Grants after the expiration of grant funding. Specifically for the second year of the Forecast, this includes a net impact related to the SAFER 2011 Grant totaling $3.1 million for 27 Fire Fighter positions ($4.2 million annually thereafter). Expenditures related to the 2010 COPS Grant total $2.9 million for 16 Police Officers starting in 2014-2015. Without the continuation of these positions, significant service level reductions would occur.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The variances in the three out years vary modestly compared to the size of the projected General Fund budgets in those years. In the third year of the Forecast (2015-2016), where growth rates of revenue are expected to exceed expenditures by 0.28%, a surplus of $2.0 million is projected. In the last two years of the Forecast, small deficits of $4.7 million in 2016-2017 and $6.0 million in 2017-2018 are expected. Expenditure growth is expected to exceed revenue growth in those two years by 0.45% and 0.56%, respectively.

Five-Year Economic Forecast and Revenue Projections

2014-2018

Section 2

Base General Fund Forecast

BASE CASE

February 2013 Forecast

REVENUE SUMMARY	MODIFIED BUDGET 2012-2013	FORECAST 2014	2015	2016	2017	2018
PROPERTY TAX	202,925,000	209,050,000	217,809,000	228,547,000	240,866,000	254,017,000
		3.02%	4.19%	4.93%	5.39%	5.46%
SALES TAX	161,270,000	166,660,000	173,843,000	180,884,000	188,770,000	196,680,000
		3.34%	4.31%	4.05%	4.36%	4.19%
TRANSIENT OCCUPANCY TAX	10,100,000	10,600,000	11,024,000	11,354,000	11,694,000	12,104,000
		4.95%	4.00%	2.99%	2.99%	3.51%
FRANCHISE FEES	43,625,000	43,923,000	44,885,000	45,998,000	47,341,000	48,752,000
		0.68%	2.19%	2.48%	2.92%	2.98%
UTILITY TAX	90,973,000	91,895,000	93,705,000	95,776,000	98,295,000	100,861,000
		1.01%	1.97%	2.21%	2.63%	2.61%
TELEPHONE TAX	20,525,000	20,600,000	20,600,000	20,600,000	20,600,000	20,600,000
		0.37%	0.00%	0.00%	0.00%	0.00%
BUSINESS TAXES	42,400,000	40,700,000	40,875,000	41,047,000	41,207,000	41,355,000
		(4.01%)	0.43%	0.42%	0.39%	0.36%
OTHER LICENSES AND PERMITS	39,093,779	39,804,000	41,117,000	42,474,000	43,918,000	45,631,000
		1.82%	3.30%	3.30%	3.40%	3.90%
DEPARTMENTAL CHARGES	32,934,892	33,739,000	35,547,000	36,720,000	37,968,000	39,449,000
		2.44%	5.36%	3.30%	3.40%	3.90%
FINES, FORFEITURES & PENALTIES	15,458,500	15,862,000	16,184,000	16,579,000	17,005,000	17,277,000
		2.61%	2.03%	2.44%	2.57%	1.60%
MONEY & PROPERTY	2,910,500	2,625,000	2,678,000	2,731,000	2,786,000	2,841,000
		(9.81%)	2.02%	1.98%	2.01%	1.97%
REVENUE FROM LOCAL AGENCIES	37,823,606	26,140,000	26,839,000	27,499,000	28,226,000	29,009,000
		(30.89%)	2.67%	2.46%	2.64%	2.77%
REVENUE FROM THE STATE OF CALIFORNIA	12,539,765	10,606,000	10,450,000	10,450,000	10,450,000	10,450,000
		(15.42%)	(1.47%)	0.00%	0.00%	0.00%
FEDERAL REVENUE	22,785,970	6,934,000	1,577,000	0	0	0
		(69.57%)	(77.26%)	(100.00%)	N/A	N/A
OTHER REVENUE	121,762,920	14,955,000	15,141,000	15,380,000	15,631,000	15,905,000
		(87.72%)	1.24%	1.58%	1.63%	1.75%
GAS TAX	14,500,000	14,000,000	13,628,000	13,228,000	12,936,000	12,589,000
		(3.45%)	(2.66%)	(2.94%)	(2.21%)	(2.68%)
TOTAL GENERAL REVENUES	**871,627,932**	**748,093,000**	**765,902,000**	**789,267,000**	**817,693,000**	**847,520,000**
		(14.17%)	2.38%	3.05%	3.60%	3.65%

BASE CASE						
February 2013 Forecast	MODIFIED BUDGET	FORECAST				
REVENUE SUMMARY	2012-2013	2014	2015	2016	2017	2018
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	32,348,979	36,385,000	37,586,000	38,826,000	40,146,000	41,712,000
TRANSFERS	20,118,464	16,734,000	17,336,000	17,647,000	18,016,000	18,489,000
REIMBURSEMENTS FOR SERVICES	684,579	737,000	762,000	787,000	814,000	845,000
TOTAL TRANSFERS & REIMBURSEMENTS	53,152,022	53,856,000	55,684,000	57,260,000	58,976,000	61,046,000
		1.32%	3.39%	2.83%	3.00%	3.51%
TOTAL GENERAL FUND REVENUES	924,779,954	801,949,000	821,586,000	846,527,000	876,669,000	908,566,000
		(13.28%)	2.45%	3.04%	3.56%	3.64%
BEGINNING FUND BALANCE	168,299,570	50,800,000	52,341,000	53,137,000	53,823,000	54,707,000
GRAND TOTAL SOURCES	1,093,079,524	852,749,000	873,927,000	899,664,000	930,492,000	963,273,000
		(21.99%)	2.48%	2.94%	3.43%	3.52%

BASE CASE

February 2013 Forecast

EXPENDITURE SUMMARY

	MODIFIED BUDGET 2012-2013	FORECAST 2014	2015	2016	2017	2018
PERSONAL SERVICES						
Salaries and Other Compensation	365,995,898	365,707,000	375,250,000	384,671,000	394,180,000	403,924,000
Retirement	187,128,582	211,496,000	228,740,000	233,980,000	242,911,000	256,648,000
Health and Other Fringe Benefits	49,908,532	53,821,000	59,842,000	66,764,000	73,147,000	80,141,000
TOTAL PERSONAL SERVICES	**603,033,012**	**631,024,000**	**663,832,000**	**685,415,000**	**710,238,000**	**740,713,000**
		4.64%	**5.20%**	**3.25%**	**3.62%**	**4.29%**
TOTAL NON-PERSONAL/EQUIPMENT	**89,923,935**	**81,970,000**	**83,348,000**	**84,194,000**	**86,226,000**	**88,225,000**
		(8.85%)	**1.68%**	**1.02%**	**2.41%**	**2.32%**
CITY-WIDE						
CITY-WIDE EXPENSES	232,157,363	81,130,000	79,618,000	79,251,000	82,908,000	87,552,000
CAPITAL PROJECTS	16,559,000	6,050,000	6,718,000	6,713,000	6,716,000	6,716,000
TRANSFERS	29,008,552	26,085,000	26,596,000	27,253,000	28,971,000	30,226,000
EARMARKED RESERVES	93,088,662	600,000	600,000	600,000	600,000	750,000
CONTINGENCY RESERVE	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000	29,309,000
TOTAL CITY-WIDE	**400,122,577**	**143,174,000**	**142,841,000**	**143,126,000**	**148,504,000**	**154,553,000**
		(64.22%)	(0.23%)	0.20%	3.76%	4.07%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	**1,093,079,524**	**856,168,000**	**890,021,000**	**912,735,000**	**944,968,000**	**983,491,000**
		(21.67%)	3.95%	2.55%	3.53%	4.08%

OPERATING MARGIN

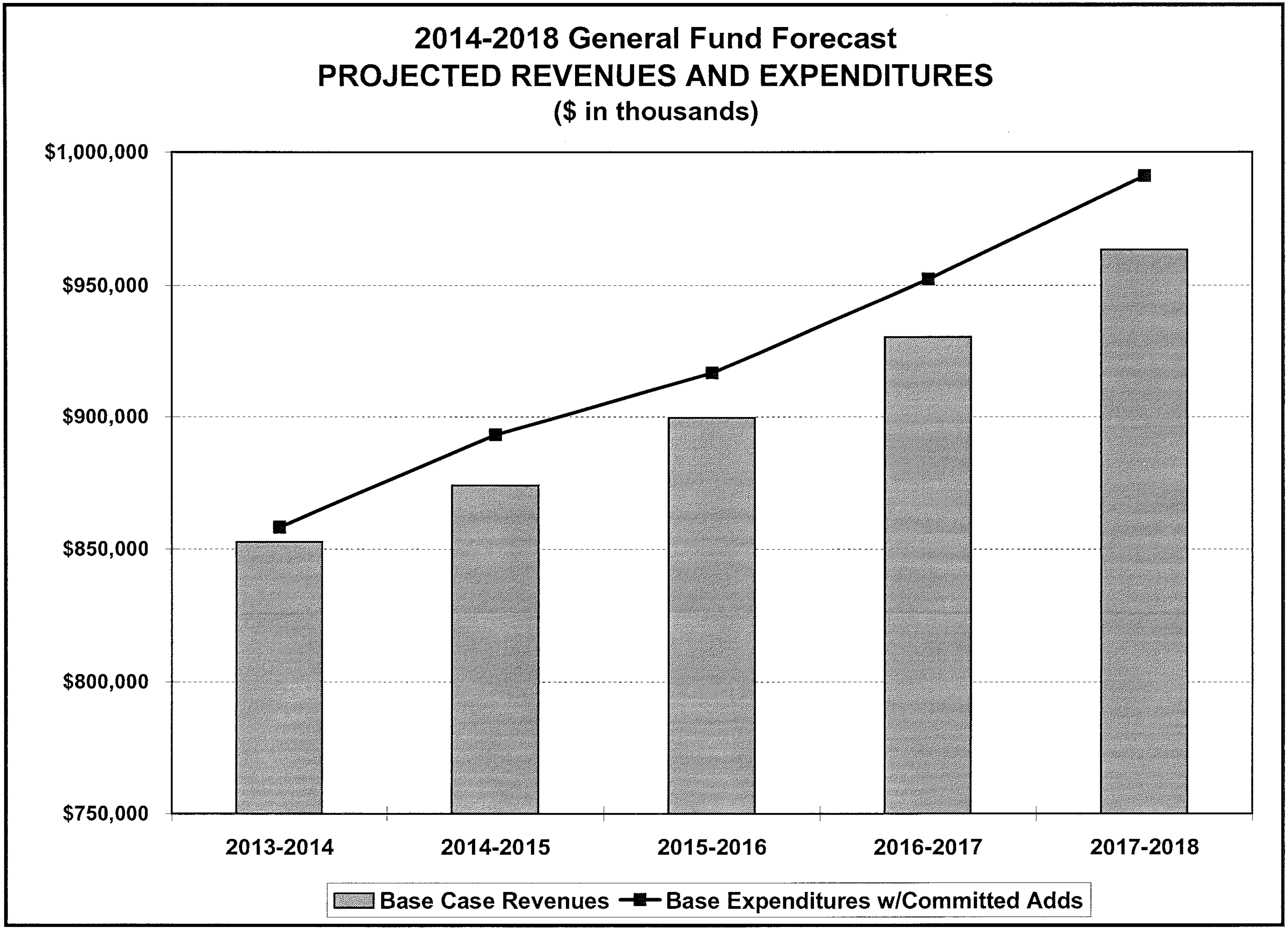
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	MODIFIED BUDGET 2012-2013	FORECAST 2014	2015	2016	2017	2018
GRAND TOTAL REVENUE	1,093,079,524	852,749,000	873,927,000	899,664,000	930,492,000	963,273,000
GROWTH RATE		(21.99%)	2.48%	2.94%	3.43%	3.52%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,093,079,524	856,168,000	890,021,000	912,735,000	944,968,000	983,491,000
GROWTH RATE		(21.67%)	3.95%	2.55%	3.53%	4.08%
OPERATING MARGIN CHANGE *From Prior Year*		**(3,419,000)**	**(12,675,000)**	**3,023,000**	**(1,405,000)**	**(5,742,000)**

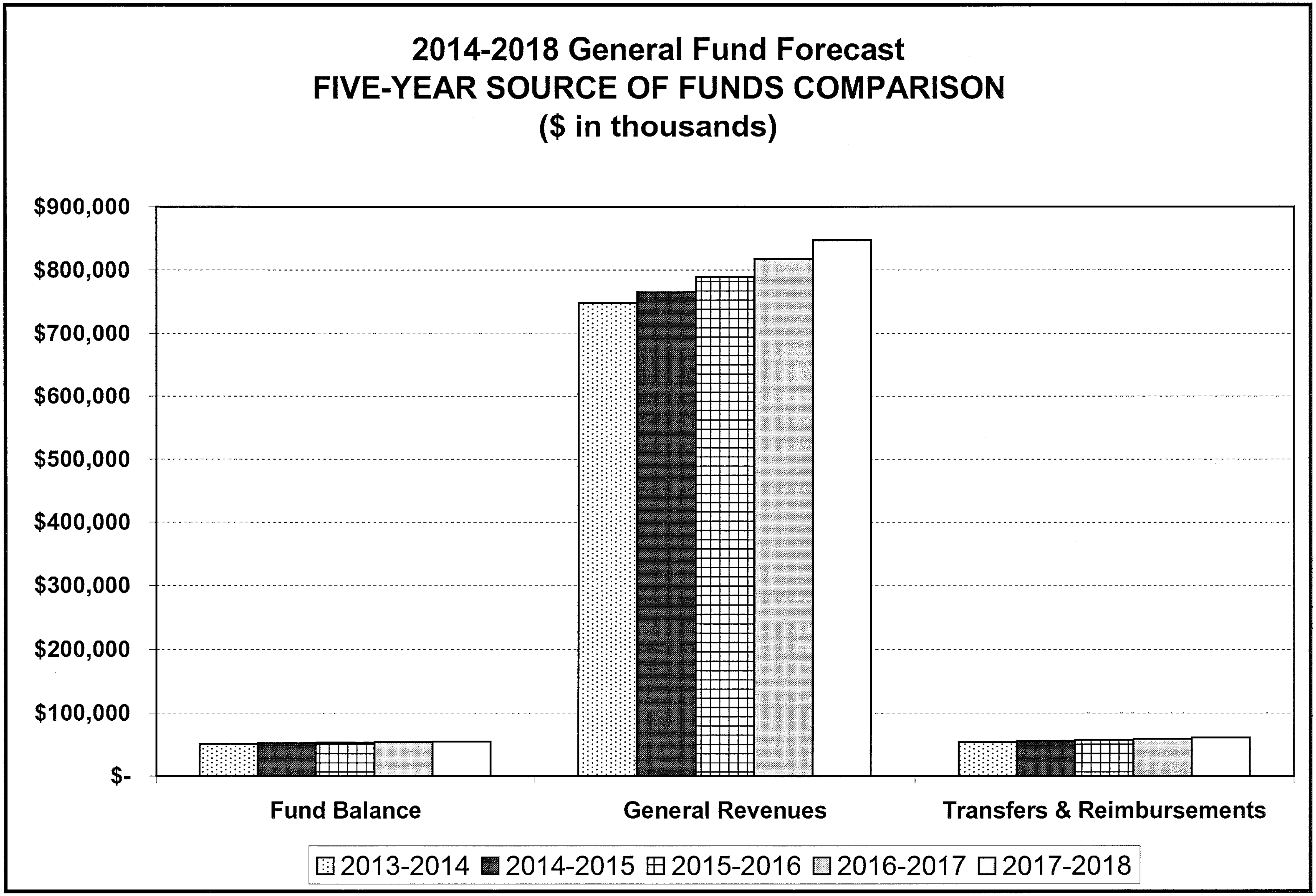
BASE CASE

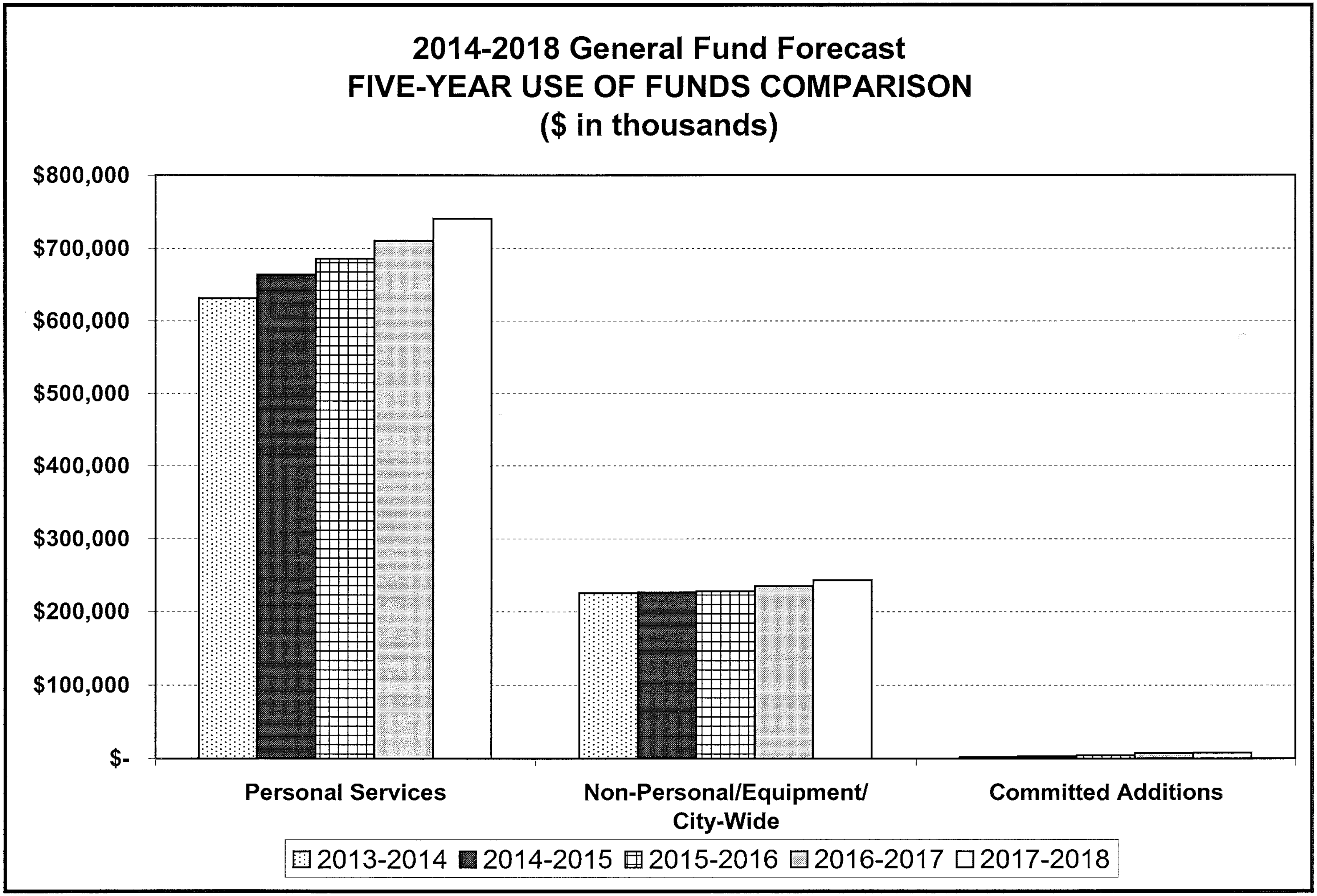
February 2013 Forecast	MODIFIED BUDGET	FORECAST				
EXPENDITURE SUMMARY	**2012-2013**	**2014**	**2015**	**2016**	**2017**	**2018**
COMMITTED ADDITIONS:						
New Parks and Recreation Facilities Maintenance and Operations		51,000	331,000	560,000	795,000	862,000
New Police Maintenance and Operations		336,000	399,000	413,000	326,000	340,000
New Traffic Infrastructure Assets Maintenance and Operations		31,000	56,000	83,000	108,000	136,000
Measure O (Library) Maintenance and Operations		0	0	648,000	725,000	742,000
Measure P (Parks) Maintenance and Operations		0	0	50,000	87,000	81,000
Measure O (Public Safety) Maintenance and Operations: Fire		0	8,000	24,000	3,026,000	3,146,000
Measure O (Public Safety) Maintenance and Operations: Police		1,616,000	2,253,000	2,303,000	2,355,000	2,405,000
TOTAL COMMITTED ADDITIONS	**0**	**2,034,000**	**3,047,000**	**4,081,000**	**7,422,000**	**7,712,000**
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	**1,093,079,524**	**858,202,000**	**893,068,000**	**916,816,000**	**952,390,000**	**991,203,000**
		(21.49%)	4.06%	2.66%	3.88%	4.08%

OPERATING MARGIN

	MODIFIED BUDGET	FORECAST				
BASE EXPENDITURES (w / COMMITTED ADDITIONS)	**2012-2013**	**2014**	**2015**	**2016**	**2017**	**2018**
GRAND TOTAL REVENUE	1,093,079,524	852,749,000	873,927,000	899,664,000	930,492,000	963,273,000
GROWTH RATE		(21.99%)	2.48%	2.94%	3.43%	3.52%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,093,079,524	858,202,000	893,068,000	916,816,000	952,390,000	991,203,000
GROWTH RATE		(21.49%)	4.06%	2.66%	3.88%	4.08%
ONGOING OPERATING MARGIN CHANGE		(5,453,000)	(13,688,000)	1,989,000	(4,746,000)	(6,032,000)
From Prior Year						


2014-2018 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)
$1,000,000
$950,000
$900,000
$850,000
$800,000
$750,000
2013-2014
2014-2015
2015-2016
2016-2017
2017-2018
Base Case Revenues
Base Expenditures w/Committed Adds


2014-2018 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$-
Fund Balance
General Revenues
Transfers & Reimbursements
2013-2014
2014-2015
2015-2016
2016-2017
2017-2018


2014-2018 General Fund Forecast
FIVE-YEAR USE OF FUNDS COMPARISON
($ in thousands)
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$-
Personal Services
Non-Personal/Equipment/ City-Wide
Committed Additions
2013-2014
2014-2015
2015-2016
2016-2017
2017-2018

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Five-Year Economic Forecast
and
Revenue Projections

2014-2018

Section 3

Committed Additions to the Base General Fund Forecast

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

Committed Additions involve expense changes for projects that have been previously approved by the City Council and deemed relatively unavoidable. The majority of items included in this category are additional maintenance and operating expenses that will be required to operate and maintain approved capital projects scheduled for completion within the five-year horizon of this Forecast. These expenses are related to the maintenance and operations of the Police Automated Field Reporting/Records Management System, as well as for new parks and recreational facilities, traffic infrastructure assets, and bond-funded library, parks and public safety facilities. It should be noted that the projected costs included in this category have been submitted by the various departments involved, but have not yet been fully analyzed by the Budget Office. It can be anticipated that refinements of these estimates will be performed prior to bringing them forward for consideration by the City Council in any given year.

A summary of capital projects included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council's adoption of Budget Principle #8 during the 2008-2009 budget process, a **General Fund Capital Operating and Maintenance/Budget Principle #8** discussion is included in this section. Capital projects with maintenance and operating costs over $100,000 and previously certified and included in the approved Capital Improvement Program or approved by the City Council in 2012-2013 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 2014-2018 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

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

Committed Additions Summary

New Parks and Recreation Facilities Maintenance and Operations – This category reflects the projected additional costs of maintaining and operating new and expanded parks and recreation facilities included in the City's Five-Year Capital Improvement Program. With the adoption of the 2012-2013 Capital Budget and 2013-2017 Capital Improvement Program, the City Council released the hold on new park construction that had previously been in place since February 2010. As a result, this forecast includes a number of parks scheduled to come online over the next five years, including Del Monte Park, Lake Cunningham Bike Park and Riverview Park. The forecast also includes operating cost estimates for trails such as the Lower Guadalupe River Trail and sections of the Lower Silver Creek Trail, as well as the Vietnamese Heritage Gardens project. Funding continues to be set aside for Future Trail Projects to meet the City's goal to expand the City's trail system to 100 miles by the year 2020. The City currently has over 50 miles of trails.

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

Committed Additions Summary

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
51,000	331,000	560,000	795,000	862,000

New Police Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of the new Automated Field Reporting/Records Management System (AFR/RMS) project. The AFR/RMS project (including hardware, software, and training costs) has primarily been funded by Urban Area Security Initiatives (UASI), Recovery Act - Justice Assistance, and Supplemental Law Enforcement Services Fund grants. The new system is scheduled to fully come on-line July 2013 and will centralize data, reduce data entry redundancies and enable the Police Department to conduct more thorough and detailed analysis of crime and resources.

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
336,000	399,000	413,000	326,000	340,000

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the projected additional costs that will be necessary to operate and maintain transportation-related projects included in the City's Five-Year Capital Improvement Program. Funding to operate and maintain new traffic signals, landscaping, and street lighting is assumed in this category. The majority of the projected costs are for traffic signals and lighting, largely associated with the improvements along Capitol Expressway that includes the installation of over 260 LED streetlights from Capitol Avenue to Eastridge Transit Center. Other projects coming online over the forecast period include maintenance of street trees and lighting related to the Autumn Street Expansion Phase I, Bus Rapid Transit, and The Alameda – A Plan for the Beautiful Way, as well as projects to improve the safety and efficiency of pedestrian and bicycle transportation.

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
31,000	56,000	83,000	108,000	136,000

Measure O (Library) Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of new and expanded branch libraries that were approved by voters in November 2000. With the openings of branch libraries Bascom, Calabazas, Educational Park and Seven Trees occurring in 2012-2013, the costs included in this forecast now only account for the Southeast Branch Library, scheduled to open in 2015-2016, which is the final Measure O-approved library.

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
0	0	648,000	725,000	742,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

Committed Additions Summary

Measure P (Parks) Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of new and expanded parks and community facilities that were included as part of a bond measure approved by the voters in November 2000. The only project included in this forecast, which is the last remaining Measure P park project, is the Softball Complex scheduled to open in 2015-2016 with a projected net operating expenditure of $50,000. The maintenance and operations expenditures for this complex are currently anticipated at $521,000, but are partially offset by estimated earned revenue of $471,000 for fee based activity and concessions. While its location has not yet been determined, the complex will most likely include artificial turf, which results in the fields having a significantly lower maintenance and operations cost than the much larger natural turf complex that was originally envisioned.

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
0	0	50,000	87,000	81,000

Measure O (Public Safety) Maintenance and Operations: Fire – This category reflects the projected additional maintenance and operations costs of new and expanded fire facilities that were included as part of a bond measure adopted by the voters in March 2002. These include Fire Station 21 (relocation to White Road), programmed to open July 2015, and Fire Station 37 (South Willow Glen) programmed to open July 2016. As discussed later in this section of the report, Fire Station 37 includes the addition of 14 sworn positions, but no new apparatus. However, prior to the award of the construction contract, per City Council direction, further analysis will be conducted by the Administration to determine the actual recommended staffing needed for this station.

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
0	8,000	24,000	3,026,000	3,146,000

Measure O (Public Safety) Maintenance and Operations: Police – This category reflects the projected additional maintenance and operations costs of new and expanded police facilities that were included as part of a bond measure adopted by the voters in March 2002. Included in this forecast is the projected cost for maintaining and operating the South San José Substation. For 2013-2014, the forecast assumes the Substation opening in January 2014 (partial occupancy) at a cost of approximately $1.6 million that annualizes to approximately $2.3 million in 2014-2015. The maintenance and operations funding for the Substation will be used to fund various positions and non-personal/equipment needs in several departments to support the new facility. In the Police Department, funding will provide for Central Supply Unit positions that distribute safety equipment to field patrol personnel and intake and catalog evidence collected by the patrol staff. In the Public Works Department, funding will pay for heating, ventilation, air conditioning system maintenance, as well plumbing, electrical, carpentry, and other preventative and corrective maintenance needs; contracted custodial services; and fleet mechanic personnel and equipment to maintain the marked fleet for the Southern Patrol Division. In the Parks,

Committed Additions Summary

Recreation and Neighborhood Services Department, funding will be used for personnel and equipment to maintain and upkeep the building's green roof. With the partial occupancy, the Southern Patrol Division, new Central Supply Unit staff, and some Investigations Division staff would occupy the new facility, however, there would not be a Pre-Processing Center in operation, no public access to the building, and no records or administrative staff. It should be noted that, for purposes of the forecast, only the ongoing operating costs have been included. A total of $3.9 million in one-time costs will be needed to open the facility to pay for various fixtures, furniture, equipment, tools, corrective work, as well as some new items not included in the original construction contract, including a back-up 911 center. While the majority of one-time costs will be covered within existing appropriations, an additional $915,000 will need to be identified in 2013-2014 for the Substation to open.

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
1,616,000	2,253,000	2,303,000	2,355,000	2,405,000

General Fund Capital Operating and Maintenance/Budget Principle #8

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

On February 9, 2010, the City Council approved a hold on the design and construction of 12 new parks and recreation facilities (including trails) in order to avoid the impact of ongoing operating and maintenance costs to the General Fund. However, this hold was released with the adoption of the 2012-2013 Capital Budget and 2013-2017 Capital Improvement Program, thereby allowing for the planned construction of 12 parks projects that were previously placed on hold.

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for all those projects have been included as part of approved Capital Improvement Programs or approved by the City Council in 2012-2013. There are no new projects identified in the Forecast that would need certification in accordance with Budget Principle #8. All capital projects that were previously approved for certification by the City Council with annual maintenance and operating costs in the General Fund greater than $100,000 have been denoted in the chart with an asterisk. The majority of these costs are associated with the voter-approved General Obligation bonds for Park, Library, and Public Safety facilities. The maintenance and operating costs for these facilities are included in the figures presented in this General Fund Forecast. By 2017-2018, the annualized costs to maintain and operate all City Council approved

General Fund Capital Operating and Maintenance/Budget Principle #8

projects expected to come online during the five year period are projected at approximately $7.7 million annually, of which approximately $6.4 million are related to voter-approved bond measures.

All project maintenance and operating costs will be evaluated on an annual basis for inclusion in subsequent Five-Year General Fund Forecasts. As part of this evaluation, the staffing necessary to maintain and operate these facilities, as well as other costs, may change as further analysis on the operational needs of each facility or project are conducted. Notably, further analysis will be required to determine the actual staffing need of Fire Station 37. For purposes of this document, however, pending this further analysis, the maintenance and operating costs for Fire Station 37 – Willow Glen reflects the City Council-directed assumption that no staff would be relocated from Fire Station 6 and that new personnel (four additional duty positions per shift plus reserve staffing or 14 positions) would staff that facility. This assumption is drawn from the *"City-Wide Policy for the Relocation/Closure and/or Selling Fire Stations and Removal of Fire Station 6 from the Budget,"* approved by the City Council on September 9, 2008. The additional annual General Fund maintenance and operating costs projected for this facility alone, if this policy were to be implemented, represents approximately $3.0 million in new for costs for 2015-2016, the first full year of the fire station's operation. In addition, it is currently assumed an unstaffed apparatus from a deactivated company will be reallocated to Station 37 and this newly staffed station will be part of the Dynamic Deployment model implemented by the Fire Department for efficient and effective resource allocations. Pending the outcome of the staffing and apparatus analysis, funding for a new apparatus may be required at a later date. Note also that the personal services costs do not include funding for an additional Fire Fighter Recruit Academy. It is anticipated that there will be a low number of retirements in the near future; therefore, the Fire Department is expected to be able to recruit for new personnel at Fire Station 37 as part of the regular recruitment process.

Maintenance and operating costs will present challenges to the General Fund in future years until the General Fund Structural Deficit is resolved. A careful evaluation of the project schedules and/or staffing necessary to maintain and operate these facilities will be performed prior to bringing them forward for consideration by the City Council in any given year.

CHART A - 2014-2018 GENERAL FUND FORECAST
Net Operating Impact of Capital Programs

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Buena Vista Park	1,000	1,000	1,000	1,000	1,000
Del Monte Park	-	53,000	59,000	60,000	61,000
Essex Turnkey Park (Land only)	3,000	3,000	3,000	3,000	3,000
Future Trail Projects*	-	-	32,000	86,000	140,000
Lake Cunningham Bike Park	-	70,000	71,000	72,000	73,000
Martial-Cottle Community Garden	-	37,000	37,000	38,000	39,000
Martin Park	-	-	70,000	72,000	74,000
Montecito Vista Park	-	15,000	38,000	39,000	39,000
Noble Park Dog Park	-	10,000	20,000	20,000	21,000
North San Pedro Turnkey Park and Tot Lot	-	-	14,000	14,000	14,000
Pellier Park	-	-	7,000	7,000	7,000
Roberto Antonio Balermino Park	-	10,000	21,000	22,000	22,000
Riverview Park	35,000	71,000	73,000	74,000	75,000
Tamien Specific Plan Area Park	-	-	36,000	37,000	38,000
TRAIL: Coyote Creek (Highway 237 to Tasman Dr)	4,000	8,000	8,000	8,000	8,000
TRAIL: Doerr Parkway (Curtner Ave. to Comstock Ln)	3,000	7,000	7,000	7,000	7,000
TRAIL: Guadalupe River (Branham Ln to Chnoweth Ave)	-	-	-	-	1,000
TRAIL: Lower Silver Creek 4/5A (Alum Rock to Hwy 680)	-	-	17,000	19,000	20,000
TRAIL: Lower Silver Creek 6 (Dobern Ave to Story Rd)	5,000	9,000	9,000	9,000	9,000
TRAIL: Penitencia Creek 1B (Dorel Dr to Noble Ave)	-	13,000	13,000	13,000	13,000
TRAIL: Thomspon Creek (Tully Road to Quimby Ave)	-	6,000	6,000	6,000	6,000
Vietnamese Heritage Garden*	-	-	-	169,000	172,000
West Evergreen Park	-	18,000	18,000	19,000	19,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	**51,000**	**331,000**	**560,000**	**795,000**	**862,000**
NEW POLICE MAINTENANCE AND OPERATIONS					
Automated Field Reporting/Records Management System*	336,000	399,000	413,000	326,000	340,000
TOTAL NEW POLICE MAINTENANCE AND OPERATIONS	**336,000**	**399,000**	**413,000**	**326,000**	**340,000**
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Autumn Street Extension	4,000	4,000	4,000	4,000	5,000
Bus Rapid Transit	-	-	14,000	15,000	16,000
Capitol Expressway Pedestrian Improvements	25,000	35,000	37,000	59,000	85,000
Innovative Bicycle Detection	-	-	3,000	4,000	4,000
The Alameda - A Plan for the Beautiful Way	-	1,000	1,000	1,000	1,000
Safety - Pedestrian Improvements	-	-	8,000	8,000	8,000
Traffic Lighting and Signals	2,000	16,000	16,000	17,000	17,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	**31,000**	**56,000**	**83,000**	**108,000**	**136,000**
MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS					
Southeast Branch*	-	-	648,000	725,000	742,000
TOTAL MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS	**-**	**-**	**648,000**	**725,000**	**742,000**
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Softball Complex*	-	-	50,000	87,000	81,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	**-**	**-**	**50,000**	**87,000**	**81,000**
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE					
Fire Station 21 - Maintenance and Utilities	-	8,000	24,000	24,000	25,000
Fire Station 37 - South Willow Glen - Staffing/NP*	-	-	-	2,956,000	3,074,000
Fire Station 37 - South Willow Glen - Maint/Util*	-	-	-	46,000	47,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE	**0**	**8,000**	**24,000**	**3,026,000**	**3,146,000**
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: POLICE					
South San José Substation - Maint/Oper*	1,380,000	1,819,000	1,859,000	1,900,000	1,940,000
South San José Substation - Fleet*	178,000	345,000	353,000	362,000	371,000
South San José Substation - Parks Maintenance*	58,000	89,000	91,000	93,000	94,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: POLICE	**1,616,000**	**2,253,000**	**2,303,000**	**2,355,000**	**2,405,000**
TOTAL OPERATING IMPACT OF CAPITAL PROGRAMS	**2,034,000**	**3,047,000**	**4,081,000**	**7,422,000**	**7,712,000**

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

Five-Year Economic Forecast and Revenue Projections

2014-2018

Section 4

Alternate Forecast Scenarios

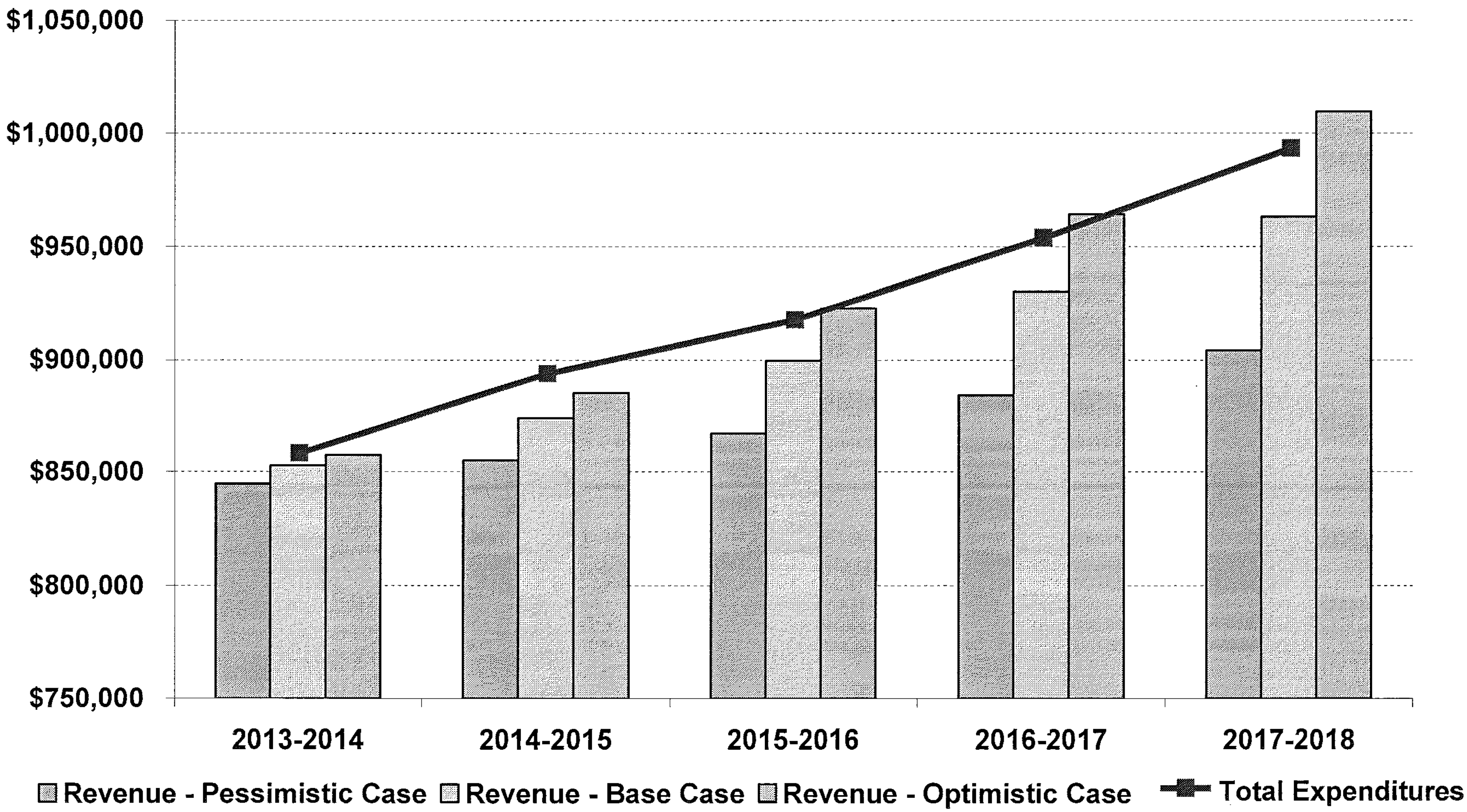
2014-2018 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

BASE CASE					
	2014	**2015**	**2016**	**2017**	**2018**
TOTAL REVENUES ($)	852,749,000	873,927,000	899,664,000	930,492,000	963,273,000
GROWTH RATE		2.48%	2.94%	3.43%	3.52%
TOTAL EXPENDITURES ($)	858,202,000	893,068,000	916,816,000	952,390,000	991,203,000
GROWTH RATE		4.06%	2.66%	3.88%	4.08%
OPERATING MARGIN - BASE	**(5,453,000)**	**(13,688,000)**	**1,989,000**	**(4,746,000)**	**(6,032,000)**

OPTIMISTIC CASE					
	2014	**2015**	**2016**	**2017**	**2018**
TOTAL REVENUES ($)	857,447,000	885,179,000	922,970,000	964,365,000	1,009,629,000
GROWTH RATE		3.23%	4.27%	4.48%	4.69%
TOTAL EXPENDITURES ($)	858,202,000	893,068,000	916,816,000	952,390,000	991,203,000
GROWTH RATE		4.06%	2.66%	3.88%	4.08%
OPERATING MARGIN - OPTIMISTIC	**(755,000)**	**(7,134,000)**	**14,043,000**	**5,821,000**	**6,451,000**

PESSIMISTIC CASE					
	2014	**2015**	**2016**	**2017**	**2018**
TOTAL REVENUES ($)	844,628,000	855,054,000	867,210,000	884,081,000	904,249,000
GROWTH RATE		1.23%	1.42%	1.95%	2.28%
TOTAL EXPENDITURES ($)	858,202,000	893,068,000	916,816,000	952,390,000	991,203,000
GROWTH RATE		4.06%	2.66%	3.88%	4.08%
OPERATING MARGIN - PESSIMISTIC	**(13,574,000)**	**(24,440,000)**	**(11,592,000)**	**(18,703,000)**	**(18,645,000)**

2014-2018 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
($ in thousands)



Five-Year Economic Forecast and Revenue Projections

2014-2018

Section 5

Capital Revenue Forecast

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

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

Overall, construction-related capital program revenues in this 2014-2018 Forecast are anticipated to increase significantly ($51.7 million or 23%) from the estimates provided in the 2013-2017 Adopted Capital Improvement Program (CIP), reflecting improvements in the current economic environment. Revenues total $280.7 million in this Forecast compared to $229.0 million in the 2013-2017 Adopted CIP. The Construction-Related Revenue Forecast chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2013-2017 Adopted CIP.

FORECAST COMPARISON SUMMARY
($ in Thousands)

	2013-2017 CIP	2014-2018 Forecast	Difference	% Change
Construction and Conveyance Tax	$109,000	$150,000	$41,000	38%
Building and Structure Construction Tax	50,000	55,000	5,000	10%
Construction Excise Tax	65,000	70,000	5,000	8%
Municipal Water System Fees	750	750	0	0%
Residential Construction Tax	500	925	425	85%
Sanitary Sewer Connection Fee	3,000	3,250	250	8%
Storm Drainage Connection Fee	700	750	50	7%
TOTAL	**$228,950**	**$280,675**	**$51,725**	**23%**

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

CAPITAL REVENUE FORECAST

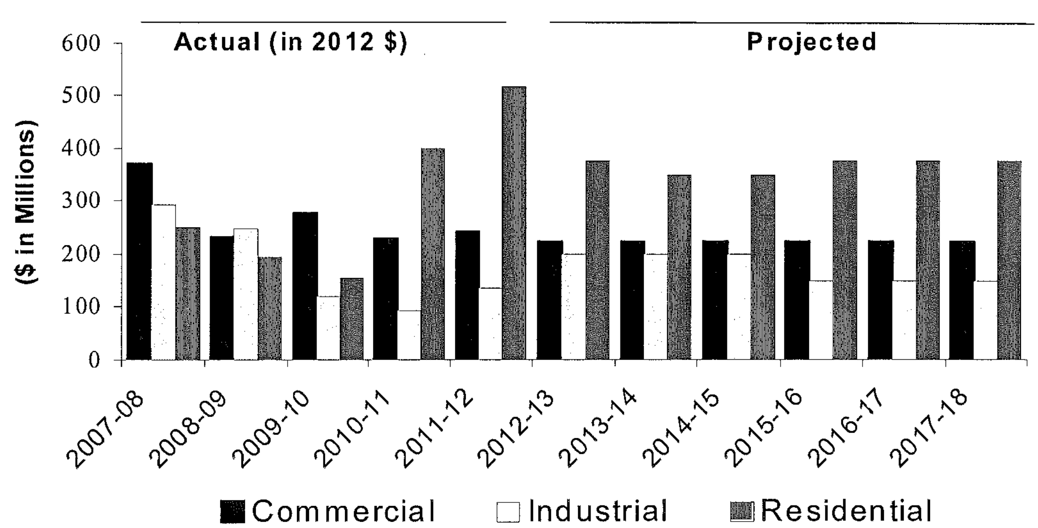
CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this Forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides projections of construction activity related to residential, commercial, and industrial development. The valuation figures have been adjusted to 2012 dollars per the Bureau of Labor Statistics Consumer Price Index, San José-San Francisco-Oakland all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled "Development Activity Highlights and Five-Year Forecast (2014-2018)", which is attached as an appendix to this document.

Based on projections provided by the PBCE Department, construction activity valuation in the current year is estimated to continue at slightly lower levels than actually experienced last year: \$800 million for 2012-2013, or an 11% decrease, compared to \$894 million in 2011-2012. This level of activity is expected to drop to \$775 million in 2013-2014 and 2014-2015, and then drop slightly again in to \$750 million for 2016-2017 and 2017-2018. These assumptions show a slight improvement of 12%, or a \$425 million increase from the levels presented in the 2013-2017 Forecast where activity ranged from \$675 million in 2012-2013 through 2014-2015 and increased to \$700 million in 2015-2016 and 2016-2017.

The following graph illustrates the level of projected construction activity by type (not including exemptions).

CONSTRUCTION VALUATION, BY TYPE



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

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

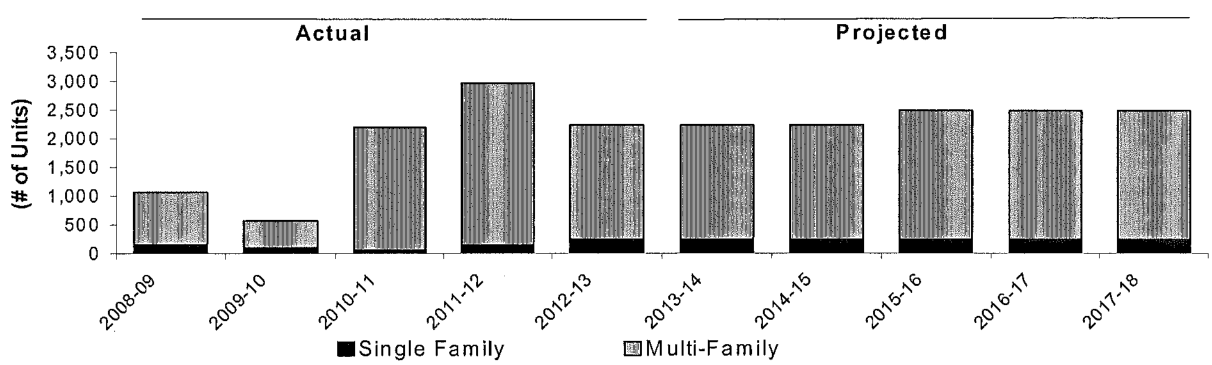
A. Residential Construction Activity

A significant portion of development-related revenue in San José has traditionally been generated by residential construction. Construction activity in 2011-2012 in this sector reached a five-year high of 2,973 new dwelling units as a result of a surge in activity in the later half of the year. This compares to an all-time low of just 573 new dwelling units in 2009-2010. Construction of new residential units is anticipated to decline by 25% (to 2,225 units) in 2012-2013 from last year's levels, as relatively high demand for rental housing continues in the near term.

The total value of residential construction activity projected in this Forecast is $1.825 billion, a 9% increase over the 2013-2017 Forecast. The PBCE Department expects residential construction activity to generate an estimated 2,250 new units per year from 2012-2013 through 2014-2015, and then increase to 2,500 new units per year from 2015-2016 through 2017-2018. This represents an average of 2,400 units per year or 12,000 units over the forecast period. This activity level has increased slightly compared to the 11,500 units included in the 2013-2017 Forecast.

This Forecast expects a total of 10,750 multi-family dwelling units, or approximately 90% of all dwelling units (single-family and multi-family), to be constructed, reflecting the construction of higher density housing primarily in North San José. This figure represents a 5% increase compared to the projections in the 2013-2017 Forecast for this category. Conversely, only 1,250 new single-family dwelling units are anticipated during this forecast period, flat compared to projections in the 2013-2017 Forecast, demonstrating that high-density developments will continue to drive residential construction for the foreseeable future. The following chart shows the number of new units, by housing type, anticipated in San José through 2017-2018.

RESIDENTIAL CONSTRUCTION ACTIVITY



B. Commercial Construction Activity

In 2011-2012, commercial construction activity totaled $242 million, a 6% increase from 2010-2011. New construction fell to its lowest levels in almost 20 years, yet alterations of existing buildings climbed to a four-year high. The PBCE Department expects commercial activity to remain flat in 2012-2013, with construction valuation estimated at $225 million.

The total commercial permit valuation projected in this Forecast is $1.125 billion, which reflects no change from the previous five-year Forecast. As discussed in the attached report provided by the PBCE Department, the outlook for commercial construction activity is largely unchanged. The majority of near-term office and retail development is expected to occur in locations further north (i.e., San Francisco and the peninsula). It should be noted that information provided by real estate trade groups for the 4th Quarter in 2012 indicated that the San José office vacancy rate was 17% and the retail vacancy rate was 5.5%. These rates are similar in comparison to the 4th Quarter in 2011 of 19.4% and 5.2%, respectively.

C. Industrial Construction Activity

Industrial construction activity in San José has also experienced a dramatic decline since a peak in 2000-2001. However, 2011-2012 saw industrial valuation rise to $136 million, an increase of 46% from 2010-2011. The majority of industrial construction activity was alterations to existing buildings, with new construction remaining at historically low levels. In 2012-2013, activity for alterations is expected to slightly increase from last year, from $125 million to $150 million, and decrease slightly again to $125 million in 2013-2014 though 2017-2018. New construction is expected to rise to $50 million in 2012-2013, up from $11 million in 2011-2012, rise to $75 million in 2013-2014 and 2014-2015, and drop back down to $25 million from 2015-2016 through 2017-2018. The modest rise and fall during the earlier years of the Forecast are reflective of specific projects expected to move forward during this time period. Industrial valuation over the forecast period is estimated at $850 million, an increase of 36% over the previous Forecast, driven by a few large new construction projects and an overall modest uptick in alteration activity. It should be noted that information provided by real estate trade groups for the 4th Quarter in 2012 indicated that the San José vacancy rate for industrial space was 8.0%, which is similar to the 7.9% vacancy rate for the same period in 2011.

In the Mayor's March 2011 Budget Message approved by the City Council, staff was directed to review costs assigned to private development and develop a structure that makes San José more competitive with surrounding jurisdictions. In addition, staff was directed to explore an incentive program for research and development, office, retail, and light industrial/manufacturing uses. The objective of addressing the cost structure of the development taxes was to create a predictable and competitive environment that supports the City's economic development goals of filling industrial buildings and encouraging new workplace development. Based on this direction, in January 2012, the

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

Administration recommended a development incentive program, which was approved by the City Council. Although the incentive program is expected to encourage the absorption of vacant space by driving industry companies to locate in San José and make the city more competitive for new development projects, this Forecast does not assume any impact from this incentive program due to the difficulty in determining how successful the incentive program will be to stimulate development activity. A more detailed discussion of this incentive program, as well as other incentives related to development fees, taxes, and costs for North San José and Downtown High Rises, can be found in the Building and Structure Construction Tax section of this document.

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2014-2018) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on "major" projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but not yet commenced, and pending City approval). In addition, individual maps are provided for each of the City's 15 planning areas that show the projects in all status categories submitted since January 1, 2008. These maps can be used in conjunction with the activity data to help analyze the rate, type, and location of major development activity in San José.

CONSTRUCTION AND CONVEYANCE TAX

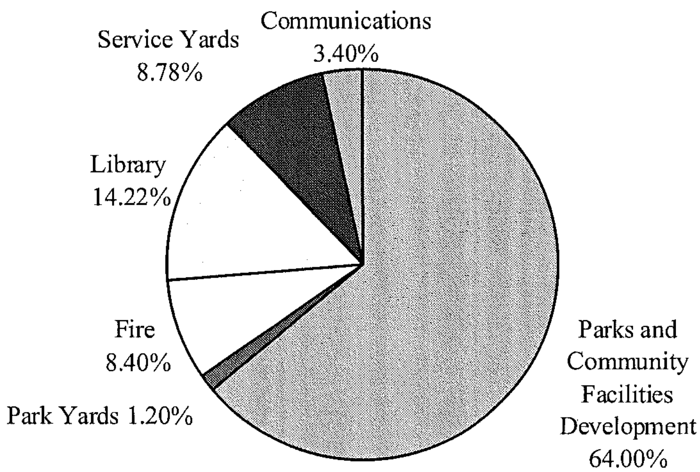
The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from $75 per unit located in a building containing at least 20 dwelling units to $150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

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

Under current ordinance, Construction and Conveyance Tax receipts are allocated to six different capital programs per a distribution formula as displayed on the following page.

CONSTRUCTION AND CONVEYANCE TAX

CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION TO CAPITAL PROGRAMS



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

Consistent with the Construction and Conveyance Tax Task Force recommendations adopted by the City Council in June 1989, the Parks and Community Facilities Development portion of the estimated revenues, less non-construction costs and transfers to the General Fund, is allocated for all years of the Forecast using a two-to-one ratio, with two-thirds of the proceeds going to neighborhood/district park projects and one-third to city-wide park projects. Per the City ordinance, 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 $150 million, which is 38% higher than the estimate used to develop the 2013-2017 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 Josė; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San Josė real estate market.

CONSTRUCTION AND CONVEYANCE TAX

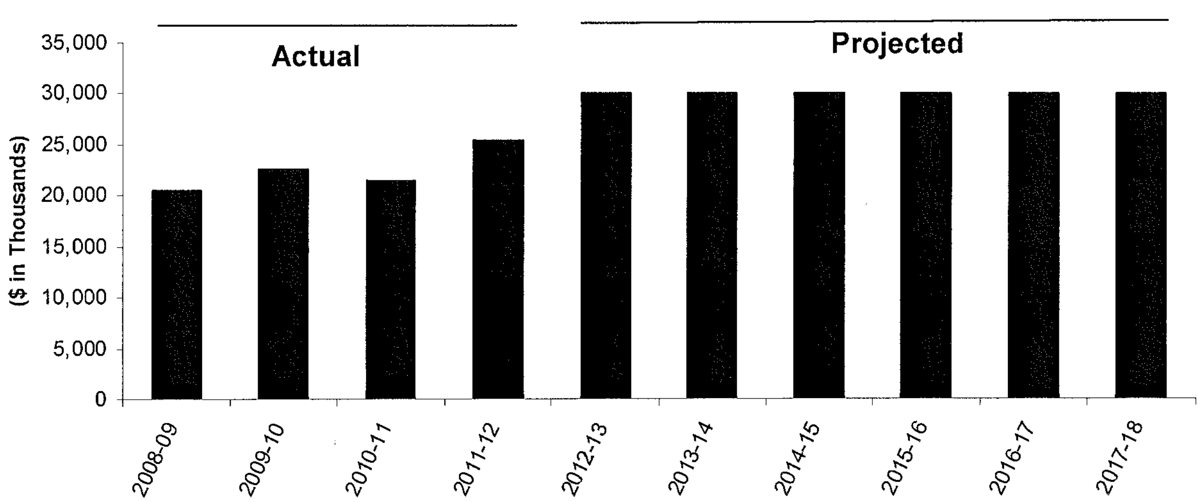
Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. Collections rose slightly in 2009-2010 to $22.5 million, decreased slightly to $21.4 million in 2010-2011, and then rose again to $25.4 million in 2011-2012.

As the housing market shows continued improvement from the steep declines experienced after the collapse of the financial market, action was taken as part of the 2012-2013 Mid-Year Budget Review to increase the Construction and Conveyance Tax revenue estimate from $21.0 million to $30.0 million for 2012-2013. Over the forecast period, revenues are projected to remain at $30.0 million annually, though these estimates could vary significantly due to the historically volatile real estate market.

As discussed earlier, nearly 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. The median single-family home price in January 2013 was $613,500, which is an increase of 40.2% from the January 2012 price of $437,500. The January 2013 figure represents the highest median single-family home price since May 2008. In addition, the amount of time it took to sell these more expensive homes (single-family and multi-family dwellings) dropped from 88 days in January 2012 to 52 days in January 2013. However, the number of property transfers (sales) for all types of residences in January 2013 totaled 319, which represents a decrease of approximately 37.1% from the 507 sales that occurred in the same month in the prior year.

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

CONSTRUCTION AND CONVEYANCE TAX REVENUES



CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX

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

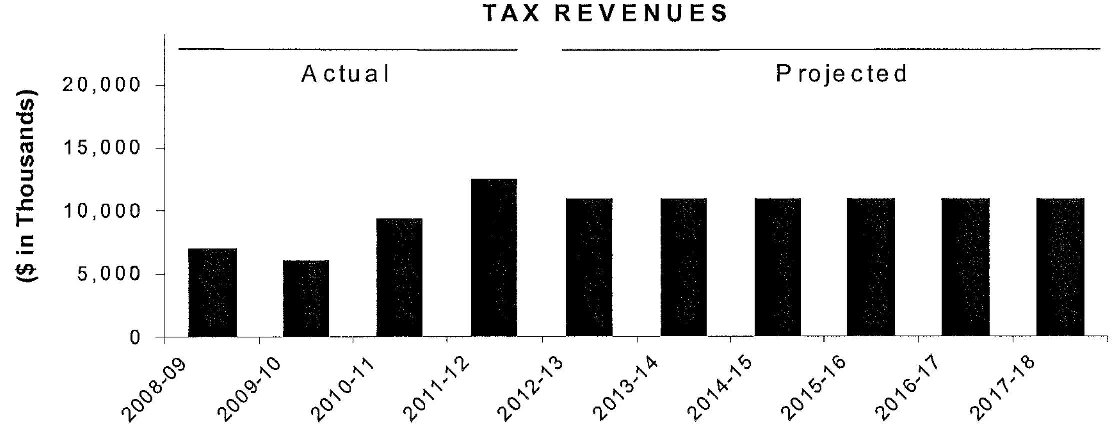
1) Residential – 1.75% of 88% of the Building Official's valuation.
2) Commercial – 1.5% of the Building Official's valuation.
3) Industrial – 1.0% of the Building Official's valuation.

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

Building and Structure Construction Tax receipts through January totaled $7.2 million, compared to a budgeted estimate of $10.0 million. This tax is tracking similar to actual levels received in 2011-2012, with collection levels just $218,000 above the same period last year. Year-end collections are projected to total $11.0 million, due to strong residential construction activity. This performance is much welcomed compared to a 15-year low of $6.1 million collected in 2009-2010.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals $55.0 million. Collections are projected to be $11 million in 2012-2013 and remain at this level during the forecast period. The five-year revenue projection represents an increase of approximately $5.0 million (10%) from the estimate included in the 2013-2017 Adopted CIP, reflecting the modest improvement in construction activity. 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 below.

BUILDING AND STRUCTURE CONSTRUCTION TAX REVENUES



BUILDING AND STRUCTURE CONSTRUCTION TAX

As mentioned previously, in March 2011, staff was directed to review costs assigned to private development and develop a structure that makes San José more competitive with surrounding jurisdictions and to explore an incentive program for research and development, office, retail, and light industrial/manufacturing uses. While San José has multiple construction-related taxes, staff concentrated primarily on reviewing the two largest, the Building and Structure Construction Tax and the Construction Excise Tax, as they make up approximately two-thirds of the cost of many building permits issued by the City.

Given that these two taxes are the primary funding sources for the Traffic Capital Program, any decrease to these taxes would result in a negative impact to the continued development of an effective transportation system and maintenance of the City's current traffic infrastructure. Taking this into consideration, a short-term incentive program was approved by the City Council in January 2012. This incentive program adjusts the definition of industrial uses and results in certain projects designated as office, research and development, data center, and solar photovoltaic systems paying a lower rate of Building and Structure Construction Tax and being exempt from the Construction Excise Tax. Therefore, projects designated as these uses are currently taxed at the lower industrial rate of 1% rather than the 4.5% rate for commercially designated projects. This incentive program, intended to spur development activity, sunsets March 15, 2014 and any losses of revenue that otherwise would have funded traffic capital projects will be offset by funding in the Economic Development Enhancement Fund, up to $450,000. If the funds are exhausted before the sunset date, staff will revisit the incentive program, considering the fiscal environment at that time. Staff will return to the City Council in early 2014 to propose a permanent plan for modernization of the City's construction taxes to encourage job creation while ensuring major traffic infrastructure remains funded.

The City Council, in keeping with the objective of advancing the City's economic development goals, also implemented a temporary reduction to the North San José traffic impact fees that sunsets in December 31, 2014. Under this temporary incentive program, North San José traffic impact fees would be capped at $5 per square foot for projects larger than 100,000 square feet, with a cap of 1,000,000 square feet of development (subsequently increased by 250,000 square feet in February 2013). In January 2012, at the time of the incentive program's approval, the traffic impact fee was $12.69 per square foot, which is significantly higher than neighboring jurisdictions. The intent of this incentive program is to drive near-term industrial development to benefit from the latest growth cycle in the regional economy. One consequence of the incentive program, however, is a reduction in fee revenue available to implement the $570 million North San José Transportation Plan. The plan anticipated developer fees contributing $460 million; the incentive program reduces that amount to $449 million. While staff will pursue grant opportunities in an attempt to make up for this $11 million shortfall, the total amount of regional grants needed to implement the plan now exceeds $100 million, making its future implementation a challenging prospect.

In May 2012, the City Council approved, and subsequently extended in February 2013, additional development incentives for Downtown high rise residential development. This incentive program was targeted toward residential buildings of at least 12 stories in height for the next 1,000 residential units in the Downtown. This temporary incentive program mandates that a

BUILDING AND STRUCTURE CONSTRUCTION TAX

building permit will be issued by December 31, 2014, and will result in a 50% reduction in development taxes for eligible projects. At this time, it is not anticipated that this incentive program will have a negative impact on the Traffic Capital Program, as this incentive is intended to secure projects that would not have otherwise occurred.

CONSTRUCTION EXCISE TAX

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

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

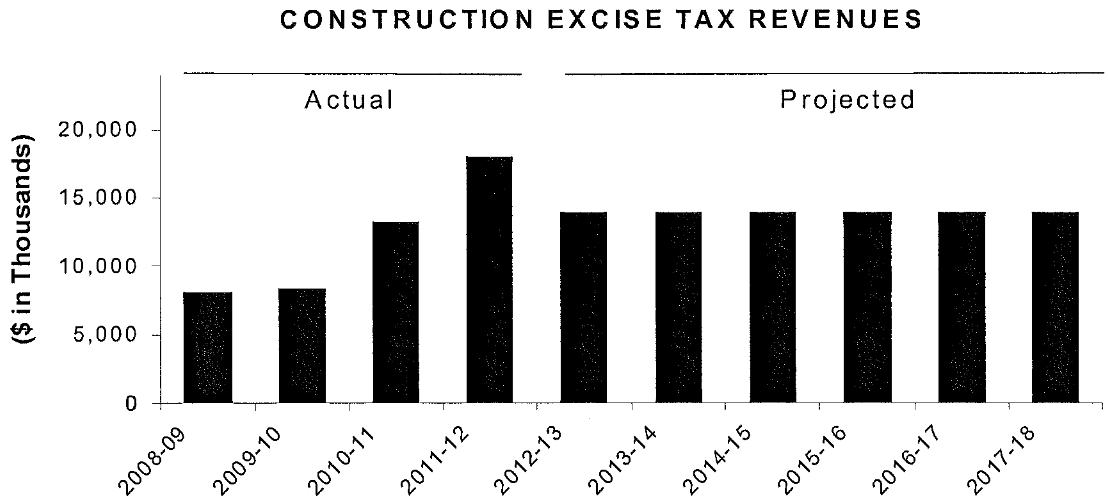
Unlike the Building and Structure Construction Tax, this tax does not apply to industrial development. As a result, changes in industrial building activity do not affect these tax receipts. However, the development incentive program implemented in January 2012, as described earlier, is anticipated to impact this tax as certain projects that now temporarily fall under the definition of industrial uses will be exempted from the Construction Excise Tax through March 15, 2014. As mentioned above, this tax is a general purpose tax; however, the majority of the proceeds have generally been used for a variety of essential Traffic Capital projects that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City's ability to obtain State and federal grants. A portion of these taxes have also been historically used as a budget balancing solution to address General Fund shortfalls, as needed.

Receipts through January for the Construction Excise Tax Fund totaled $9.2 million, compared to a budgeted estimate of $13.0 million. While this tax is tracking 8% lower than 2011-2012, collection levels for the same period last year, year-end collections are expected to total $14 million, slightly exceeding the budgeted estimate due to construction of new multi-family residential units in North San José.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total $70.0 million over the five-year forecast period, with annual expected proceeds of $13 million throughout the forecast period. This collection level also represents an increase of $5 million (8%) from the 2013-2017 Adopted CIP. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown on the following page.

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX



MUNICIPAL WATER SYSTEM FEES

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

Individual fee collections for the Municipal Water System in 2012-2013 are tracking either at or near budgeted estimates. This level of activity is expected to continue in the near term and $750,000 in revenue is expected over the five-year period of this Forecast for the fees detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

($ in Thousands)

	2013-2017 CIP	2014-2018 Forecast	Difference	Change
Advance System Design Fee	250	250	0	0%
Meter Installation Fee	250	250	0	0%
Service Connection Fee	250	250	0	0%
TOTAL	750	750	0	0%

CAPITAL REVENUE FORECAST

MUNICIPAL WATER SYSTEM FEES

The forecast for Municipal Water System fees remains unchanged from the 2013-2017 Adopted CIP, reflecting a relatively steady pace of the combined development activity in the Municipal Water System service areas, which include North San José, Evergreen, Alviso, Edenvale, and Coyote Valley areas, over the period. As noted in the previous Forecast, because of the volatility of Major Facilities Fee revenue, this fee revenue will be allocated for projects as actual collections occur rather than being allocated based on an estimate.

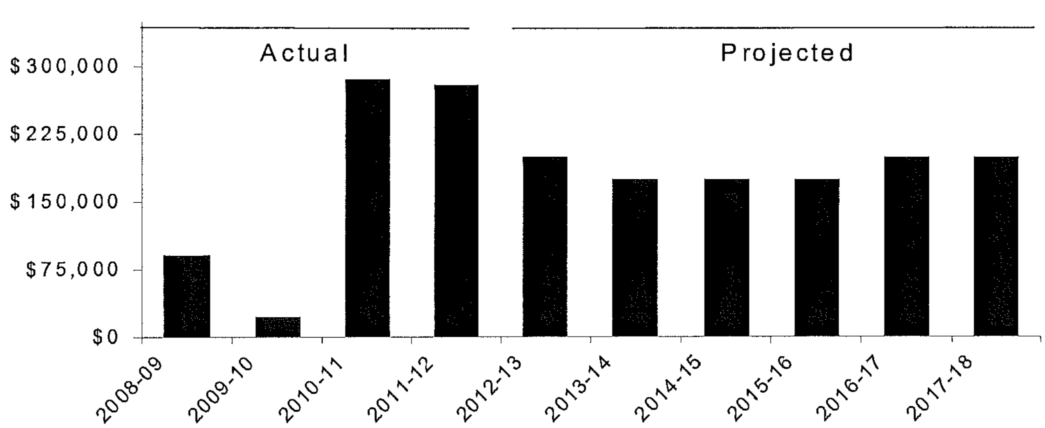
RESIDENTIAL CONSTRUCTION TAX

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

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

Collections for this tax in 2012-2013 are tracking at $200,000 by year end, exceeding the budgeted estimate. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, $925,000 in revenue is expected over the five-year period of this Forecast. This level of collection is an 85% increase from the 2013-2017 Adopted CIP revenue estimates of $500,000, and reflects expectations that development activity will continue to remain strong over the period.

RESIDENTIAL CONSTRUCTION TAX REVENUES



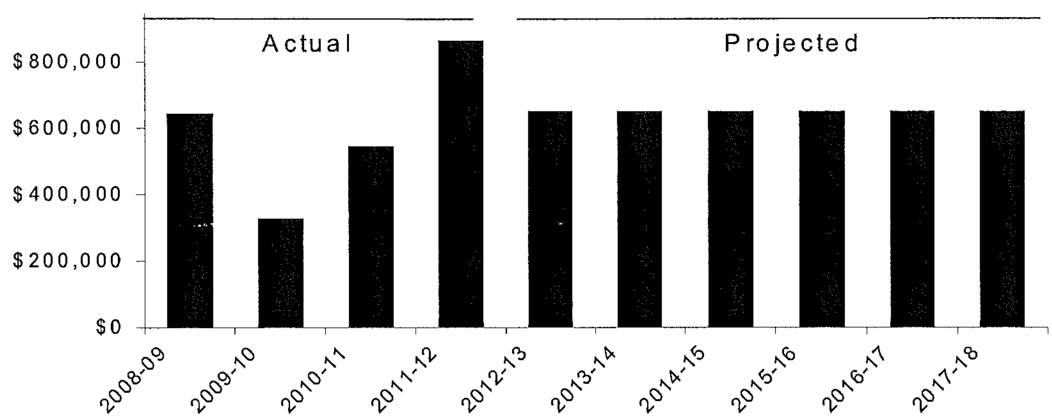
CAPITAL REVENUE FORECAST

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.

Fee collections in 2012-2013 are tracking to end the year at $650,000, slightly exceeding the budgeted estimate. The 2014-2018 Forecast projection for this fee is $3.3 million, which is a 7% increase from the 2013-2017 Adopted CIP estimate of $3.0 million. This estimate is based on the assumptions that development activity will continue to remain strong over the period.

SANITARY SEWER CONNECTION FEE REVENUES



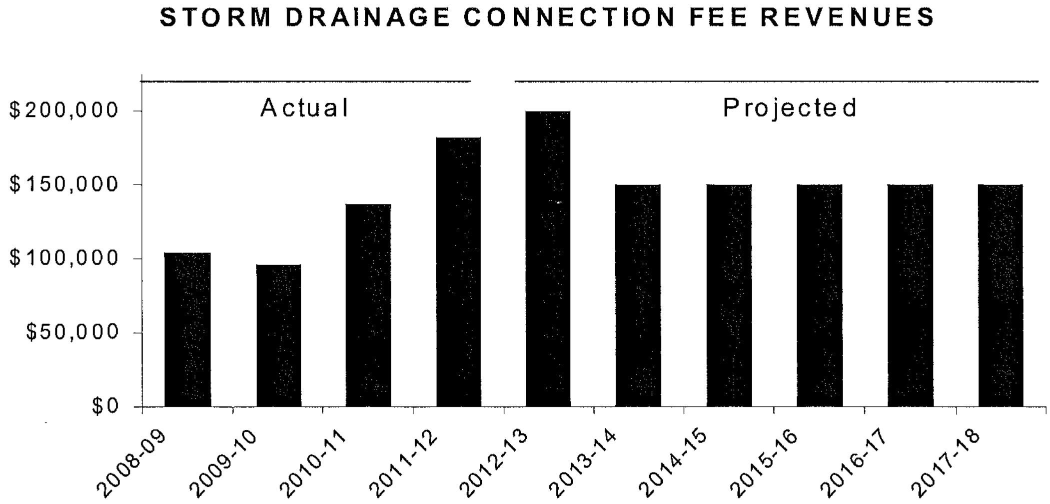
STORM DRAINAGE CONNECTION FEE

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

Fee collections in 2012-2013 are tracking to end the year at $200,000, exceeding the budgeted estimate. The five-year forecast for Storm Drainage Connection Fees is $750,000, which is a 7% increase from the estimate of $500,000 included in the 2013-2017 Adopted CIP.

CAPITAL REVENUE FORECAST

STORM DRAINAGE CONNECTION FEE



ATTACHMENT A

CONSTRUCTION-RELATED REVENUE FORECAST
2014-2018
(in $ thousands)

	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-2017	2017-2018	5 Yr Total
Construction and Conveyance Tax								
2013-2017 Adopted CIP	25,383	21,000	22,000	22,000	22,000	22,000	N/A	109,000
2014-2018 FORECAST		30,000	30,000	30,000	30,000	30,000	30,000	150,000
Difference		9,000	8,000	8,000	8,000	8,000	N/A	41,000
Building and Structure Construction Tax								
2013-2017 Adopted CIP	12,593	10,000	10,000	10,000	10,000	10,000	N/A	50,000
2014-2018 FORECAST		11,000	11,000	11,000	11,000	11,000	11,000	55,000
Difference		1,000	1,000	1,000	1,000	1,000	N/A	5,000
Construction Excise Tax								
2013-2017 Adopted CIP	18,029	13,000	13,000	13,000	13,000	13,000	N/A	65,000
2014-2018 FORECAST		14,000	14,000	14,000	14,000	14,000	14,000	70,000
Difference		1,000	1,000	1,000	1,000	1,000	N/A	5,000
Municipal Water Advance System Design Fee								
2013-2017 Adopted CIP	66	50	50	50	50	50	N/A	250
2014-2018 FORECAST		50	50	50	50	50	50	250
Difference		-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee								
2013-2017 Adopted CIP	70	50	50	50	50	50	N/A	250
2014-2018 FORECAST		50	50	50	50	50	50	250
Difference		-	-	-	-	-	N/A	-
Municipal Water Service Connection Fee								
2013-2017 Adopted CIP	38	50	50	50	50	50	N/A	250
2014-2018 FORECAST		50	50	50	50	50	50	250
Difference		-	-	-	-	-	N/A	-
Residential Construction Tax								
2013-2017 Adopted CIP	280	100	100	100	100	100	N/A	500
2014-2018 FORECAST		200	175	175	175	200	200	925
Difference		100	75	75	75	100	N/A	425
Sanitary Sewer Connection Fee								
2013-2017 Adopted CIP	863	600	600	600	600	600	N/A	3,000
2014-2018 FORECAST		650	650	650	650	650	650	3,250
Difference		50	50	50	50	50	N/A	250
Storm Drainage Connection Fee								
2013-2017 Adopted CIP	182	140	140	140	140	140	140	700
2014-2018 FORECAST		200	150	150	150	150	150	750
Difference		60	10	10	10	10	N/A	50
TOTAL								
2013-2017 Adopted CIP	57,504	44,990	45,990	45,990	45,990	45,990	N/A	228,950
2014-2018 FORECAST		56,200	56,125	56,125	56,125	56,150	56,150	280,675
Difference		11,210	10,135	10,135	10,135	10,160	N/A	51,725
% Change from 2013-2017 CIP		25%	22%	22%	22%	22%	N/A	23%

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Five-Year Economic Forecast and Revenue Projections

2014-2018

Appendix A

2012-2013 Adopted Budget One-Time Funded Proposals
Service Restorations Previously Identified by City Council (January 1, 2011 Levels)
Service Restoration Decision Making Framework
Guiding Principles for Restoring City Service Levels
City of San José Budget Principles

2012-2013 Adopted Budget
One-Time Funded Proposals

Program	Dept	FTE	General Fund (2013-2014 Costs)	All Funds (2013-2014 Costs)
City Clerk Staffing (1.0 Staff Technician, 1.0 Analyst II)	City Clerk	2.00	$ 199,000	$ 199,000
City Attorney ESD and PW Capital Support (1.0 Legal Analyst II, 1.0 Sr. Deputy City Attorney)	City Attorney	2.00	$ -	$ 404,000
City Attorney Legal Support Staffing (1.0 Legal Analyst II, 1.0 Sr. Deputy City Attorney)	City Attorney	2.00	$ 361,000	$ 361,000
Economic Development/Incentive Fund	City-Wide/OED		$ 750,000	$ 750,000
Fair Swim Center Program (1.24 Lifeguard PT, 0.14 Assistant Swimming Pool Mgr. PT, 0.13 Swimming Pool Mgr. PT)	PRNS	1.51	$ 38,000	$ 38,000
Fiscal Reform Plan Staffing (2.0 Temporary Sr. Executive Analyst - Office of Employee Relations)	CMO		$ 290,000	$ 290,000
Independent Police Auditor Staffing (1.0 IPA Analyst II)	IPA	1.00	$ 96,000	$ 96,000
Medical Marijuana Program (1.0 Legal Analyst II, 1.0 Sr. Deputy City Attorney, 0.5 Legal Admin Assistant II, 0.5 Deputy City Attorney, 1.0 Accountant, 1.0 Investigator Collector, 1.0 Police Sergeant, 1.0 Code Enforcement Inspector, 1.0 Assistant to the City Manager)	Various	8.00	$ 1,287,000	$ 1,287,000
Neighborhood Business Districts	City-Wide/OED		$ 45,000	$ 45,000
Safe Summer Intitative	City-Wide/PRNS		$ 100,000	$ 100,000
San José BEST Program (1.0 Analyst, 3.0 Youth Outreach Worker I, 0.5 Youth Outreach Worker I PT)	City-Wide/PRNS	4.50	$ 1,500,000	$ 1,500,000
Senior Services & Wellness Program Support	PRNS		$ 200,000	$ 200,000
Senior Transportation Services (1.0 Recreation Program Specialist)	PRNS	1.00	$ 310,000	$ 310,000
Silver Creek Aquatics Program	PRNS		$ 25,000	$ 25,000
Volunteer Engagement (1.0 Recreation Leader PT, 0.25 Volunteer Coordinator)	PRNS	1.25	$ 47,000	$ 47,000
	TOTAL	**23.26**	**$ 5,248,000**	**$ 5,652,000**

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Service Restorations Previously Identified by City Council (January 1, 2011 Levels)	
Fire	• 33 Fire Stations open; • On average, Citywide, 82.6% of time, the initial responding fire unit arrives within 8 minutes after an emergency 9-1-1 call is received*; • On average, Citywide, 85.2% of time, the second response fire unit arrives within 10 minutes after an emergency 9-1-1 call is received*. * Response time data under review
Police	• On average, Citywide, average response time for Priority One police calls for service (present or imminent danger to life or major damage/loss of property) is 6.04 minutes; • On average, Citywide, average response time for Priority Two police calls for service (injury or property damage or potential for either to occur) is 12.74 minutes; • On average, overall, the clearance rate (number cleared / total cases) for Part 1 crimes is as follows: Homicide (65.00%), Rape (19.37%), Robbery (26.54%), Aggravated Assault (39.93%), Burglary (5.58%), Larceny (18.90%), and Vehicle Theft (8.85%).
Library	• On average, 18 library branches are open 39 hours per week; • On average, King Library (subject to future contractual arrangements with San José State University): • Hours open: 72 hours per week per academic semester; 58 hours per week otherwise; • Children's Room: 50 hours per week; • Third Floor General Collection and Reference Desks: 64 hours per week; • California Room: 20 hours per week; • Access Services: 72 hours per week; • Periodicals: 72 hours per week; • Second Floor Reference Desk: 72 hours per week.
Community Centers	• On average, 10 Hub Community Centers are open 63 hours per week; • On average, 9 Satellite Community Centers are open 40 hours per week; • On average, 8 Neighborhood Centers are open for 15 hours of programming per week.
Street Maintenance	• 72 miles of residential and arterial streets resealed and 6 miles of residential and arterial streets resurfaced with various Capital and Grant funds (no General Fund allocation). Maintaining this street maintenance level will be contingent upon receiving commensurate levels of regional, state, and federal funds annually.
Facilities Built or Under Construction/ Opening Deferred	• South San José Police Substation.

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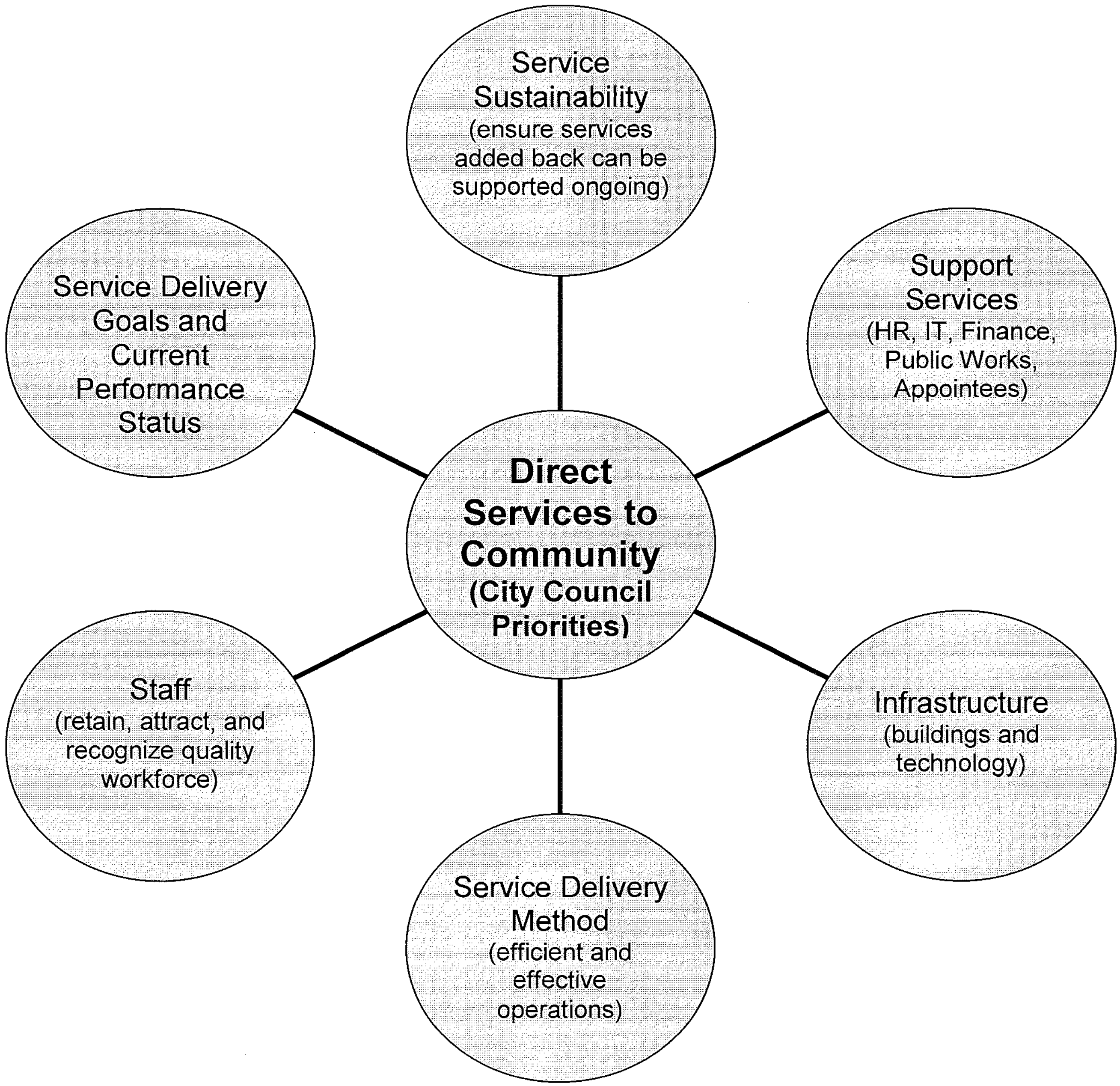
Service Restoration Decision Making Framework



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Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

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

Choose Investments that Achieve Significant Outcomes

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

Improve the Efficiency and Effectiveness of Service Delivery

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

Approved by the City Council on March 20, 2012

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CITY OF SAN JOSE BUDGET PRINCIPLES

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

1) STRUCTURALLY BALANCED BUDGET

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

2) PROPOSED BUDGET REVISIONS

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

3) USE OF ONE-TIME RESOURCES

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

4) BUDGET REQUESTS DURING THE YEAR

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

5) RESERVES

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

Original City Council Approval 03/18/2008
Revised 09/09/08

6) DEBT ISSUANCE

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

7) EMPLOYEE COMPENSATION

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

8) CAPITAL IMPROVEMENT PROJECTS

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

9) FEES AND CHARGES

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

10) GRANTS

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

11) GENERAL PLAN

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

12) PERFORMANCE MEASURES

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

13) FIRE STATION CLOSURE, SALE OR RELOCATION

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

Five-Year Economic Forecast
and
Revenue Projections

2014-2018

Appendix B

General Fund Revenue Descriptions

PROPERTY TAX

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

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

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

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

SALES AND USE TAX

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

The current distribution of the sales tax proceeds is outlined below, which includes an additional voter approved 1/8 cent increase enacted by the Santa Clara Valley Transportation Authority (VTA) on July 1, 2012 (limited to 30 years) to provide operating and maintenance expenses and capital reserve contribution for the Silicon Valley Rapid Transit Project Extension. This does not include the Santa Clara County 1/8 cent increase that was approved by the voters November 2012 and will be effective April 2013.

Agency	Distribution Percentage
State of California	5.75%
City of San José*	1.00%
Santa Clara County	0.75%
Santa Clara Valley Transportation Authority	0.625%
Public Safety Fund (Proposition 172)	0.50%
Total Sales Tax	**8.625%**

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

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

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

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

TRANSIENT OCCUPANCY TAX

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

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (six percent of room rent) is restricted by Ordinance number 20563 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 expenses of the fine arts division (approximately 25%).

3) Funding for convention facilities operations and maintenance in the Convention and Cultural Affairs Fund (approximately 50%).

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

FRANCHISE FEES

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

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

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

FRANCHISE FEES

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

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

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

UTILITY TAX

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

TELEPHONE LINE TAX

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

BUSINESS TAXES

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

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

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

BUSINESS TAXES

recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates (as reflected) were returned to the levels prior to November 1996.

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

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

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

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

LICENSES AND PERMITS

The City requires payment for the issuance of Building Permits, Fire Permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. For example, the City requires fire safety inspections of all commercial property. The fee provides for inspection charges and a number of special charges. Authorized exceptions include the

LICENSES AND PERMITS

addition and/or alteration of under 20 sprinkler heads and the installation of portable fire extinguishers. The fee is authorized by Title 17 of the Municipal Code, Chapter 17.12. Where appropriate, license and permit fees take into consideration approved exceptions to the City Council's full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City's Fees and Charges Report, which is released in May of each year.

FINES, FORFEITURES, AND PENALTIES

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

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

USE OF MONEY AND PROPERTY

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

USE OF MONEY AND PROPERTY

the rental of City-owned property. Exceptions are created by City Council resolution. The fees are authorized in Title 2 of the Municipal Code, Section 2.04.1070.

REVENUE FROM LOCAL AGENCIES

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

REVENUE FROM THE STATE OF CALIFORNIA

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

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

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

REVENUE FROM THE STATE OF CALIFORNIA

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

REVENUE FROM THE FEDERAL GOVERNMENT

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

DEPARTMENTAL CHARGES

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

OTHER REVENUE

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

TRANSFERS AND REIMBURSEMENTS

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

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

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

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

STATE GAS TAX

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

County Allocation :	**a**	No. of Registered Vehicles in County
	÷ b	No. of Registered Vehicles in State
	x c	$0.0104
	x d	Gallons of Gas Sold
City Allocation:	**a**	Incorporated Assessed Value in County
	÷ b	Total Assessed Value in County
	x c	County Allocation
Individual City Allocation:	**a**	Population in City
	÷ b	Population of all Cities in County
	x c	City Allocation

STATE GAS TAX

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

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

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Five-Year Economic Forecast and Revenue Projections

2014-2018

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2014-2018)

Prepared by:

City of San Jose
Department of Planning, Building and Code Enforcement
February 2013

Development Activity Highlights and Five-Year Forecast (2014-2018)

For more information, please contact:

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

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

Development Activity Highlights and Five-Year Forecast (2014-2018)

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Development Activity Highlights
and Five-Year Forecast (2014-2018)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2014-2018)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves several functions. First, the report assists the Office of the City Manager in estimating future construction-related tax revenues that generate funds for the City's Capital Improvement Program. Second, the report provides City policymakers and staff with key data for periodic assessment of the rate, type, and location of development activity in San Jose. Lastly, the report is a tool for distributing information on major development projects to the general public.

II. SUMMARY

Development in San Jose has clearly rebounded over the past two years right alongside notable improvements in the local economy. News headlines have celebrated the fact that San Jose just eclipsed the number of jobs that it had before the recent recession—a key milestone that only a small number of cities nationwide can claim. But this recovery has not yet translated into a comparable increase in construction activity. Specifically, while residential development has seen a strong resurgence, non-residential development has failed to attract levels of investment commensurate with a full-fledged economic recovery. In particular, there is yet to be any significant amount of new retail and office construction, and tenant improvements (alterations) are showing only a very subtle uptrend.

Fortunately, several high-profile economic development projects are now in the entitlement process. It is unclear that this anticipated growth will be sustainable, and accordingly this forecast is based on a conservative view of the future. For historical context, this outlook anticipates a significantly different recovery cycle than was experienced during prior economic/construction cycles over the past 15-20 years: (1) Technology Boom (1996-2003), an extremely robust era when annual construction valuation was generally in the $1.0 to $1.5 billion range (peaking at an incredible $2.0 billion in 2000); and, (2) Housing Boom (2003-2008), a slower but steadier stretch when annual construction valuation was about $900 million, and strength in residential activity somewhat offset slack in non-residential activity.

In consideration of the various economic factors that have resulted in subdued development these past five years, analysis suggests only moderate activity levels going forward, with permit valuation of approximately $750-$800 million per year. The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2014-2018).

Residential Development

- *New housing production in San Jose exceeded 4,000 dwelling units per year during the late-1990's, and then declined to an average of just over 3,000 units per year from 2001-2006. With onset of the recent recession, activity dropped off sharply to about half the prior pace, or an average of 1,500 units per year. However, beginning in late-2010/early-2011, activity began to rebound, with fiscal year 2011/12 reaching a five-year high of 2,973 units (well above the staff forecast of 2,000 units).*

- *Staff forecasts that residential construction activity will slow from last year's spike. While apartment activity to-date has remained quite strong, and some limited for-sale development has begun to emerge, a recent flattening of occupancy and rental rate trends suggest greater caution ahead. San Jose rents have been steadily rising at a 10%-plus rate for the last three consecutive years so that affordability is a growing concern. Furthermore, with heightened job security, property values rebounding (yet still well below the peak), and record low interest rates, some tenants will no doubt find home ownership an increasingly attractive alternative, thereby suppressing future rental demand.*

- *Over the five-year forecast period, new construction activity is expected to continue at the relatively moderate pace of 2,250 to 2,500 units per year. High-density, multi-family housing should comprise roughly 90% of all units, and include more high-rise development in Downtown. With many reputable builders having used the recent downturn as an opportunity to position themselves for the future, it seems clear that momentum in new housing construction will continue over the near term.*

Commercial Development

- *After a five-year-long boom in commercial construction activity that spanned the late-1990's to early 2000's, during which time total permit valuation averaged over $500 million per year, activity since has generally averaged less than half that level. In fiscal year 2011/12, commercial construction activity was flat overall from the prior year, with new construction at its lowest level in almost 20 years offset by tenant improvements (alterations) that rose to a four-year high. Activity was in-line with the staff forecast ($225 million).*

- *Staff forecasts that commercial construction activity for fiscal year 2012/13 will continue the moderate levels of the "post boom" era, with total permit valuation amounting to $225 million. This activity will be driven by some limited amount of new construction, but primarily steady tenant improvements (alterations) activity, which should once again make up the majority of building permit valuation.*

- *For the five-year forecast period, commercial construction activity is forecast to remain flat. While an economic recovery has clearly taken hold in the Bay Area, this* *recovery is uneven, with the majority of near-term office and retail development occurring in locations further north (i.e., San Francisco and the Peninsula). However, several mixed use/employment center projects (e.g., Hitachi, Flea Market, etc.) have begun initial site preparations, and other retail-only projects (e.g., Almaden Ranch, Sun Garden, etc.) should move forward as well. Even so, these projects will not result in any significant change to the flat activity trend.*

Industrial Development

- *Similar to commercial activity, industrial construction activity averaged nearly $500 million per year in permit valuation over the five-year period of 1997-2001. Since that time, however, activity has registered just a small fraction of that figure, dipping to sub-$100 million lows following the Great Recession. In fiscal year 2011/12, as with commercial development, industrial activity was mixed— new construction remained near an almost decade low, yet tenant improvements (alterations) rose to a four-year high. Overall, activity amounted to $136 million, slightly above the staff forecast of $125 million.*

- *Staff finds industrial construction activity in the early stages of a modest, multi-year rebound in fiscal year 2012/13, with total permit valuation reaching $200 million in the current fiscal year. In the near term, this increase is essentially guaranteed, as year-to-date activity has been boosted by Cisco Systems' construction of two four-story parking garages (at their main "Site 4" campus), and a few notable alterations projects involving interior building additions (e.g., Synaptics' relocation to 1109-1251 McKay Drive in the International Business Park).*

- *Based on current activity trends, industrial construction will likely remain low over the forecast period. The most promising development proposal, just filed in early January, is Samsung Semiconductor's plan to build a new 10-story office building at their existing site on the northwest corner of North First Street and Tasman Drive. Other projects of a speculative nature are not assumed to be moving forward within the forecast timeframe given persistently high vacancy rates and lease rates that are increasingly attractive but may not justify the associated risk. Tenant improvements should outpace new construction for some time to come, a pattern more typical of recessionary periods.*

III. FIVE-YEAR FORECAST (2014-2018)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction valuation is expected to fall roughly 10% from last year, totaling $800 million during fiscal year 2012/13. A more gradual decline is expected throughout the remainder of the forecast period, as moderate activity levels should prevail in the absence of any new economic paradigm.

Table 1
Construction Valuation: FY 07/08 to FY 17/18

Fiscal Year	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
	Actual Valuation[1] (in millions)					Projected Valuation (in millions)					
New Construction											
Residential	$171	$129	$88	$317	$431	$300	$275	$275	$300	$300	$300
Commercial	$200	$89	$152	$75	$75	$75	$75	$75	$75	$75	$75
Industrial	$119	$140	$68	$8	$11	$50	$75	$75	$25	$25	$25
Subtotal	$489	$359	$308	$400	$517	$425	$425	$425	$400	$400	$400
Alterations											
Residential	$79	$65	$67	$82	$85	$75	$75	$75	$75	$75	$75
Commercial	$170	$144	$124	$153	$167	$150	$150	$150	$150	$150	$150
Industrial	$175	$107	$51	$85	$125	$150	$125	$125	$125	$125	$125
Subtotal	$424	$316	$242	$320	$376	$375	$350	$350	$350	$350	$350
GRAND TOTAL	**$914**	**$675**	**$550**	**$719**	**$894**	**$800**	**$775**	**$775**	**$750**	**$750**	**$750**
Tax Exemptions											
Residential	*	*	*	*	*	$(50)	$(50)	$(50)	$(50)	$(50)	$(50)
Commercial	*	*	*	*	*	$(25)	$(25)	$(25)	$(25)	$(25)	$(25)
Industrial	*	*	*	*	*	$(25)	$(25)	$(25)	$(25)	$(25)	$(25)
Net Total (Taxable)						**$700**	**$675**	**$675**	**$650**	**$650**	**$650**

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

[1]Valuation figures adjusted to 2012 dollars, per Bureau of Labor Statistics Consumer Price Index (CPI), San Jose-San Francisco-Oakland, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 07/08 to FY 17/18

Fiscal Year	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
	Actual[1]					Projected					
Residential (Units)											
Single-Family	245	160	103	66	140	250	250	250	250	250	250
Multi-Family	1,300	911	470	2,142	2,833	2,000	2,000	2,000	2,250	2,250	2,250
TOTAL	1,545	1,071	573	2,208	2,973	2,250	2,250	2,250	2,500	2,500	2,500
Non-Residential (sq.ft., in thousands)											
Commercial	1,250	1,000	750	500	500	500	500	500	500	500	500
Industrial	250	500	250	0	0	250	500	500	250	250	250
TOTAL	1,500	1,500	1,000	500	500	750	1,000	1,000	750	750	750

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

IV. CONSTRUCTION TAXES AND EXEMPTIONS

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

Building and Structure Construction Tax

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

Construction Excise Tax

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

Residential Construction Tax

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

Exemptions

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

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

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

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

V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. These data focus on recent "major" projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet. This data collection effort has identified over 23,000 dwelling units and approximately 13.5 million square feet of non-residential space submitted for Planning approval since January 1, 2008.

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
Projects Completed									
PDA07-006-03	12/12/08	Crescent Village Apts	097-33-113	SE/c Zanker & River Oaks	North	MF	1,750	MD	1/15/09
PDA08-039-01	7/7/09	University Villas Apts	230-14-026	N/s Campbell, 250' ely El Camino Real	West Valley	MF	138	LX	4/26/10
PD08-071	12/17/08	Santana Row (Levare)	277-40-011	NW/c Olin & Hatton	West Valley	MF	118	SZ	4/23/10
PD09-001	1/20/09	Brookwood Terrace Apts	472-05-075	S/s E. San Antonio, opp. S. 28th	Central	MF	84	SZ	6/15/09
Total							**2,090**		
Projects Under Construction									
PD08-056	8/29/08	Epic Apts	097-15-026	SE/c River Oaks & Seely	North	MF	769	ES	1/23/09
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	MF	704	JB	11/30/07
PD11-031	9/8/11	Vista Montana Park Apts	097-52-028	B/s Vista Montana, bet Tasman & N. 1st	North	MF	444	JH	10/14/11
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	MF	371	RM	10/10/08
PDA08-036-01	11/4/08	River Oaks Apts (West)	097-33-036	NE/c Zanker & River Oaks	North	MF	293	MD	12/19/08
PD11-025	3/11/11	Rosemary Family/Senior Apts	235-05-012	SE/c N. 1st & Rosemary	North	MF	290	LX	8/26/11
PD12-002	1/17/12	La Moraga Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	275	JB	5/4/12
PDA07-090-02	5/26/11	Riverview Mixed Use (Phase 1)	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	271	LX	8/2/11
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	MF	256	SM	3/21/08
PD07-088	10/9/07	Morrison Park Apts	261-01-054	SW/c Cinnabar & Stockton	Central	MF	250	LM	8/1/08
PDA05-066-01	11/3/11	Santana Row (Misora)	277-46-001	SE/c Winchester & Stevens Creek	West Valley	MF	220	LX	2/3/12
PD09-006	2/27/09	Meridian Mixed Use	277-20-006	SW/c W. San Carlos & Meridian	Central	MF	218	ES	6/8/09
PD12-040	9/14/12	Orvieto Family/Senior Apts[1]	455-09-064	W/s Monterey, 300' sly Umbarger	South	MF	198	LX	1/11/13
PD07-036	4/13/07	Baypointe Apts (North)	097-07-031	W/s Baypointe, 370' nly Tasman	North	MF	183	JB	11/30/07
PD08-023	3/11/08	Baypointe Apts (South)	097-07-072	NE/c Baypointe & Tasman	North	MF	174	JB	8/1/08
PD11-009	3/9/11	Vicino Townhomes	277-38-006	W/s S. Monroe, 450' nly Hwy 280	West Valley	SF	104	LX	9/30/11
PD11-003	1/21/11	Cottages at Mirassou	659-57-010	SW/c Ruby & Aborn	Evergreen	SF/MF	104	LX	7/29/11
PD09-033	10/21/09	Ford Apts	678-53-004	N/s Ford, 550' ely Monterey	Edenvale	MF	95	LX	7/16/10
PD11-023	7/21/11	Centered on Capitol Townhomes	589-19-063	NE/c N. Capitol & Sierra	Berryessa	MF	94	LX	11/18/11
PDA04-071-01	9/29/10	Mayfair Court Apts	481-18-013	W/s McCreery, 230' sly Alum Rock	Alum Rock	MF	93	JN	3/15/11

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD10-024	11/2/10	Brookside Homes	575-02-027	W/s Guadalupe Mines, 2000' sly Camden	Almaden	SF	89	LX	9/16/11
PD11-008	3/7/11	Westbury Homes	464-22-030	N/s Blossom Hill, 250' ely Cahalan	Edenvale	SF	86	LX	9/7/11
PD05-045	6/22/05	Oakwood Apts (annex)	299-37-031	SE/c Saratoga & Blackford	West Valley	MF	84	RR	9/28/05
PD10-026	11/5/10	Messina Gardens (Phase 2)	254-06-037	SW/c N. Capitol & Mabury	Alum Rock	MF	77	JN	6/10/11
PD11-026	7/28/11	The Meridian at Willow Glen	447-05-012	NE/c Hillsdale & Yucca	Willow Glen	SF	51	ME	11/18/11
Total							5,793		

Approved Projects (Construction Not Yet Commenced)

PDC09-006	1/27/09	Flea Market Mixed Use	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF/MF	2,082	LX	10/20/09
PD07-090	10/23/07	Riverview Mixed Use	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	1,308	JB	4/4/08
PDC07-015	2/15/07	Newbury Park Mixed Use	254-04-076	NE/c N. King & Dobbin	Alum Rock	SF/MF	972	AB	12/18/07
PD05-087	11/18/05	Hitachi Site Mixed Use	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	936	JR	6/2/06
PD12-039	10/11/12	South Village (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	836	JB	12/20/12
PD12-035	8/15/12	Village Park Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	649	JB	12/20/12
PD11-030	9/8/11	Tasman Apts	097-52-013	B/s Vista Montana, bet Tasman & N. 1st	North	MF	554	JH	10/14/11
PDC08-061	11/3/08	Ohlone Mixed Use	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	537	ME	11/9/10
PDC12-009	4/4/12	Santana Row	277-33-004	SE/c Winchester & Stevens Creek	West Valley	SF/MF	456	LX	8/7/12
PD12-009	3/1/12	Verona/Vicenza at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	439	SD	11/30/12
PD12-007	2/16/12	River Oaks Apts (East)	097-33-102	N/s River Oaks, 200' ely Research	North	MF	438	LX	5/25/12
PDC05-101	10/14/05	Vendome Place	259-05-024	NW/c N. 1st & Taylor	Central	MF	433	LX	4/17/12
PDC08-036	6/20/08	Libitzky Mixed Use	249-09-001	NW/c N. 10th & E. Taylor	Central	MF	403	LX	1/25/11
H07-008	2/16/07	The Carlysle Apts	259-35-007	SW/c N. Almaden & W. St. John	Central	MF	347	MS	12/7/07
PD08-027	4/4/08	Flea Market (North, Phase 1)	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF	242	LX	12/15/10
PDA11-007-02	8/8/12	The Collection Townhomes	237-03-070	SW/c E. Brokaw & Oakland	Berryessa	SF	240	LX	11/20/12
PD12-028	6/26/12	Cottle Station Mixed Use (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	234	JB	11/19/12
PD08-046	7/16/08	Century Center Mixed Use (Phase 1	230-29-022	SW/c N. 1st & Century Center	North	MF	220	LX	4/29/11
PDC09-002	1/8/09	Century Center Mixed Use (Phase 2	230-29-022	SW/c N. 1st & Century Center	North	MF	220	LX	8/25/09
H09-004	2/11/09	Donner Lofts	467-20-018	SE/c E. St. John & N. 4th	Central	MF	156	SZ	10/9/09
CP11-034	5/10/11	North San Pedro Apts	259-23-016	NE/c Hwy 87 & Bassett	Central	MF	135	LX	12/14/11

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PDC08-067	12/23/08	Summerwind Apts (annex)	477-19-060	NW/c McLaughlin & Summerside	South	MF	103	LX	9/18/12
PD11-011	3/14/11	Markham Terrace Apts	477-23-021	E/s Monterey, 700' nly Tully	South	MF	102	LX	7/15/11
PDC09-033	12/17/09	Senter Road Family Apts	497-41-098	E/s Senter, 600' sly Tully	South	MF	102	LX	9/21/10
PDA04-076-02	12/16/11	Ajisai Gardens Apts	249-37-006	SE/c E. Taylor & N. 7th	Central	MF	102	LX	6/1/12
PD04-103	5/10/04	Fiesta Senior Apts	274-14-142	NE/c W. San Carlos & Buena Vista	Central	MF	95	EM	8/25/04
PD08-015	2/11/08	Japantown Senior Apts	249-39-011	W/s N. 6th, 200' sly E. Taylor	Central	MF	85	SZ	5/7/10
PDA07-013-01	3/26/12	22nd & William Townhomes	472-01-021	S/s William, 350' wly S. 24th	Central	SF	67	LX	7/9/12
PD09-030	10/2/09	Westmount Square	249-09-009	SE/c E. Mission & N. 10th	Central	SF	60	SZ	11/30/09
PD09-039	11/23/09	Edwards Mixed Use	264-37-060	SW/c Edwards & S. 1st	Central	MF	50	SZ	7/2/10
Total							**12,603**		

<u>Projects Pending City Approval</u>

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PDC12-028	11/21/12	iStar Site Mixed Use	706-08-008	NW/c Monterey & Hwy 85	Edenvale	SF/MF	720	JB	---
PD12-031	7/18/12	Flea Market (North, Phase 2)	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	MF	494	LX	---
H12-020	1/16/13	San Pedro Square	259-32-044	SE/c Bassett & Terraine	Central	MF	406	JR	---
H12-022	1/9/13	One South Market Apts	259-40-093	SW/c Market & Santa Clara	Central	MF	312	SD	---
PD12-013	3/29/12	Ohlone Mixed Use (Phase 1)	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	263	ME	---
PDA08-029-01	9/13/12	Virginia Terrace Condos	472-18-051	SW/c E. Virginia & S. 6th	Central	MF	238	LX	---
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	W/s Monterey, 300' sly Umbarger	South	MF	191	SD	---
PD12-036	8/14/12	North Tenth Street Apts	249-08-004	W/s N. 10th, bet Vestal & E. Mission	Central	MF	166	LX	---
PDC11-005	4/7/11	Race Street Terrace	261-42-072	Bet. Race & Grand, 300' sly Park	Central	MF	70	LX	---
Total							**2,860**		
GRAND TOTAL							**23,346**		

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

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
Projects Completed									
SP08-046	8/14/08	Equinix (Phase 1)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	125,000		SD	10/9/09
CP08-071	8/29/08	Hyatt House	097-03-138	SE/c N. 1st & Hwy 237	North	116,000	160	CB	12/10/08
PD10-025	11/5/10	M8trix Casino/Hotel (Phase 1)	230-29-065	SE/c Airport & Old Bayshore	North	89,000		JH	3/18/11
PD08-054	8/12/08	Samaritan Medical Center	421-37-012	NE/c Samaritan & S. Bascom	Cambrian/Pioneer	75,000		ES	3/24/09
PD09-021	6/11/09	Bellarmine (Academic Building)	261-11-005	NE/c Elm & Emory	Central	55,000		SD	11/13/09
PD09-040	12/2/09	Valley Christian Schools	684-05-019	Ely term. Skyway	Edenvale	50,000		JC	8/25/10
PD09-018	5/7/09	Lincoln Office/Retail	429-06-070	SE/c Lincoln & Willow	Willow Glen	41,000		SZ	5/21/10
PD10-011	6/15/10	Bellarmine (Life Center/Gym)	261-11-005	NE/c Elm & Emory	Central	40,000		JN	1/14/11
Total						**591,000**	**160**		
Projects Under Construction									
SP09-057	9/16/09	Zero Waste Facility	015-38-005	N/s Los Esteros, term Grand	Alviso	283,000		RB	12/22/11
PDA07-049-01	12/28/11	Coleman Landings[1]	230-46-068	NW/c Coleman & Newhall	North	252,000		SD	2/3/12
CP08-057	6/26/08	Brokaw Commons	237-03-074	NW/c Oakland & Brokaw	Berryessa	102,000		ES	10/22/08
CP10-059	11/9/10	Courtyard Marriott @ First	097-14-108	SE/c N. 1st & Hwy 237	North	99,000	157	JN	4/20/11
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	30,000		SM	3/21/08
PD07-055	6/6/07	SBIA Evergreen Center/Mosque	652-13-001	E/s Ruby, 250' nly Murillo	Alum Rock	28,000		JB	3/21/08
PD10-027	11/22/10	Chinmaya Mission	612-53-046	NE/c Clayton & Hickerson	Alum Rock	26,000		JC	3/21/11
PD11-013	5/5/11	Foxworthy Retail	451-06-066	NW/c Almaden & Hillsdale	Willow Glen	25,000		JN	7/15/11
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	25,000		JB	11/30/07
H10-018	9/17/10	First United Methodist Church	467-19-078	NE/c E. Santa Clara & N. 5th	Central	24,000		LX	4/8/11
Total						**894,000**	**157**		

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
Approved Projects (Construction Not Yet Commenced)									
PDC12-019	7/24/12	M8trix Casino/Hotel	230-29-065	SE/c Airport & Old Bayshore	North	709,000	600	SY	8/28/12
PD11-024	7/20/11	Almaden Ranch	458-17-018	SE/c Almaden & Chynoweth	Cambrian/Pioneer	377,000		LX	5/19/12
PDC10-017	6/2/10	Harker School (Upper Campus)	303-25-001	NE/c Saratoga & Hwy 280	West Valley	316,000		JC	9/27/11
PD12-015	4/13/12	Village Oaks (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	308,000		JB	9/27/12
PDC09-006	1/27/09	Flea Market Mixed Use	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	262,000		LX	10/20/09
PD11-027	8/2/11	Sun Garden Retail Center	477-07-013	E/s Monterey, 300' sly E. Alma	Central	257,000		JC	10/21/11
PD12-014	4/4/12	Santana Row	277-33-004	SE/c Winchester & Stevens Creek	West Valley	230,000		LX	10/26/12
PD08-062	6/23/08	Marriott Residence Inn	230-29-109	SW/c N. 1st & Skyport	North	216,000	321	JD	2/10/09
PD09-016	4/23/09	Regional Medical Center (Phase 2A	481-05-021	SW/c McKee & N. Jackson	Alum Rock	161,000		SD	11/4/09
H08-044	12/5/08	Askari Self Storage	241-12-012	E/s Oakland, 350' sly Service	Berryessa	103,000		JC	6/24/11
PDC12-009	4/4/12	Santana Row	277-33-004	SE/c Winchester & Stevens Creek	West Valley	80,000		LX	8/7/12
PD08-018	2/20/08	Orchard Supply Hardware	447-05-018	E/sYucca, bet Foxworthy & Hillsdale	Willow Glen	51,000		ES	8/15/08
PD07-090	10/23/07	Riverview Mixed Use	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	45,000		JB	4/4/08
PD07-039	4/25/07	Whole Foods Market	261-01-098	NW/c The Alameda & Stockton	Central	44,000		HL	9/28/07
SP08-046	8/14/08	Equinix (Phase 2)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	40,000		SD	10/9/09
PDC08-061	11/3/08	Ohlone Mixed Use	264-14-131	SW/c W. San Carlos & Sunol	Central	30,000		ME	11/9/10
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	30,000		RM	10/10/08
PDC07-015	2/15/07	Newbury Park Mixed Use	254-04-076	NE/c N. King & Dobbin	Alum Rock	25,000		AB	12/18/07
Total						**3,284,000**	**921**		
Projects Pending City Approval									
PD12-019	7/19/12	Coleman Highline Office	230-46-062	NW/c Coleman & Newhall	North	683,000		JB	---

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	# of New Guest Rooms	Proj. Mgr	Approval Date
PDC12-028	11/21/12	iStar Site Mixed Use	706-08-008	NW/c Monterey & Hwy 85	Edenvale	414,000		JB	---
PDC10-022	10/26/10	The Plaza at Evergreen	670-29-020	W/s Capitol, 1500' sly Quimby	Evergreen	200,000		JB	---
PD08-069	11/26/08	Flea Market Mixed Use (North)	254-17-084	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	104,000		LX	---
PD11-021	6/27/11	Santana Office Park	277-38-002	W/s S. Monroe, 450' nly Hwy 280	West Valley	90,000		LX	---
Total						1,491,000	-		
GRAND TOTAL						6,260,000	1,238		

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

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
Projects Completed								
H09-002	1/14/09	Brocade (Phase 1)	097-03-139	SE/c N. 1st & Hwy 237	North	580,000	CB	10/9/09
Total						**580,000**		
Projects Under Construction								
SP11-046	11/29/11	Public Storage	477-22-028	SW/c Tully & Old Tully	South	115,000	JB	3/29/12
Total						**115,000**		
Approved Projects (Construction Not Yet Commenced)								
PD12-024	6/4/12	North First Campus	101-02-011	SW/c N. 1st & Component	North	2,800,000	JB	11/5/12
H12-008	5/17/12	101 Tech	101-03-007	Wly term. Atmel, 200' nly Hwy 101	North	666,000	SD	10/22/12
PD00-027	3/2/00	237@First	015-39-006	NW/c N. 1st & Hwy 237	Alviso	612,000	AC	6/19/00
PD08-030	4/22/08	Skyport Plaza (Phase 2)	230-29-056	W/s N. 1st bet Skyport & Sonora	North	558,000	JB	8/8/08
H08-002	1/8/08	Boston Properties (Zanker)	097-33-104	NE/c Zanker & Montague	North	533,000	CB	12/17/08
H09-002	1/14/09	Brocade (Phase 2)	097-03-139	SE/c N. 1st & Hwy 237	North	420,000	CB	10/9/09
PD07-081	9/18/07	Legacy on 101 Office	101-02-015	W/s Orchard, 750' nly Charcot	North	398,000	JB	12/21/07
Total						**5,987,000**		
Projects Pending City Approval								
H13-001	1/3/13	Samsung Semiconductor	097-53-026	NW/c N. 1st & Tasman	North	680,000	SD	---
Total						**680,000**		
GRAND TOTAL						**7,362,000**		

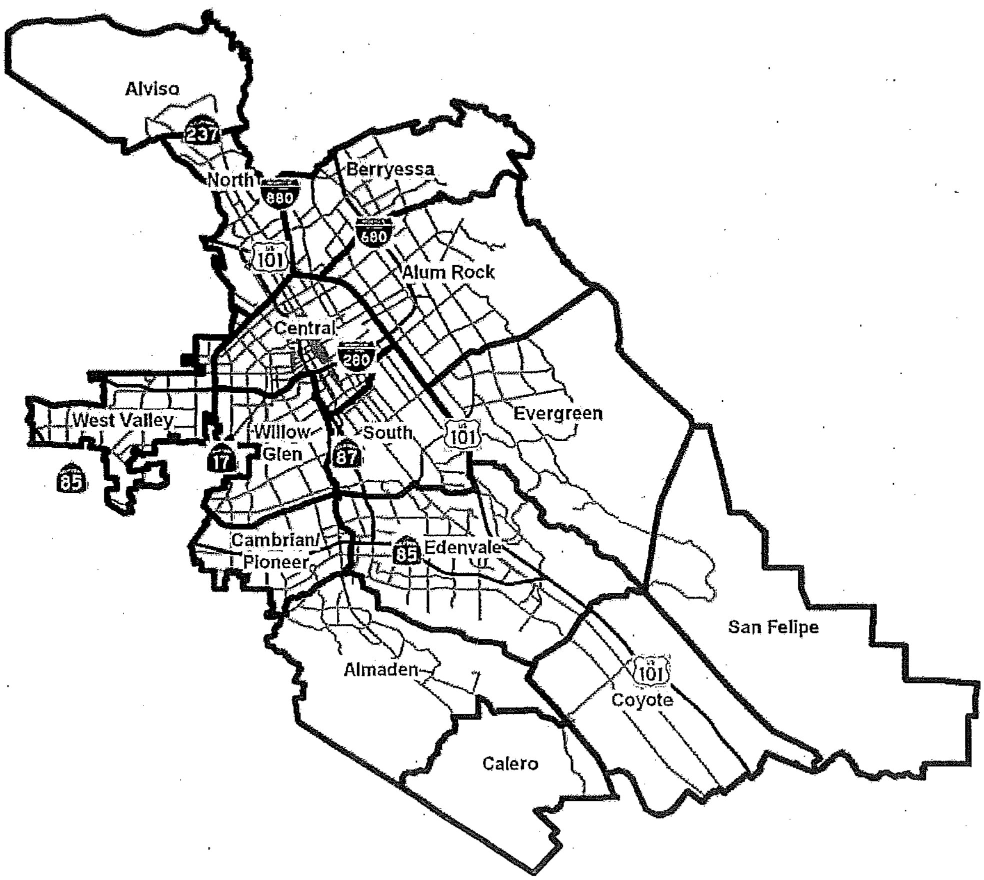
Footnotes:

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

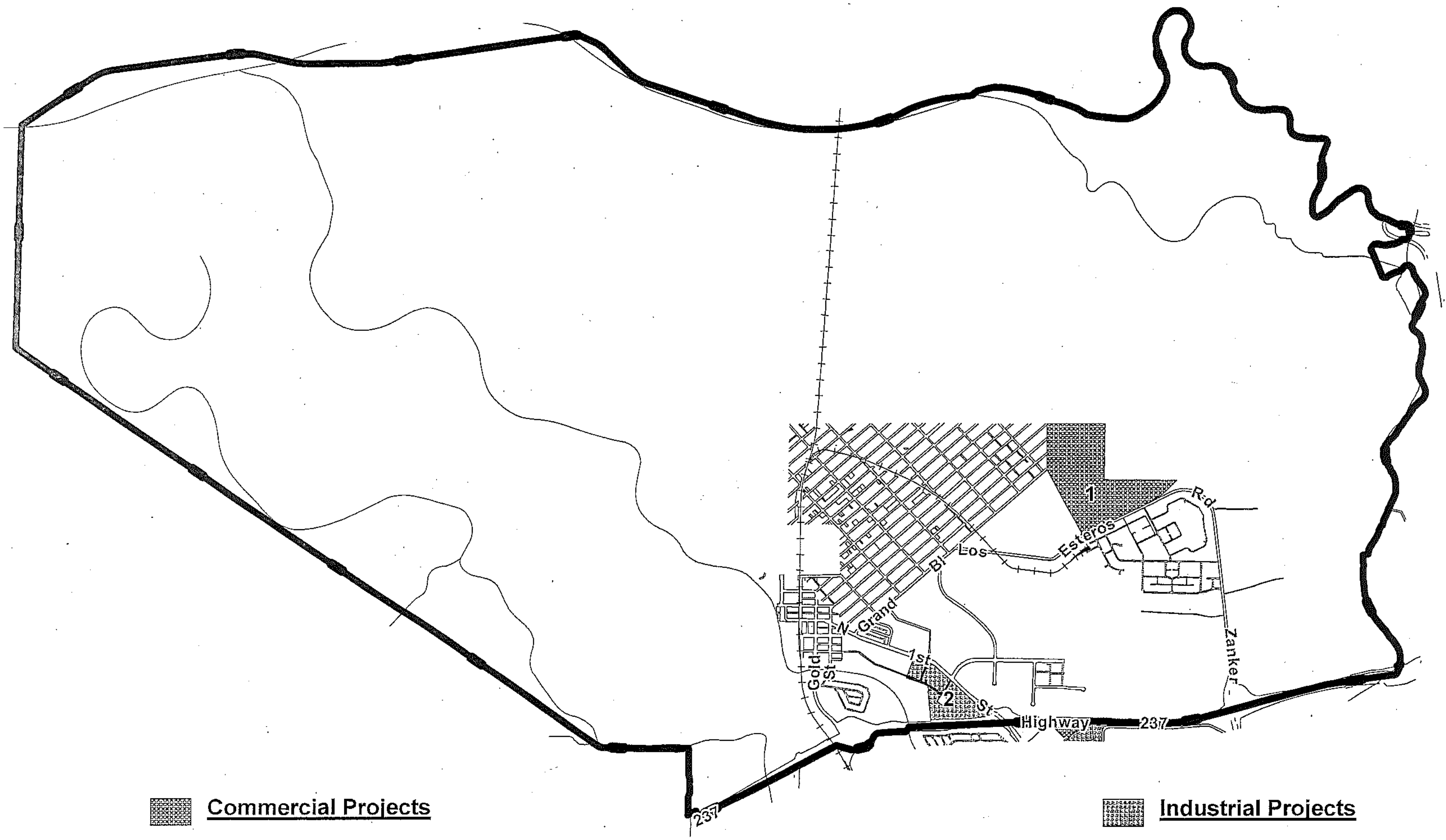
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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

Figure 1: San Jose Planning Areas



Alviso Planning Area
Major Development Activity



Commercial Projects

1 Zero Waste Facility

Total Commercial Sq.Ft.= 283,000

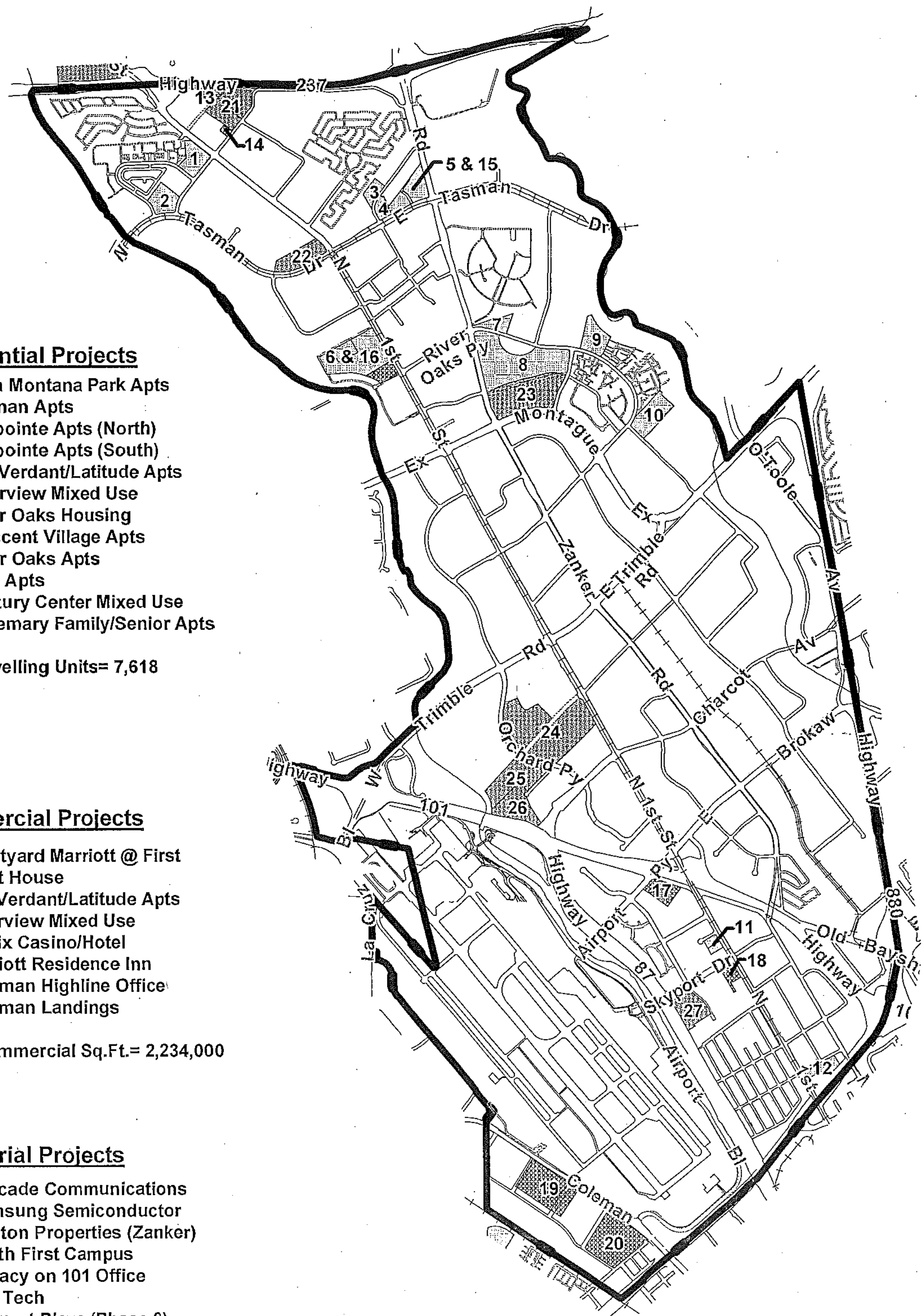
Industrial Projects

2 237@First

Total Industrial Sq.Ft.= 612,000

A-15

North Planning Area
Major Development Activity



Residential Projects

1 Vista Montana Park Apts
2 Tasman Apts
3 Baypointe Apts (North)
4 Baypointe Apts (South)
5 The Verdant/Latitude Apts
6 Riverview Mixed Use
7 River Oaks Housing
8 Crescent Village Apts
9 River Oaks Apts
10 Epic Apts
11 Century Center Mixed Use
12 Rosemary Family/Senior Apts

Total Dwelling Units= 7,618

Commercial Projects

13 Courtyard Marriott @ First
14 Hyatt House
15 The Verdant/Latitude Apts
16 Riverview Mixed Use
17 M8trix Casino/Hotel
18 Marriott Residence Inn
19 Coleman Highline Office
20 Coleman Landings

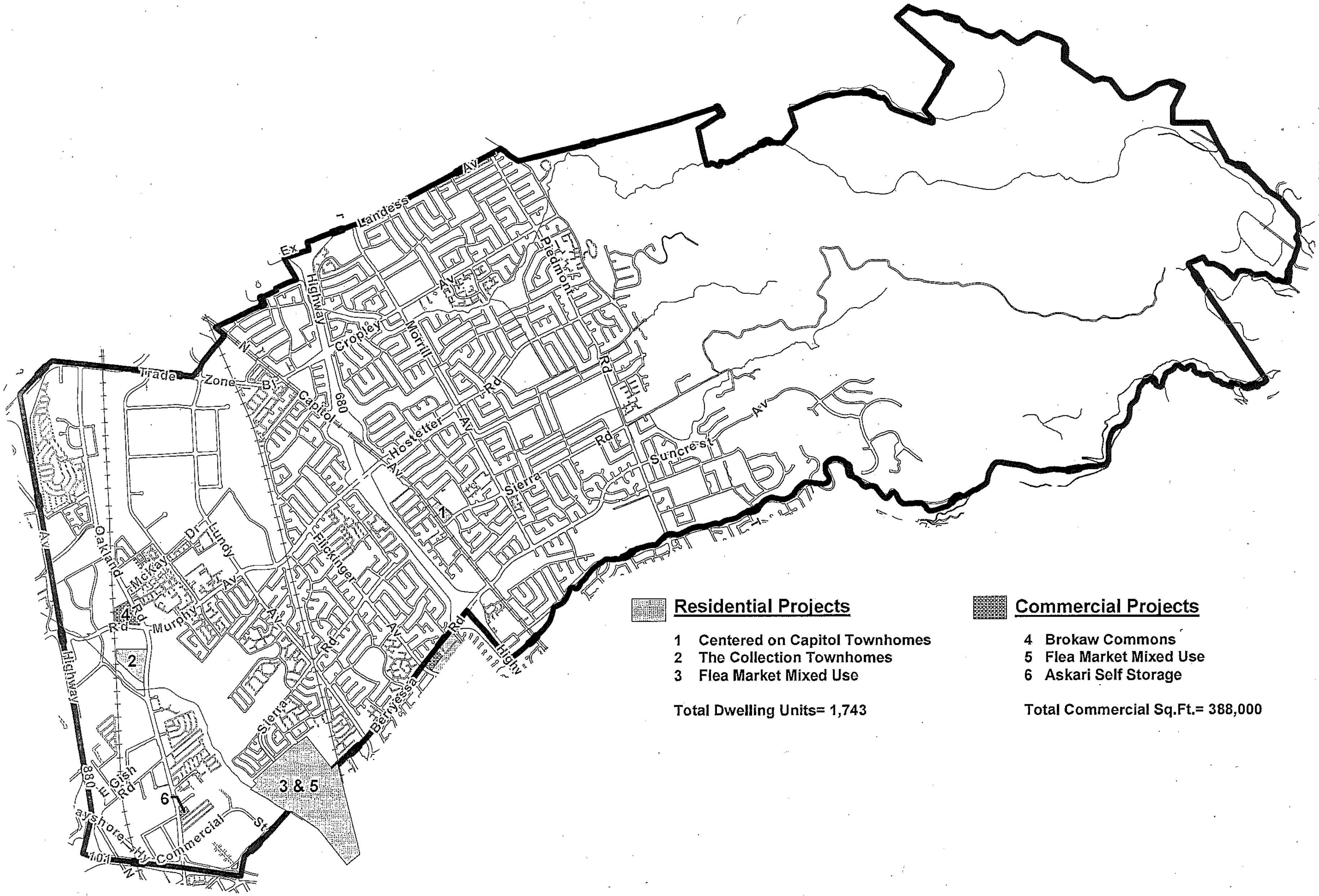
Total Commercial Sq.Ft.= 2,234,000

Industrial Projects

21 Brocade Communications
22 Samsung Semiconductor
23 Boston Properties (Zanker)
24 North First Campus
25 Legacy on 101 Office
26 101 Tech
27 Skyport Plaza (Phase 2)

Total Industrial Sq.Ft.= 6,635,000

Berryessa Planning Area
Major Development Activity



Residential Projects

1 Centered on Capitol Townhomes
2 The Collection Townhomes
3 Flea Market Mixed Use

Total Dwelling Units= 1,743

Commercial Projects

4 Brokaw Commons
5 Flea Market Mixed Use
6 Askari Self Storage

Total Commercial Sq.Ft.= 388,000

Central Planning Area
Major Development Activity

Residential Projects

1 North Tenth Street Apts
2 Libitzky Mixed Use
3 Westmount Square
4 Vendome Place
5 Japantown Senior Apts
6 Ajisai Gardens Apts
7 North San Pedro Apts
8 San Pedro Condos
9 Donner Lofts
10 The Carlysle Apts
11 One South Market Apts
12 Morrison Park Apts
13 Brookwood Terrace Apts
14 22nd & William Housing
15 Fiesta Senior Apts
16 Meridian Mixed Use
17 Race Street Terrace
18 Ohlone Mixed Use
19 Virginia Terrace Condos
20 Edwards Mixed Use

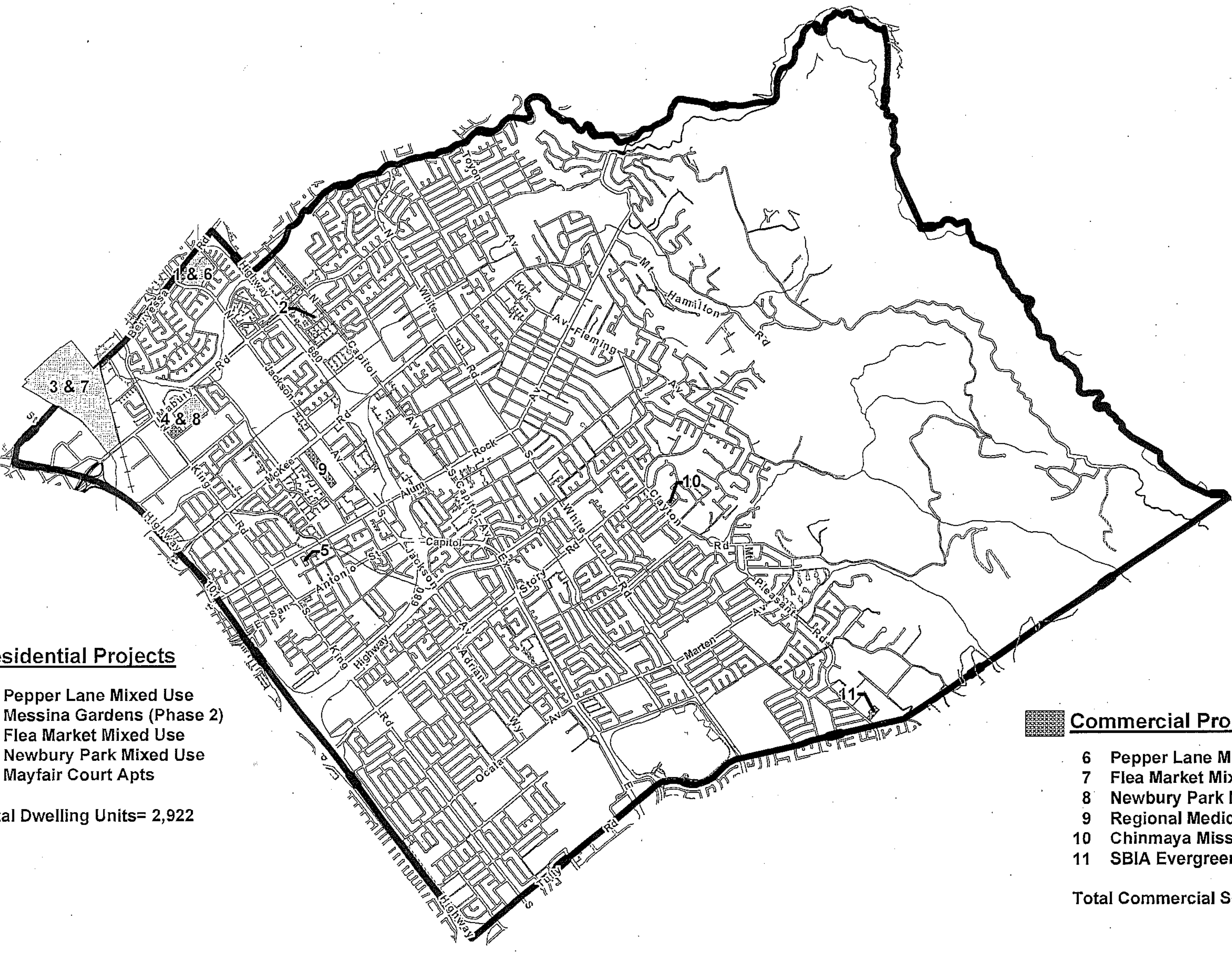
Total Dwelling Units= 4,477

Commercial Projects

21 Bellarmine College Preparatory
22 First United Methodist Church
23 Whole Foods Market
24 Ohlone Mixed Use
25 Sun Garden Retail Center

Total Commercial Sq.Ft.= 450,000

Alum Rock Planning Area
Major Development Activity



Residential Projects

1 Pepper Lane Mixed Use
2 Messina Gardens (Phase 2)
3 Flea Market Mixed Use
4 Newbury Park Mixed Use
5 Mayfair Court Apts

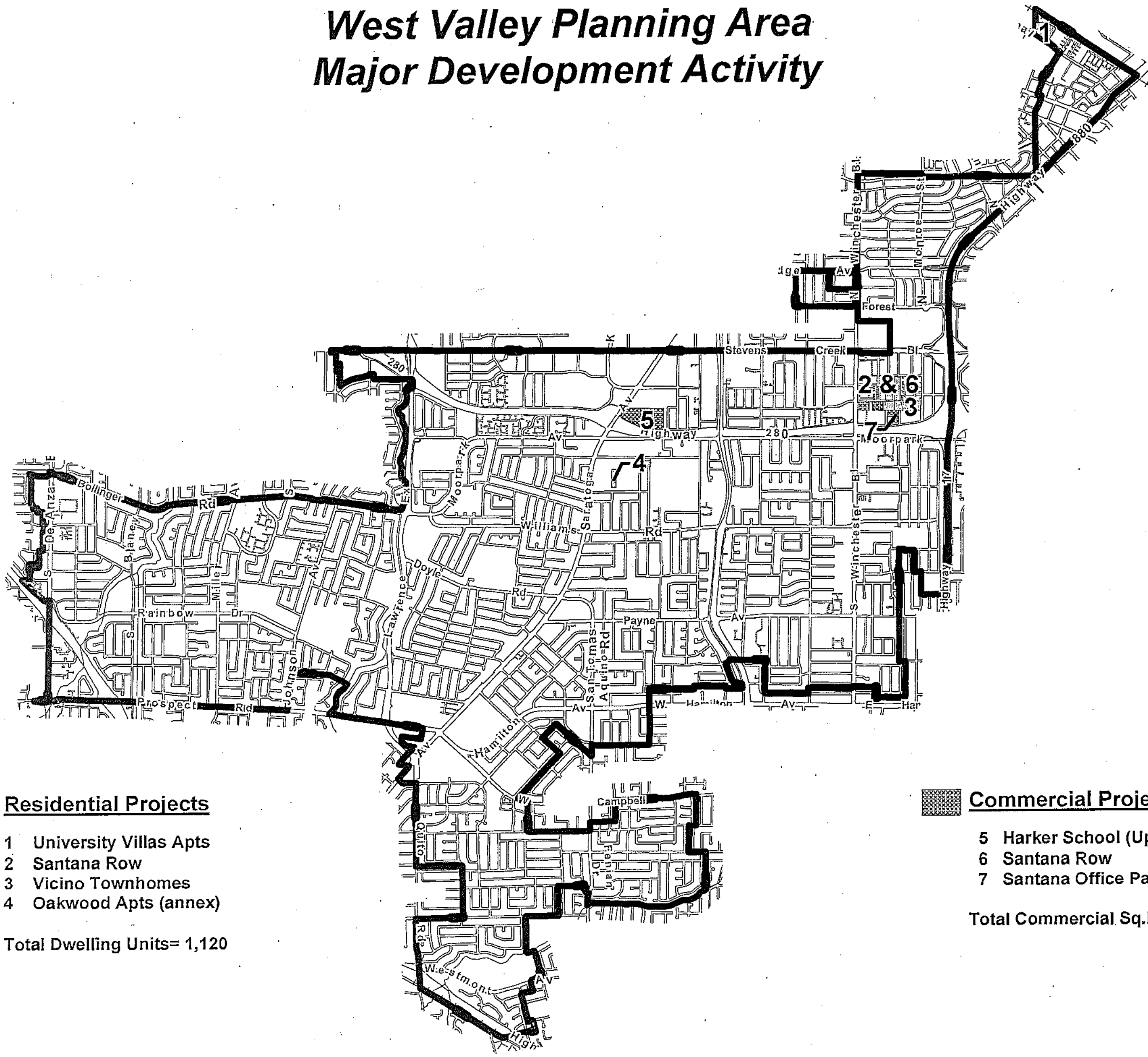
Total Dwelling Units= 2,922

Commercial Projects

6 Pepper Lane Mixed Use
7 Flea Market Mixed Use
8 Newbury Park Mixed Use
9 Regional Medical Center
10 Chinmaya Mission
11 SBIA Evergreen Center/Mosque

Total Commercial Sq.Ft.= 453,000

West Valley Planning Area
Major Development Activity



Residential Projects

1 University Villas Apts
2 Santana Row
3 Vicino Townhomes
4 Oakwood Apts (annex)

Total Dwelling Units= 1,120

Commercial Projects

5 Harker School (Upper Campus)
6 Santana Row
7 Santana Office Park

Total Commercial Sq.Ft.= 716,000

Willow Glen Planning Area Major Development Activity

Residential Projects

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

Total Dwelling Units= 307

Commercial Projects

3 Fruitdale Station (Phase 2)
4 Lincoln Office/Retail
5 Orchard Supply Hardware
6 Foxworthy Retail

Total Commercial Sq.Ft.= 147,000

South Planning Area
Major Development Activity

Residential Projects

1 Summerwind Apts (annex)
2 Markham Terrace Apts
3 Senter Road Family Apts
4 Montecito Vista Mixed Use
5 Orvieto Family/Senior Apts

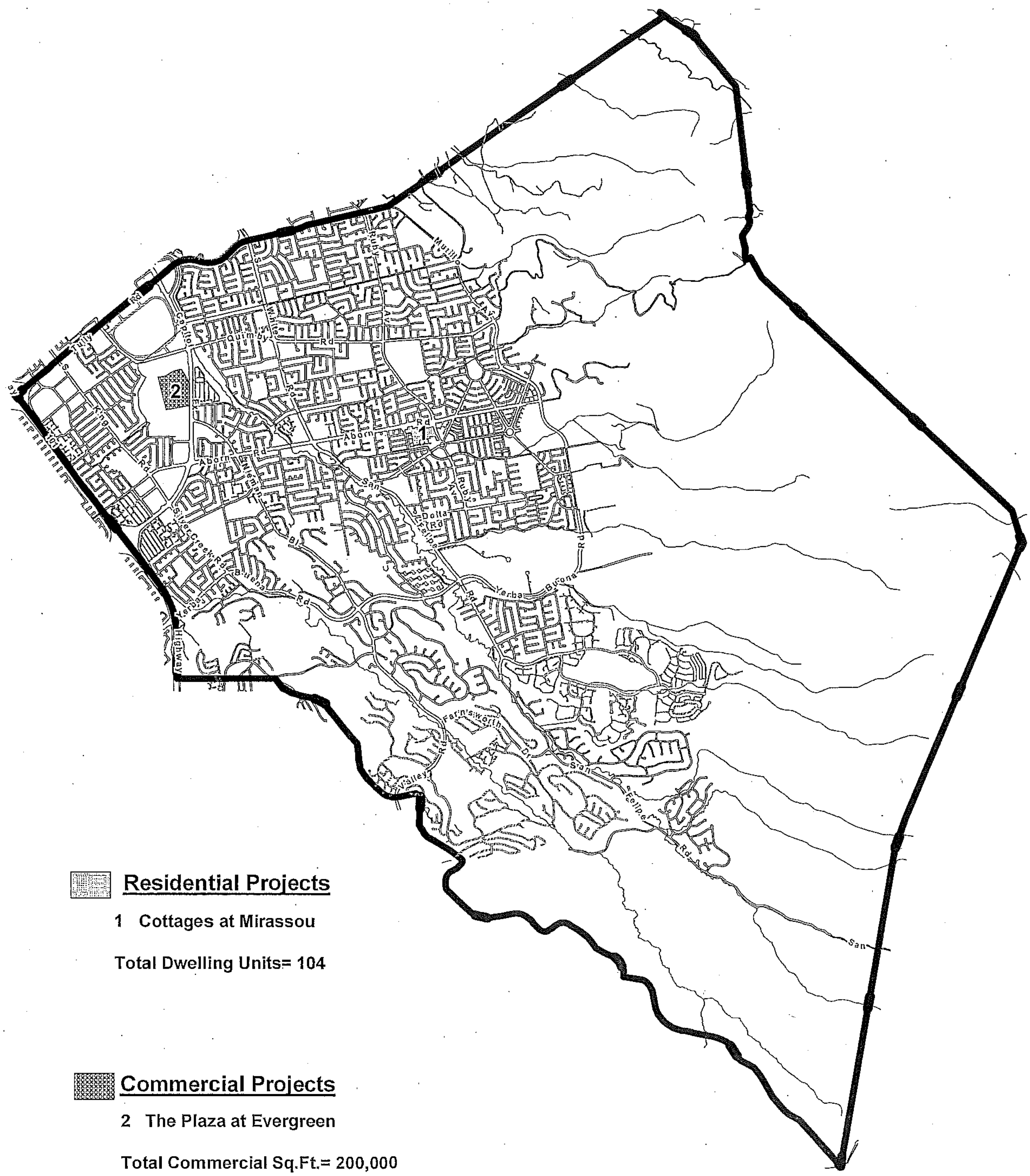
Total Dwelling Units= 1,135

Industrial Projects

6 Public Storage

Total Commercial Sq.Ft.= 115,000

Evergreen Planning Area
Major Development Activity



Residential Projects

1 Cottages at Mirassou

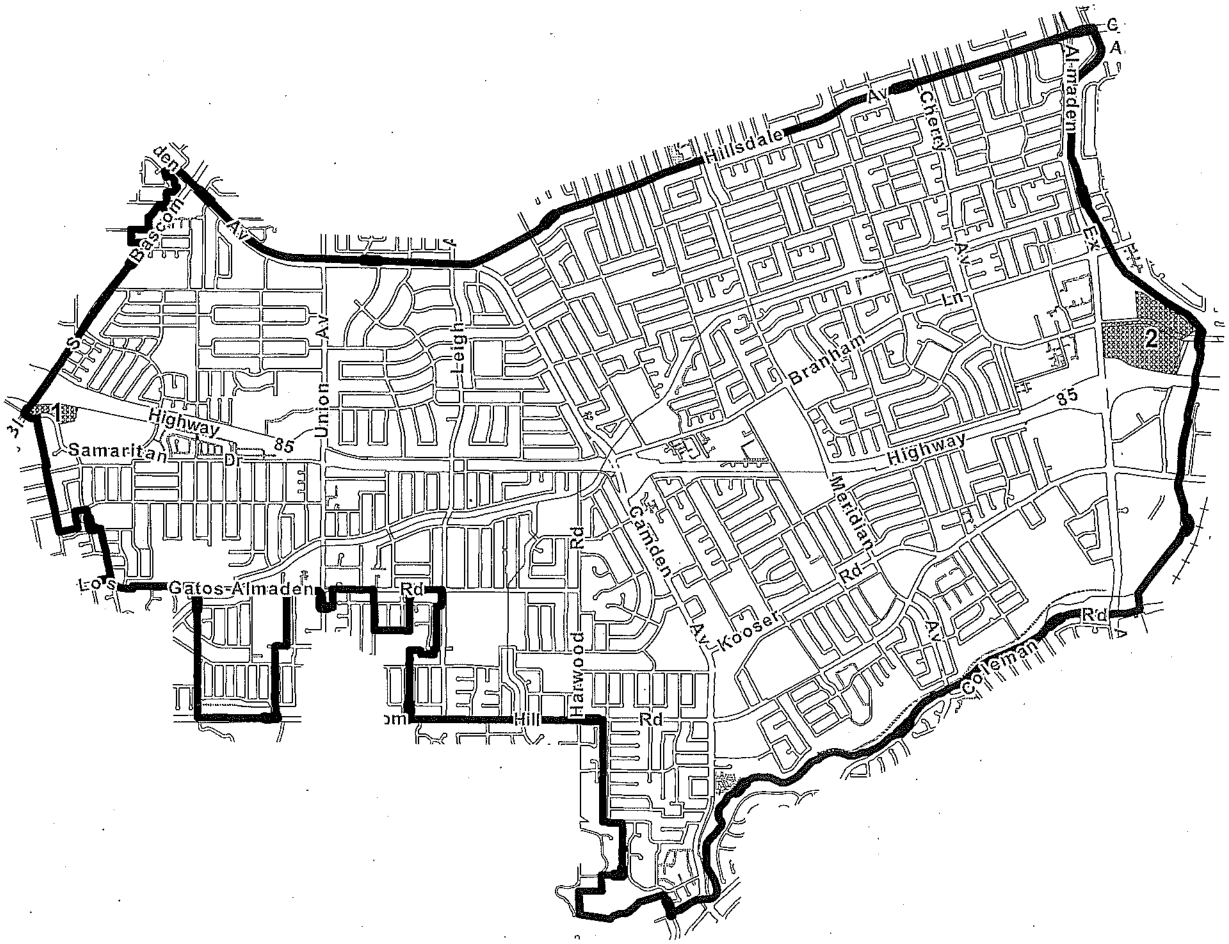
Total Dwelling Units= 104

Commercial Projects

2 The Plaza at Evergreen

Total Commercial Sq.Ft.= 200,000

Cambrian/Pioneer Planning Area
Major Development Activity

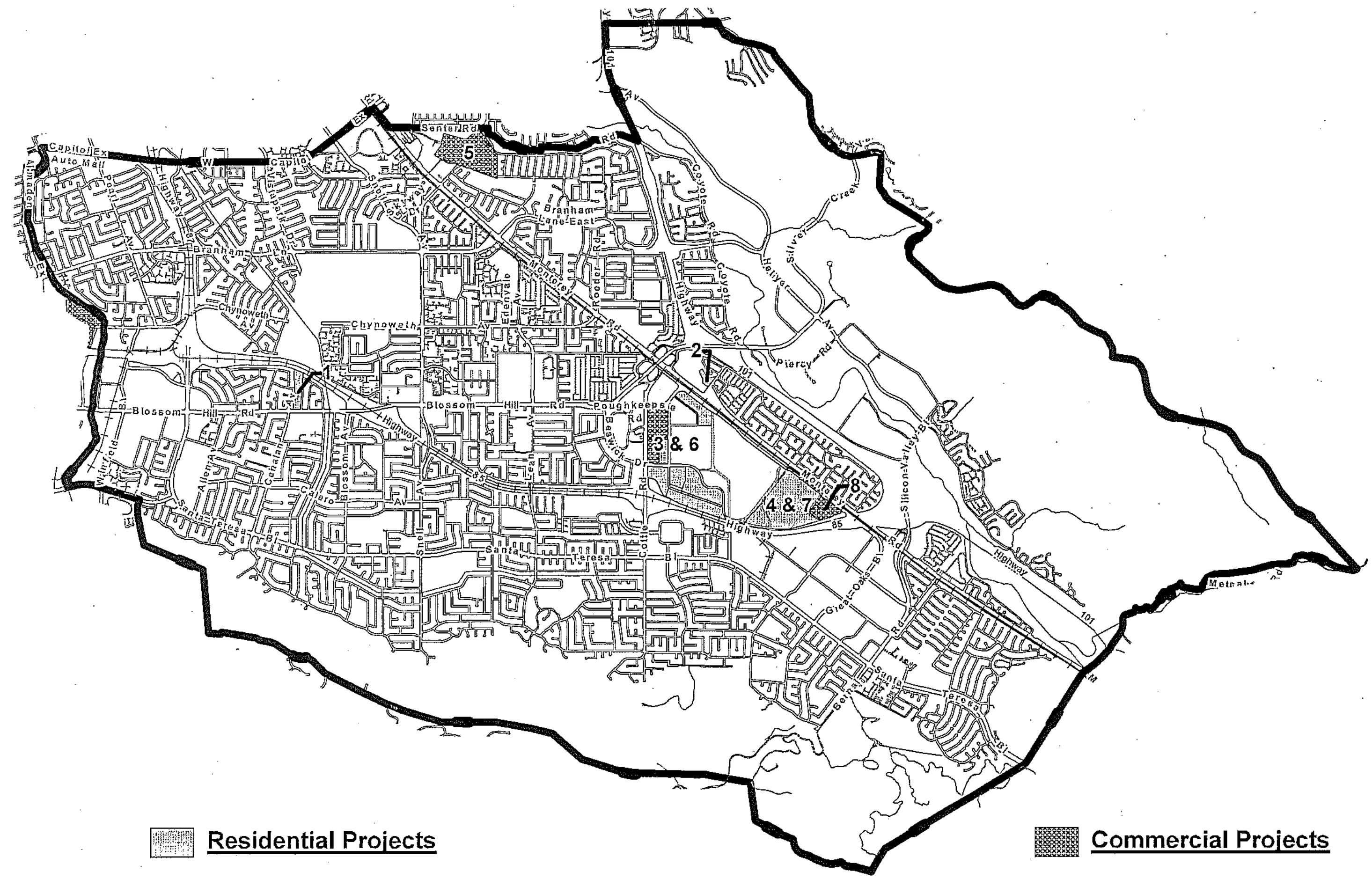


Commercial Projects

1 Samaritan Medical Center
2 Almaden Ranch

Total Commercial Sq.Ft.= 452,000

Edenvale Planning Area
Major Development Activity



Residential Projects

1 Westbury Homes
2 Ford Apts
3 Hitachi Site Mixed Use
4 iStar Site Mixed Use

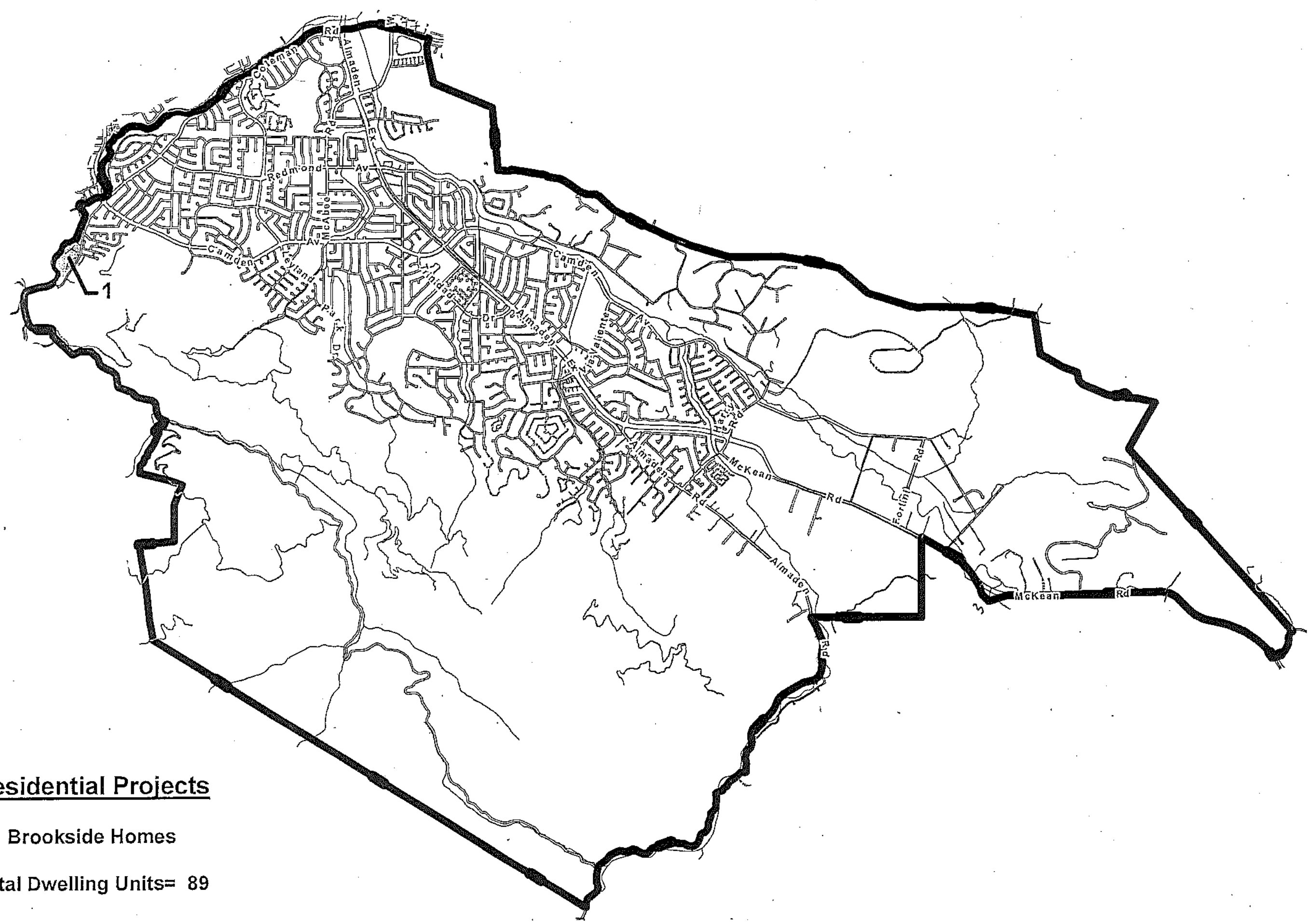
Total Dwelling Units= 3,831

Commercial Projects

5 Valley Christian Schools
6 Hitachi Site Mixed Use
7 iStar Site Mixed Use
8 Equinix

Total Commercial Sq.Ft.= 937,000

Almaden Planning Area
Major Development Activity



Residential Projects

1 Brookside Homes

Total Dwelling Units= 89

VII. APPENDIX: SOURCES

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

Data Collection and Analysis

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

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

Review of Publications

Planning staff consulted several publications that made an important contribution to the preparation of this report, including: the Silicon Valley Business Journal, The Registry Real Estate Journal, the San Jose Mercury News, the Silicon Valley Leadership Group's *Projections 2011*, Joint Venture Silicon Valley Network's *2013 Index of Silicon Valley*, PwC and the Urban Land Institute's *Emerging Trends in Real Estate 2013*, the Bay Area Council Economic Institute's *Regional Economic Assessment of the San Francisco Bay Area*, the U.S. Census Bureau's *Census 2010* and *American Community Survey*, Marcus & Millichap's *Market Research Reports*, and Cassidy Turley's *Market Reports*.

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