

2011-2012

OPERATING BUDGET

**GENERAL FUND
REVENUE
ESTIMATES**

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REVENUE ESTIMATES**

GENERAL FUND REVENUE ESTIMATES

Overview

For 2011-2012, Adopted General Fund revenue estimates (excluding fund balance) total \$764.8 million, representing a 3.6% decrease from the 2010-2011 Adopted Budget level. General Fund resources, including Fund Balance-Carryover, total \$885.8 million, which is 4.6% below the prior year.

Estimates for the 2011-2012 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated initially in the November 2010 Forecast, and updated as part of the 2012-2016 Five-Year Forecast prepared in February 2011. These estimates were reviewed continually since the Forecast document was released and were revised again, as appropriate, as part of this Adopted Budget based on more recent information.

Estimates for each account were based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involved two projections: an estimate for the amount to be collected in 2010-2011 and an estimate for the increase or decrease in activity and receipts anticipated for 2011-2012. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors.

The 2011-2012 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2009-2010 Actuals	2 2010-2011 Adopted	3 2011-2012 Forecast	4 2011-2012 Adopted	2 to 4 % Change	% of Total
Property Tax (1)	206,062,364	203,192,000	201,454,000	201,454,000	(0.9%)	22.7%
Sales Tax	127,237,777	127,232,000	140,906,000	140,906,000	10.7%	15.9%
Transient Occupancy Tax	6,900,000	6,684,000	7,202,000	7,202,000	7.7%	0.8%
Franchise Fees	38,410,069	43,121,000	43,025,000	43,025,000	(0.2%)	4.9%
Utility Taxes	87,650,883	92,932,000	88,035,000	88,035,000	(5.3%)	9.9%
Telephone Tax	20,500,000	20,525,000	20,525,000	20,525,000	0.0%	2.3%
Business Taxes (2)	34,951,949	40,520,000	36,295,000	38,795,000	(4.3%)	4.4%
Licenses and Permits (2)	31,032,714	31,206,912	31,699,358	34,567,094	10.8%	3.9%
Fines, Forfeitures and Penalties	15,998,354	17,130,000	17,471,000	17,471,000	2.0%	2.0%
Rev. from Money and Property	3,190,707	3,049,614	2,371,000	2,413,000	(20.9%)	0.3%
Rev. from Local Agencies	48,067,421	45,612,582	17,289,046	19,331,237	(57.6%)	2.2%
Rev. from State Government (1)	7,872,927	14,636,837	13,133,417	14,211,106	(2.9%)	1.6%
Rev. from State Govt-Recovery Act	-	-	-	254,027	N/A	0.0%
Rev. from Federal Government	5,126,784	5,148,163	2,170,800	12,807,900	148.8%	1.4%
Rev. from Fed Govt-Recovery Act	366,513	10,702,598	699,618	8,400,311	(21.5%)	0.9%
Departmental Charges	27,281,416	29,581,573	28,713,461	29,576,872	(0.0%)	3.3%
Other Revenue	27,022,507	13,419,768	14,546,488	14,918,888	11.2%	1.7%
Transfers and Reimbursements	94,950,566	88,769,779	74,354,362	70,868,919	(20.2%)	8.0%
Subtotal	782,622,951	793,463,826	739,890,550	764,762,354	(3.6%)	86.2%
Fund Balance-Carryover (3)	173,212,933	134,806,929	40,445,764	121,060,735	(10.2%)	13.8%
Total General Fund Sources	955,835,884	928,270,755	780,336,314	885,823,089	(4.6%)	100.0%

- (1) The Property Tax and Revenue from State Government revenues for 2009-2010 and 2010-2011 have been re-stated to reflect the recategorization of Aircraft Property Tax into the Property Tax category.
- (2) The Business Taxes and Licenses and Permits revenues for 2009-2010 and 2010-2011 have been re-stated to reflect the recategorization of Business Tax, Cardroom Business Tax, and Disposal Facility Tax into the Business Taxes category.
- (3) The Fund Balance figure does not include the Reserve for Encumbrances.

GENERAL FUND REVENUE ESTIMATES

Overview

Economic Performance

The 2011-2012 revenue estimates were built on the assumption that the slow pace of recovery from the economic recession will continue to impact the City's economic performance.

National Outlook

U.S. Gross Domestic Product (GDP) continues to experience growth, but a slowdown in the last two quarters of the 2010-2011 fiscal year highlights the uneven rate of recovery from the recession that ended in mid-2009. In fiscal year 2010-2011, GDP increased by 2.5% and 2.3% in the first two quarters, followed by increases of 0.4% and 1.3% in the last two quarters. The overall increase in economic activity has not had a significant impact on the unemployment rate. As of June 2010, the U.S. unadjusted unemployment rate of 9.3% was only slightly below the June 2010 figure of 9.6% and the June 2009 figure of 9.7%. In its July 13, 2011 Monetary Policy Report to the Congress, the Board of Governors of the Federal Reserve System indicated that "Economic activity continued to recover over the first half of 2011, but the pace of expansion has been modest. The subdued rate of expansion reflects in part factors that are likely to be temporary, including the damping effect of higher food and energy prices on consumer spending as well as supply chain disruptions associated with the tragic earthquakes in Japan. Nonetheless, even after setting aside temporary influences, the growth of economic activity appears to have slowed over the first half of this year. Conditions in the labor market remain weak."

Consumer confidence also remains weak as The Conference Board Consumer Confidence Index fell to a seven month low in June 2011. According to Lynn Franco, Director of The

Conference Board Consumer Research Center, "Given the combination of uneasiness about the economic outlook and future earning, consumers are likely to continue weighing their spending decisions quite carefully."

A continued slow economic recovery, assisted by the federal government's monetary and fiscal stimulus strategies, appears likely for the next year. However, attempts to address the increasingly large federal deficit could mitigate some of the benefit from the stimulus strategies. Growth may be particularly strong for export-oriented companies as the U.S. benefits from the growing demand from developing countries for goods and services.

Real GDP is expected to grow in the 2.0%-3.5% range during 2011-2012, somewhat below the historical average, and the unemployment rate is expected to be in the 8% - 9% range through most of 2011-2012.

Two primary determinants of inflation – employment and manufacturing capacity utilization – are projected to remain low during 2011-2012. The other primary determinant of inflation – energy prices – has experienced recent large increases due to political turmoil in the Middle East and North Africa. Inflation, driven by higher energy prices, is expected to remain within a range of 2.0%-3.0%.

Short-term interest rates are not expected to increase during 2011-2012, and the prime rate and the 30-year mortgage rate are expected to remain fairly stable. A recent Federal Reserve statement noted that "...economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period."

GENERAL FUND REVENUE ESTIMATES

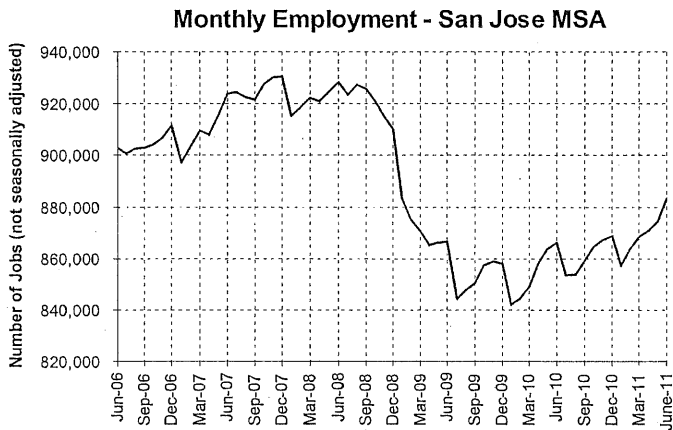
Overview

Economic Performance

City of San José Outlook

Slow growth in the global and national economies is expected to produce only modest growth in the local economy. Local employment levels are expected to increase at a rate well below the historical norm and the unemployment rate will remain high.

The June 2011 employment level in the San José Metropolitan Statistical Area (MSA) of 883,400 was 2.0% above the June 2010 employment level of 866,300. While this employment level was still well below the recent peak of 930,500 jobs experienced in December 2007, it reflects modest improvement from the prior year and the January 2010 low of 839,300.



The San José metropolitan area continued to experience double-digit unemployment, with the June 2011 unemployment rate of 10.4%. The June 2011 figure has, however, shown improvement from the 11.4% experienced in June 2010. The unemployment rate in this region remains less than the unadjusted unemployment rate for the State, but above the nation, which has a current unadjusted unemployment rate of 9.3%.

Unemployment Rate (Unadjusted)

	June 2009	June 2010	June 2011
San José Metropolitan Statistical Area	11.9%	11.4%	10.4%
State of California	11.6%	12.2%	11.4%
United States	9.7%	9.6%	9.3%

Source: California Employment Development Department

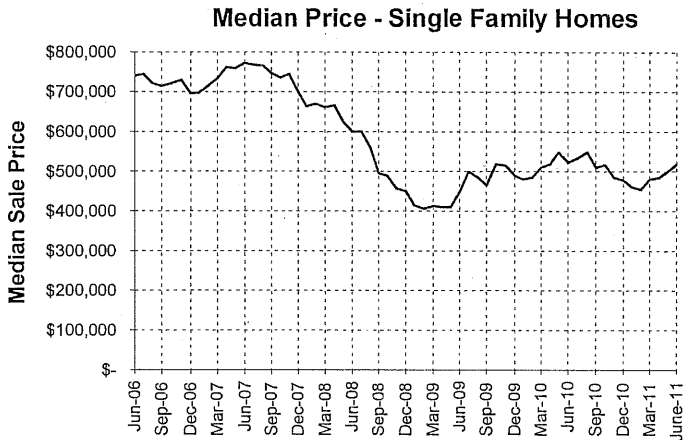
In 2010-2011, the level of construction permit activity compared with the prior year varied significantly across the three types of construction. Industrial construction valuation dropped 21%, with new industrial construction reaching an eight-year low. Commercial valuation also dropped 17%, reflecting a 50% decline in new commercial valuation, partially offset by 25% increase in alterations. Residential valuation experienced strong growth, with a 159% increase in valuation and a 285% increase in the number of new housing units, reaching a four-year high. A one-month surge in December, however, accounted for nearly three quarters of the new units. This permit activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

The June 2011 median home price of \$520,000 for single family homes within the City was slightly (0.7%) below the June 2010 median of \$523,500. The number of sales for all residences, however, fell 10% as the credit market tightened and tax incentive programs expired.

GENERAL FUND REVENUE ESTIMATES

Overview

Economic Performance



In summary, the slow recovery from the economic recession is expected to continue to impact the City's economic performance in 2011-2012. While modest revenue growth is expected in 2011-2012, total revenues remain below levels experienced before the steep economic downturn.

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 Utility Tax and Franchise Fee 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.

Revised General Fund Forecast

Between the issuance of the February Forecast and the release of the Adopted Budget, staff continued to review and update the estimated revenue collections for 2011-2012. Based on this analysis, a number of the revenue estimates presented in the February Preliminary Forecast were revised in the Adopted Budget to reflect more recent information. The net result of these revisions is a downward adjustment (\$17.5 million) to the Forecast from \$797.9 million to \$780.3 million.

Two significant changes in categorization of revenues are reflected in the Revisions to the 2011-2012 February Forecast: (1) Aircraft Property Tax Revenue, formerly included as Aircraft In-Lieu Tax in the Revenue from the State of California category, is now included in the Property Tax category; and (2) Business Tax, Cardroom Business Tax, and Disposal Facility Tax revenues, formerly included in the Licenses and Permits category, are now included in a new category titled "Business Taxes." The Business Taxes category also includes the new Marijuana Business Tax.

Following is a summary table and descriptions of the changes incorporated into the revised Forecast that was used as the starting point in preparing the 2011-2012 Adopted Budget.

GENERAL FUND REVENUE ESTIMATES

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Revised General Fund Forecast

2011-2012 Revised Forecast Changes

Category	\$ Millions
Licenses and Permits	(35.86)
Revenue from Local Agencies	(19.28)
Revenue from the State	(2.74)
Transfers and Reimbursements	(1.89)
Utility Tax	(0.56)
Transient Occupancy Tax	(0.13)
Business Taxes	36.30
Sales Tax	3.56
Property Tax	2.16
Departmental Charges	0.60
Franchise Fees	0.31
Miscellaneous Revisions	0.00
Total	(\$ 17.53)

- The Licenses and Permits category decreased by \$35.9 million to reflect the recategorization of Business Tax, Cardroom Tax, and Disposal Facility Tax revenues to the newly-created Business Taxes category (\$36.5 million), as well as lower collections for Building Permits (-\$95,000), partially offset by increases to the Fire Permits (\$580,000) category, Animal Control Services Licensing Fees (\$120,000), General Code Reinspection (\$8,000), Handbill Permits (\$7,000), and Miscellaneous Finance Permits (\$3,000).
- The Revenue from Local Agencies category decreased by \$19.3 million to reflect the elimination of the majority of reimbursements from the San Jose Redevelopment Agency (-\$19.8 million), partially offset by an increase to anticipated reimbursements from the County of Santa Clara (\$513,000) for paramedic services.
- The Revenue from the State of California category decreased by \$2.7 million to reflect the recategorization of Aircraft Property Tax revenue (\$2.2 million) to the

Property Tax category and a reduction in the forecast for Tobacco Settlement revenue (\$530,000).

- The Transfers and Reimbursements category decreased by \$1.9 million. The transfer from the Construction Excise Tax Fund was reduced by \$3.5 million to reflect the direct payment for pavement maintenance activities in the Construction Excise Tax Fund rather than transferring funding from the Construction Excise Tax Fund to the General Fund to cover this function. The other major downward adjustments included a decrease in reimbursements of \$633,000 from the Gas Tax Funds to reflect lower actual collection trends, and a decrease of \$188,000 from the Low and Moderate Income Housing Fund to eliminate the reimbursement associated with the SERAF loan administration. These decreases were partially offset by an increase of \$2.2 million to the overhead earnings assumption; a correction of \$140,000 to the transfer from the General Purpose Parking Fund to match the 2010-2011 Adopted Budget; and an increase of \$100,000 to the transfer from Construction and Conveyance Tax funds for the Camden Community Center debt service payment.
- The Utility Tax category decreased by \$564,000 reflecting lower collection levels experienced year-to-date in 2010-2011 for Electricity (\$70,000), Gas (\$449,000), and Telephone Utility Tax (\$45,000).
- The Transient Occupancy Tax category decreased by \$126,000 reflecting collections experienced year-to-date in 2010-2011.

GENERAL FUND REVENUE ESTIMATES

Overview

Revised General Fund Forecast

- The Business Taxes category is a newly-created revenue category. In the February Forecast and in prior years, the revenues in the Business Taxes category -- Business Tax, Cardroom Tax, and Disposal Facility Tax revenues -- were included in the Licenses and Permits category. These revenues totaled \$36.5 million in the February Forecast. The Business Tax category was reduced by \$193,000 to reflect lower current-year collections for Disposal Facility Tax (-\$464,000) partially offset by higher current-year collections for Cardroom Tax (\$271,000).
- The Sales Tax category increased by \$3.6 million reflecting actual collections for the second quarter of 2010-2011.
- The Property Tax category increased by \$2.2 million to incorporate Aircraft Property Tax revenue (\$2.2 million) partially offset by a reduction of \$76,000 to reflect lower Unsecured Property Tax collections in 2010-2011. In the February Forecast and in prior years, Aircraft Property Tax revenues were included in the Revenue from the State of California category.
- The Departmental Charges category increased by \$601,000 based on current collection trends. This reflected higher revenue estimates for Parks, Recreation, and Neighborhood Services collections (\$365,000), Business Tax Exemption Fees (\$131,000), Marijuana Collective Application Fees (\$50,000), Public Works development-related fees (\$24,000), and other miscellaneous fees.
- The Franchise Fees category increased by \$306,000 based on current collection trends. This reflected higher revenue estimates for Commercial Solid Waste

(\$300,000) and Water (\$6,000) Franchise Fees.

- Miscellaneous revisions include increases in the Fines, Forfeitures, and Penalties (\$44,000) and Uses of Money and Property (\$2,000) categories, partially offset by a decrease in the Other Revenue (\$28,000) category.

Changes from Forecast to Adopted Budget

From the Revised Forecast of \$780.3 million, a net increase of \$105.5 million to the General Fund revenue estimates was approved, bringing the 2011-2012 Adopted Budget revenue estimate to \$885.8 million. The components of the \$105.5 million increase included an increase in the estimate for the 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance (\$80.6 million), in addition to higher revenue estimates (\$24.9 million).

These changes are summarized in the table below:

2011-2012 Adopted Budget Changes

Category	\$ Millions
Transfers & Reimbursements	(3.48)
Fund Balance	80.61
Revenue from the Fed. Gov't.	10.64
Revenue from the Federal Government (ARRA)	7.70
Licenses and Permits	2.87
Business Taxes	2.50
Revenue from Local Agencies	2.04
Revenue from the State	1.08
Departmental Charges	0.86
Other Revenue	0.37
Revenue from the State (ARRA)	0.25
Use of Money and Property	0.04
Total	\$ 105.48

GENERAL FUND REVENUE ESTIMATES

Overview

Changes from Forecast to Adopted Budget

A brief discussion of these changes follows.

- The \$3.5 million decrease to the Transfers and Reimbursements category reflects a reduction in the overhead reimbursement estimate of \$4.1 million due to the 10% reduction in employee total compensation and rollback of wage increases received in 2010-2011 and the elimination of positions, slightly offset by an increase in the estimate for transfers of \$643,000. Within the transfers category, transfers in to the General Fund from a variety of funds totaling \$9.0 million are almost entirely offset by downward adjustments to the Transfers from the Airport Operations and Maintenance Fund for Police Services (\$7.5 million) and Fire Services (\$908,000) to reflect the changes in service delivery and reimbursement structure. The outsourcing of Police services at the Airport is currently under review. The largest transfers include: \$3.0 million from the Construction Excise Tax Fund; \$3.0 million from the Airport West Bond Trustee; \$686,000 from the WIA Fund related to re-use of several Community Centers; and \$654,000 from a combination of operating and capital funds to pay for an upgrade to the City's PeopleSoft payroll system.
- The higher fund balance of \$80.6 million primarily reflects the rebudget of funds for expenditure-related line items and unexpended reserves (\$56.0 million) which are brought to City Council at the end of the budget process. The higher fund balance also reflects the liquidation of several 2010-2011 reserves (\$15.9 million), an increase in expectations for expenditure savings in 2010-2011 (\$4.5 million), additional 2010-2011 revenue

(\$4.0 million), and the liquidation of encumbrances (\$188,000). The largest reserves used in the 2011-2012 Adopted Budget include: the Economic Uncertainty Reserve (\$5.0 million); the Unemployment Insurance Reserve (\$5.0 million); the Retiree Healthcare Reserve (\$2.6 million); the Neighborhood Capital Improvements Reserve (\$1.3 million); and the 2011-2012 Future Deficit Reserve (\$1.2 million). Additional expenditure savings are projected from several projects and departments (\$4.5 million) including anticipated unexpended funds from Mayor and City Council Offices (\$1.4 million). Additional revenues are recognized from the option payment for a portion of the Airport West property (\$2.0 million), Marijuana Business Tax Collections (\$1.1 million), additional Sales Tax (\$850,000), and a gift from the Friends of the Police Horse Mounted Unit (\$70,000).

- The \$10.6 million increase to the Revenue from the Federal Government category reflects the rebudget of grants from 2010-2011 to 2011-2012 (\$2.8 million) as well as the recognition of new grant funding for 2011-2012 (\$7.9 million). The new grant funding consists primarily of the Staffing for Adequate Fire and Emergency Response (SAFER) Grant (\$6.0 million), 2009 Urban Areas Security Initiative (UASI) Grant – Fire (\$601,000), 2009 Urban Areas Security Initiative (UASI) Grant – Police (\$567,000), Assistant to Firefighters Grant (\$443,000), and the Northern California Regional Intelligence Center (NCRIC) SUASI – Police (\$284,000).

GENERAL FUND REVENUE ESTIMATES

Overview

Changes from Forecast to Adopted Budget

- The \$7.7 million increase in Revenue to the Federal Government – American Recovery and Reinvestment Act Funds (ARRA) category reflects the rebudget of grant funding from 2010-2011 to 2011-2012; the largest of which is the Energy Efficiency and Conservation Block Grant (\$6.5 million).
- The \$2.87 million increase to the Licenses and Permits category reflects increases in Building Permit (\$1.4 million), Medical Marijuana Regulatory Program fees (\$1.3 million), Tobacco Retail License (\$373,000), Multi-Housing Permit fees (\$141,000), Animal Control Services licensing fee (\$320,000), and miscellaneous Police Permit revenue (\$78,000), partially offset by lower Fire Permit (\$819,000) revenue.
- The \$2.5 million increase in the Business Tax category reflects the recognition of \$2.5 million estimated revenue from the Medical Marijuana Business Tax that went into effect March 2011.
- The \$2.0 million increase to Revenue from Local Agencies category reflects the rebudget of \$864,000 funds from 2010-2011 to 2011-2012, an increase in reimbursement from the San Jose Redevelopment Agency (SJRA) (\$800,000), and the recognition of new revenue in 2011-2012 (\$378,000). New revenues in 2011-2012 primarily consist of the Alameda Urban Village Master Plan and Zoning Revisions Grant (\$150,000), the Assistance to Firefighters Grant (\$111,000), and funding from the District Attorney's Office for the Summer Safety Initiative Pilot Program (\$75,000). An increase in revenue from the SJRA reflects reimbursement for City Hall rent (\$100,000) and support services provided to the SJRA by the City including administrative services and legal services (\$700,000).
- The \$1.1 million increase in Revenue from the State category primarily reflects the rebudget of funding from 2010-2011 to 2011-2012 (\$1.0 million) and new grant funding for 2011-2012 (\$59,000) for the Pesticide Management Demonstration (\$50,000) and the 2008-2012 Avoid the 13 Grant (\$9,000).
- The increase of \$863,000 in the Departmental Charges category reflects updated fees to maintain or improve cost recovery in the various fee programs (\$1.0 million), partially offset by the elimination of rental revenue from the Mexican Heritage Plaza (\$120,000) based on the new business model for that facility and a reduction to the revenue estimate for the Lake Cunningham Skate Park (\$56,000) to reflect the currently planned elimination of the admission fees and current service structure at this skate park after fall 2011. Fundraising efforts, however, are under way to possibly continue this program beyond the fall.
- The \$372,000 increase to the Other Revenue category primarily reflects the rebudget of funding from 2010-2011 to 2011-2012 (\$329,000). Other adjustments include an increase in Wellness Program funding from the City's health services providers (\$116,000) and reimbursement from Christmas in the Park for City staff costs (\$75,000), partially offset by the impact of concessions on reimbursements for the City's Investment Program staff (\$145,000) and development-related Transportation Department staff (\$2,000).

GENERAL FUND REVENUE ESTIMATES

Overview

Changes from Forecast to Adopted Budget

- The \$254,000 increase to the Revenue from the State of California – American Recovery and Reinvestment Act Funds (ARRA) primarily reflects the rebudget of funding from 2010-2011 to 2011-2012 (\$181,000). New grant funding is recognized for the Anti-Drug Abuse Enforcement (\$51,000) and 2009 Anti-Human Trafficking Task Force (\$22,000).

An increase of \$42,000 to the Use of Money and Property category reflects the anticipated revenue generated from the use of City's Suite at HP Pavilion during seven regular season hockey games.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

2009-2010 Actual*	\$206,062,364
2010-2011 Adopted*	\$203,192,000
2011-2012 Forecast**	\$201,454,000
2011-2012 Adopted	\$201,454,000
% of General Fund	22.7%
% Change from 2010-2011 Adopted	(0.9%)

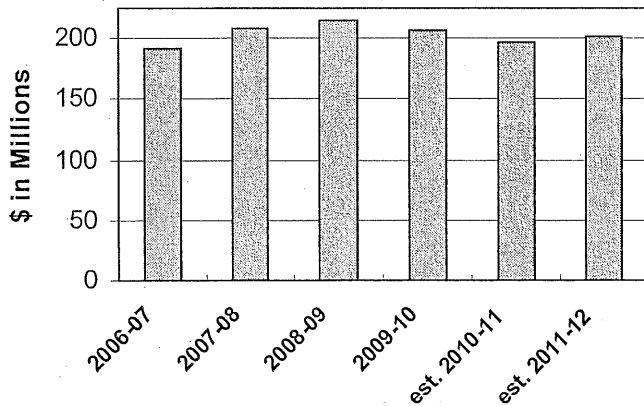
* The Property Tax revenues for 2009-2010 and 2010-2011 have been re-stated to reflect the recategorization of Aircraft Property Tax into the Property Tax category.

** Increased by \$2,157,000 to incorporate Aircraft Property Tax revenue (\$2,233,000) partially offset by a reduction of \$76,000 to reflect lower Unsecured Property Tax collections in 2010-2011. In the February Forecast and in prior years, Aircraft Property Tax revenues were included in the Revenue from the State of California category.

Major Categories:

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

Collection Trend:



Revenue Estimates:

The following discussion reflects the re-categorization, beginning in 2011-2012, of Aircraft Property Tax from the Revenue from the State of California revenue category. For comparability, the data for prior years has been re-stated to include Aircraft Property Tax revenue.

Property Tax receipts of \$197.4 million are projected for 2010-2011, which represents a decline of 4.2% from the prior year. This decline reflects decreases in all categories. In 2011-2012, collections are expected to increase 2.1% to \$201.5 million. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Tax

Secured Property Taxes account for approximately 90% of the revenues in this category. In 2010-2011, Secured Property Tax receipts are expected to drop to \$181.8 million, a decrease of 2.1% from the prior year. This decline marks one of the worst performances in the City's history for this revenue category.

GENERAL FUND REVENUE ESTIMATES

Property Tax

In 2011-2012, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2011, are expected to increase by 1.0%. This projected increase is related to two factors: the increase in the California Consumer Price Index (CCPI) and the anticipated increase in residential valuation partially offset by a reduction in 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 or new construction. The CCPI adjustment for the 2011-2012 tax roll is an increase of 0.753%. In addition to the increase in the CCPI, it is anticipated that the valuation for residential property will increase in 2011-2012. This anticipated improvement is based on information provided by the County Assessor's Office. Residential real estate prices generally experienced improvement through August 2010, but then steadily declined through February 2011. The January 2011 median sales price of \$461,800 for single family homes was 4.0% below the January 2010 level of \$481,100. The June 2011 median sales price of \$520,000 marked an improvement over the previous month, but was still 0.7% below the prior-year level. It is anticipated that the valuation for commercial property will drop in 2011-2012. The impact of these reassessments is not yet known.

Unsecured Property Tax

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been

extremely 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 reach \$10.9 million in 2010-2011, which is 11.0% below the 2009-2010 collection level of \$12.3 million. Given improving business conditions and increasing employment, collections are expected to increase 5.0% in 2011-2012 to \$11.5 million.

SB 813 Property Tax (Property Resales)

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. Revenues in this category dropped in 2010-2011 due to a substantial backlog of unprocessed refunds. Based on an estimate from the County of Santa Clara Controller's Office, receipts in this category are expected to total \$1.2 million in 2010-2011, a decline of 61.5% from the 2009-2010 level. In 2011-2012, collections are projected to return to the collection level experienced during 2009-2010 of \$3.0 million.

Aircraft Property Tax

The Aircraft Property Tax payment is estimated at \$2.3 million in 2010-2011, a decline of 39.9% from the 2009-2010 receipts of \$3.9 million. According to the County of Santa Clara Assessor's Office, this drop in revenue is due to the re-basing of a number of high-value aircraft to airfields outside of the City's jurisdiction. In 2011-2012 collections are expected to decline by 5.0% to \$2.2 million, reflecting the current trend in aircraft valuation.

GENERAL FUND REVENUE ESTIMATES

Property Tax

Homeowner's Exemption

The Homeowner's Property Tax Relief Exemption subvention represents recovery of the tax loss resulting from the per-household exemption granted by current State law. Revenues in this category are projected at \$1.1 million for 2011-2012, which is consistent with the 2010-2011 revenue estimates.

GENERAL FUND REVENUE ESTIMATES

SALES TAX

2009-2010 Actual	\$127,237,777
2010-2011 Adopted	\$127,232,000
2011-2012 Forecast*	\$140,906,000
2011-2012 Adopted	\$140,906,000
% of General Fund	15.9%
% Change from 2010-2011 Adopted	10.7%

* Increased by \$3,557,000 to reflect higher General Sales Tax (\$3,342,000) and Public Safety Sales Tax (\$215,000) collections in 2010-2011.

Major Categories:

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

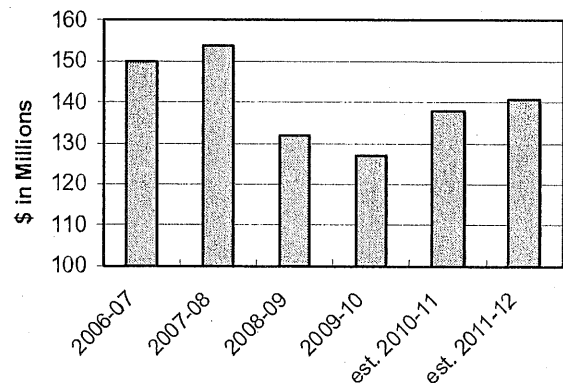
Distribution of Sales Tax:

As shown below, the City receives 1.0% of the 8.25% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected state-wide.

<u>Agency</u>	<u>Distribution Percentage</u>
State of California	5.50%
City of San José	1.00%
Santa Clara County	0.75%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	<u>0.50%</u>
Total Sales Tax Rate	8.25%

Starting in 2004-2005, the City was impacted by the State action known as the “Triple Flip,” which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 0.25% of the City’s one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, will remain in effect until the State’s bond obligations have been satisfied. However, the City will continue to record the replacement property tax revenues as sales tax because the growth formula for these receipts is tied to sales tax and this action is considered a temporary property tax in lieu of sales tax.

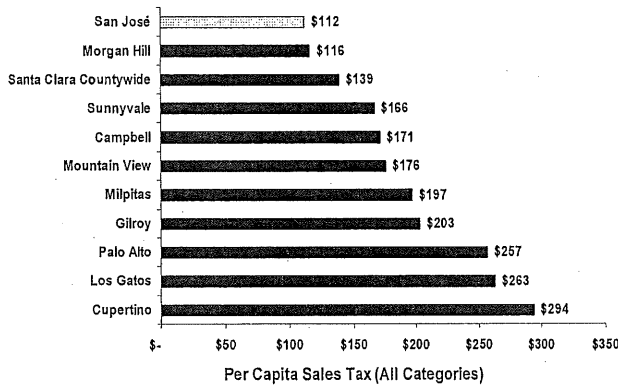
Collection Trend:



GENERAL FUND REVENUE ESTIMATES

Sales Tax

As shown in the chart below, the per capita Sales Tax in San José is, in general, much lower than in neighboring cities.



Source: Muniservices, Cash Receipts 4Q 2010

The City's sales tax collections are spread across all of the economic sectors as shown in the chart below:

Sales Tax by Economic Sector

Economic Sector	% of Total Revenue
General Retail	27.9%
Business to Business	23.8%
Transportation	22.7%
Food Products	15.6%
Construction	9.4%
Miscellaneous	0.6%
Total	100.0%

Source: MuniServices, benchmark year ending 2Q 2011

Revenue Estimates:

Overall, collections are estimated to increase 8.6% in 2010-2011 to \$138.1 million. In 2011-2012, Sales Tax receipts are projected to reach \$140.9 million, 2% above the 2010-2011 collection level.

General Sales Tax

The forecast for the General Sales Tax revenue estimate assumed collections of \$134.1 million in 2010-2011, an increase of 8.8% from the 2009-2010 collection level of \$123.3 million. This increase follows year-over-year declines of 3.5% experienced in 2009-2010 and 14.5% experienced in 2008-2009.

It is important to note that the Sales Tax growth in the first two quarters of 2010-2011 (11.7% and 10.4%) was compared to the prior-year quarters in which Sales Tax declined by 18.2% (down 12.8% on an adjusted basis) and 5.3%. Cash receipts for the second two quarters of 2010-2011 were anticipated to experience average growth of 1.0% from 2009-2010 to meet the revised forecast. Given the significant gains of 13.0% experienced during the last two quarters of 2009-2010, only modest growth over these same quarters is assumed in 2010-2011.

For 2011-2012, the General Sales Tax revenue projection of \$136.8 million anticipates modest growth of 3.5% in taxable sales. Factoring in one-time accounting adjustments to reflect prior-year collections and the "Triple Flip" true-up payment from the State for 2010-2011, year-over-year growth is estimated to be approximately 2.0%. To put the 2011-2012 estimate into perspective, the projected revenue of \$136.8 million remains \$12.7 million (8.5%) below the \$149.5 million collected in 2007-2008.

The Sales Tax revenue estimate is built on the assumption that the slow pace of the economic recovery will produce modest growth in taxable sales in both 2010-2011 and 2011-2012. The high unemployment rates, low consumer confidence levels, and home value losses are expected to hold down consumer spending. Sales tax collections from the business-to-business sector increased an encouraging 19.3% in the first half of 2010-2011 from the same half in

GENERAL FUND REVENUE ESTIMATES

Sales Tax

2009-2010. This sector is volatile, however, the strong performance in the first half of 2010-2011 should be measured against the change in the same two quarters a year ago: a 21.2% decline.

Between the release of the 2011-2012 Proposed Budget and the final adoption of the 2011-2012 budget, actual cash receipts for the third quarter of 2010-2011 were received. Sales Tax collections in that quarter grew by 3.5% when compared to the same quarter in the prior year, exceeding the forecast estimate of 1% growth. This higher growth rate generated an additional \$850,000 in 2010-2011. As described in Manager's Budget Addendum #48 and approved by the City Council, this additional revenue from 2010-2011 was allocated as part of the 2011-2012 Adopted Budget. The Sales Tax estimate for 2011-2012, however, was not modified based on the actual third quarter collections as the data on the drivers for that growth was not available at the time the 2011-2012 budget was approved. After a thorough analysis of the third and fourth quarter Sales collections, staff will bring forward recommended adjustments to the 2011-2012 Sales Tax revenue estimate as part of the 2010-2011 Annual Report budget actions.

Consistent with past years, Sales Tax collections will be carefully monitored during the year and the status reported to the City Council through the Bi-Monthly Financial Reports.

Public Safety (Proposition 172) Sales Tax

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total \$4.0 million in 2010-2011 based on year-to-date performance, which represents an increase of 2.1% from the actual 2009-2010 collections of \$3.9 million. In 2011-2012, collections are projected to increase 3.0% to \$4.1 million.

GENERAL FUND REVENUE ESTIMATES

TRANSIENT OCCUPANCY TAX

2009-2010 Actual	\$6,900,000
2010-2011 Adopted	\$6,684,000
2011-2012 Forecast*	\$7,202,000
2011-2012 Adopted	\$7,202,000
% of General Fund	0.8%
% Change from 2010-2011 Adopted	7.7%

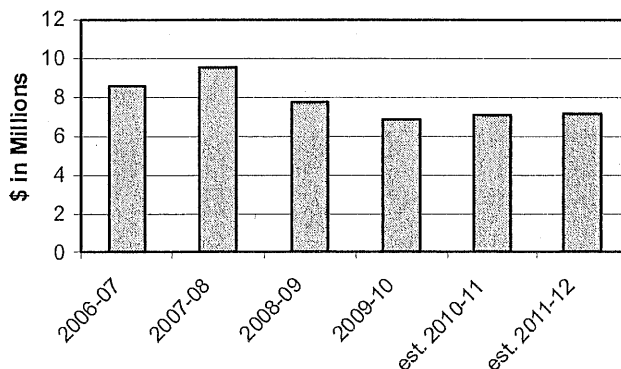
* Reduced by \$126,000 to reflect current year-to-date performance.

Distribution of Transient Occupancy Tax:

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

The allocation of the six percent portion is described in the Source and Use Statement for the Transient Occupancy Tax Fund.

Collection Trend:



Revenue Estimate:

It is estimated that Transient Occupancy Tax receipts for 2010-2011 will total \$7.1 million, reflecting an increase of 2.6% from the 2009-2010 collection level. When this projected gain in revenue is added to the 11.5% decline experienced in 2009-2010 and the 18.5% decline experienced in 2008-2009, total receipts in 2010-2011 are expected to remain 26.0% (\$2.5 million) below the \$9.6 million collected in 2007-2008.

In 2011-2012, stronger growth of 7.7% from the 2010-2011 estimate is anticipated. However, renovation and expansion construction activity at the Convention Center is expected to adversely impact those hotels most reliant on convention-related business. Consequently, a downward adjustment has been included in the growth calculation, bringing the estimate to \$7.2 million, an adjusted growth rate of 1.8%.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

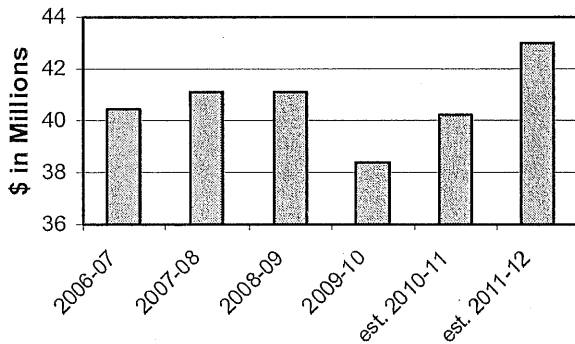
2009-2010 Actual	\$38,410,069
2010-2011 Adopted	\$43,121,000
2011-2012 Forecast*	\$43,025,000
2011-2012 Adopted	\$43,025,000
% of General Fund	4.9%
% Change from 2010-2011 Adopted	(0.2%)

* Increased by \$306,000 to reflect higher Commercial Solid Waste (\$300,000) and Water (\$6,000) Franchise Fee revenue in 2010-2011.

Major Categories:

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

Collection Trend:



Revenue Estimates:

Franchise Fees are expected to total \$40.2 million in 2010-2011. In 2011-2012, Franchise Fees are expected to increase 7.0% to \$43.0 million due primarily to growth in the Electricity (12.0%) and Gas (14.1%) Franchise Fee categories.

Electricity, Gas, and Water Utility Services

The 2010-2011 Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based upon the revenues of that company in the calendar year 2010. Collections are expected to total \$16.2 million in the Electricity Franchise Fee category and \$4.6 million in the Gas Franchise Fee category based on performance in 2010. For both the Electricity and Gas Franchise Fees, an additional ongoing surcharge of 0.3% was implemented during the last four months of 2010.

The 2011-2012 Adopted Budget estimate for both the Electricity and Gas Franchise Fees was based upon an examination of utility tax rate changes, industry actions, collection patterns and their correlation to franchise fee receipts. The actual receipts will be based on activity in calendar year 2011.

The 2011-2012 increase in the Electricity category, to \$18.2 million, reflects anticipated rate increases as well as a full year of the additional 0.3% surcharge.

The Gas Franchise Fee category is also expected to increase, to \$5.3 million, based on projected increases in gas prices in calendar year 2011 and a full year of the 0.3% surcharge. The estimated changes in gas prices are based on Gas Rate Forecast

GENERAL FUND REVENUE ESTIMATES

Franchise Fees

information provided by PG&E. Actual collections in the Gas Franchise Fee area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

Water Franchise Fees are expected to total \$217,000 in 2011-2012, which is consistent with the estimated 2010-2011 collection level. As with the Gas Franchise Fees, collections in this area can vary based on the impact of weather conditions that may influence water usage.

Commercial Solid Waste

The 2010-2011 Commercial Solid Waste (CSW) Franchise Fee revenue estimate of \$9.6 million was built on the assumption that collections will remain close to 2010-2011 estimated collection levels. Collections in this category have experienced declines in recent years, impacted by the severe economic downturn and increased recycling efforts.

Cable Television

The 2011-2012 Adopted Budget estimate for Cable Television Franchise Fee revenue of \$8.6 million reflects an increase of 2% from the 2010-2011 estimated collection level.

City-Generated Towing and Nitrogen Pipelines

Consistent with current year performance, City-Generated Towing Franchise Fee revenues are expected to total \$1.1 million in 2011-2012 and proceeds from Nitrogen Pipeline Franchise Fees are estimated to be \$55,000 in 2011-2012.

GENERAL FUND REVENUE ESTIMATES

UTILITY TAX

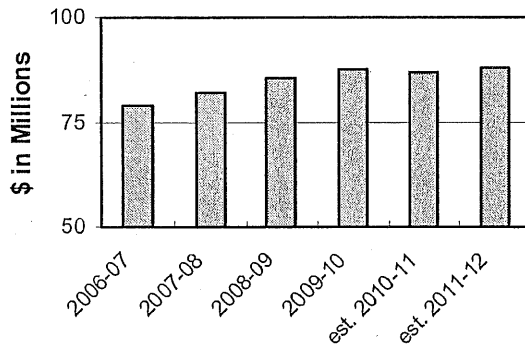
2009-2010 Actual	\$87,650,883
2010-2011 Adopted	\$92,932,000
2011-2012 Forecast*	\$88,035,000
2011-2012 Adopted	\$88,035,000
% of General Fund	9.9%
% Change from 2010-2011 Adopted	(5.3%)

* Reduced by \$564,408 to reflect lower Electricity (\$70,040), Gas (\$449,368), and Telephone (\$45,000) Utility Tax collections in 2010-2011.

Major Categories:

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

Collection Trend:



Revenue Estimates:

Electricity Utility Tax

The 2010-2011 year-end estimate of \$38.9 million for Electricity Utility Tax represents a 2.6% increase when compared to 2009-2010 actual collection levels. In 2011-2012, collections are estimated to increase an additional 1.2% and reach \$39.3 million based on estimated rate increases partially offset by reductions in usage.

Gas Utility Tax

It is anticipated that Gas Utility Tax will total approximately \$8.6 million in 2010-2011 and \$8.8 million in 2011-2012 based on the assumption that gas rates will increase in 2011-2012, but that reductions in usage will partially offset the effect of the rate increases. As discussed above under the Gas Franchise Fee category, the estimated changes in gas prices are based on Gas Rate Forecast information provided by PG&E. Actual collections in the Gas Utility Tax area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

Water Utility Tax

In 2010-2011, Water Utility Tax collections are expected to reach \$8.7 million. Growth of 5.7% is projected in 2011-2012, bringing the estimate to \$9.2 million. This growth is based on projected rate increases in this category of 5.8% in January 2012, with usage levels remaining flat.

Telephone Utility Tax

Collections in the Telephone Utility Tax category are expected to end the year at \$30.8 million, 5.5% below the 2009-2010 level, based on current collection trends.

GENERAL FUND REVENUE ESTIMATES

Utility Tax

According to the City's Utility Tax consultant, the drop in Telephone Utility Tax has resulted from the migration of voice service from landline to wireless, intense price competition in the wireless arena, and bundling of voice service with internet access to qualify for a federal exemption from state and local taxation.

Although the price competition may be temporary, the trend toward tax-exempt bundling is likely to continue into the near future and could serve to partially or completely offset any overall increase in service. Consequently, Telephone Utility Tax collections in 2011-2012 are only expected to achieve the 2010-2011 level of \$30.8 million.

GENERAL FUND REVENUE ESTIMATES

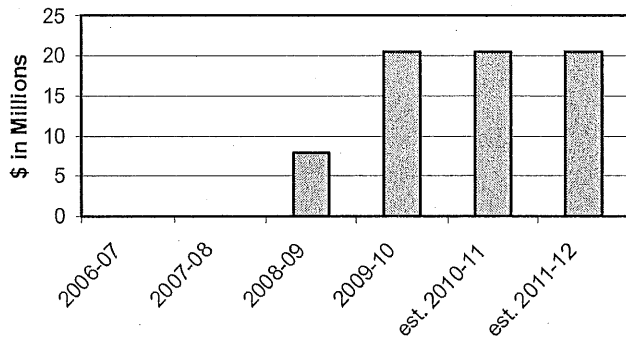
TELEPHONE LINE TAX

2009-2010 Actual	\$20,500,000
2010-2011 Adopted	\$20,525,000
2011-2012 Forecast	\$20,525,000
2011-2012 Adopted	\$20,525,000
% of General Fund	2.3%
% Change from 2010-2011 Adopted	0.0%

Major Categories:

- Telephone Line Tax

Collection Trend*:



- The Telephone Line Tax was approved by the voters in November 2008 and replaced the Emergency Communication System Support Fee.

Revenue Estimates:

Based on the current collection trend, receipts in both 2010-2011 and 2011-2012 are anticipated to total \$20.5 million, unchanged from the 2009-2010 collection level.

GENERAL FUND REVENUE ESTIMATES

BUSINESS TAXES

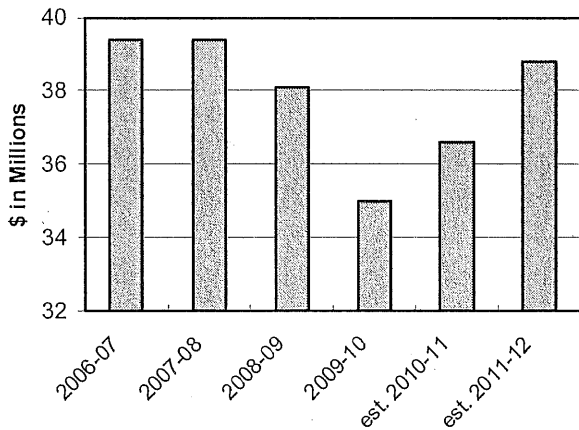
2009-2010 Actual	\$34,951,949
2010-2011 Adopted	\$40,520,000
2011-2012 Forecast*	\$36,295,000
2011-2012 Adopted	\$38,795,000
% of General Fund	4.4%
% Change from 2010-2011 Adopted	(4.3%)

* Reduced by \$193,000 to reflect lower current-year collections for Disposal Facility Tax (\$464,000), partially offset by higher current-year collections for Cardroom Tax (\$271,000). This is a newly-created revenue category. In the February Forecast and in prior years, Business Tax, Cardroom Tax, and Disposal Facility Tax revenues were included in the Licenses and Permits category.

Major Categories:

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

Collection Trend:



Revenue Estimates:

Business Tax

In 2010-2011 General Business Tax proceeds are expected to reach \$11.0 million, a 1.4% increase from the 2009-2010 level. In 2011-

2012, consistent with the historical trend, no growth is anticipated in this category.

Cardroom Tax

Based on current performance, collections in the Cardroom Tax category are estimated at \$14.4 million in 2010-2011, an increase of 15.1% from the 2009-2010 collection level. This increase is attributable to the Cardroom Tax ballot measure approved by voters in June 2010. The ballot measure increased the Cardroom Tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98. Although the 15% increase in the tax rate went into effect on August 13, 2010, current year activity levels, and consequently revenues, are lower than anticipated. Receipts are expected to remain at \$14.4 million for 2011-2012.

Disposal Facility Tax

In the Disposal Facility Tax category, collections are estimated at \$11.3 million in 2010-2011 based on current collection trends. This reflects a decline of 2.9% from the 2009-2010 collection level. Receipts are expected to decline an additional 3.1%, to \$10.9 million, in 2011-2012 as waste diversion is expected to

GENERAL FUND REVENUE ESTIMATES

Business Taxes

more than offset any increase in economic activity.

Marijuana Business Tax

On November 2, 2010, San José voters approved Ballot Measure U, which allows the City to tax all marijuana businesses at a rate of up to 10% of gross receipts. On December 13, 2010, the City Council approved Ordinance number 28867 which sets the Marijuana Tax at 7%. The Marijuana Business Tax became effective on March 1, 2011. In 2010-2011 the estimated collection of the Medical Marijuana Business Tax of \$1.12 million was based on the receipt of

approximately \$290,000, from 73 marijuana businesses, for the first month of tax remittance.

In 2011-2012, revenue from the Marijuana Business Tax will be impacted by the City Council's approval of land use regulations determining where Medical Marijuana establishment can be legally located within the City, implementation of the Medical Marijuana Regulatory Program which caps the number of Medical Marijuana establishments that can legally operate in the City at 10, and other enforcement action directed by the City Council. Based on these factors and limited actual collection data, the revenue estimate was established at \$2.5 million for 2011-2012.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS	
2009-2010 Actual*	\$31,032,714
2010-2011 Adopted*	\$31,206,912
2011-2012 Forecast**	\$31,699,358
2011-2012 Adopted	\$34,567,094
% of General Fund	3.9%
% Change from 2010-2011 Adopted	10.8%

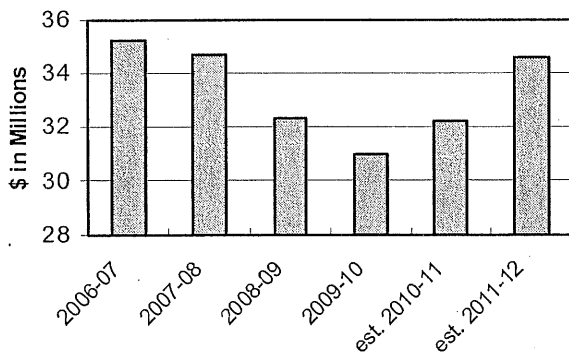
* The Licenses and Permits revenues for 2009-2010 and 2010-2011 have been re-stated to reflect the recategorization of Business Tax, Cardroom Tax, and Disposal Facility Tax into the Business Taxes category.

** Decreased by \$35,864,638 to reflect the recategorization of Business Tax, Cardroom Tax, and Disposal Facility Tax revenues to the newly-created Business Taxes category (\$36,488,000), as well as lower collections for Building Permits (\$95,005) and the Multi-Housing Permit Transfer Fee (\$120), partially offset by increases to the Fire Permits (\$580,000) category, Animal Control Services Licensing Fees (\$120,000), General Code Reinspection (\$7,663), Handbill Permits (\$6,795), Miscellaneous Finance Permits (\$3,480), and Off-Sale Alcohol Enforcement (\$549).

Major Categories:

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

Collection Trend:



Revenue Estimates:

Fire Permits

The 2011-2012 Adopted Budget revenue estimate of \$7.81 million is slightly above the 2010-2011 modified budget estimate of \$7.75 million. The Fire Fee Program aligns

projected revenues and costs to remain at 100% cost recovery.

This fee program includes both the development and non-development fee areas. To maintain cost recovery in these areas and ensure that service delivery needs are met for 2011-2012, a number of budget actions were approved in the Adopted Budget.

In the development fee area, no general fee increases were brought forward. Budget actions approved include the continuation of staffing to maintain the second Special Tenant Improvement/Industrial Tool Installation (STI/ITI) line (initiated in 2010-2011), the elimination of the Development Program-portion of the Hazardous Materials Inspector that supports the County's Hazardous Materials Certified Unified Program (CUPA) (this program is expected to be transitioned to the County), and the elimination of a Senior Analyst position (50% development and 50% non-development). The use of \$143,500 from the Fire Development Fee Program Reserve was approved to balance this fee program.

GENERAL FUND REVENUE ESTIMATES

Licenses and Permits

In the non-development area, a 5% fee reduction was approved to keep this program at 100% cost recovery. Budget actions include the elimination of resources and associated revenue supporting the CUPA Program (one Program Manager II position, one Hazardous Materials Inspector position split 35% development, 65% non-development, and one Fire Prevention Inspector position), the elimination of a Senior Analyst position (50% development and 50% non-development), and the addition of a part-time Senior Analyst to continue to support the Department's Non-Development Fee Program.

Additional detail on these budget actions is provided in the Fire Department under the City Departments section of this document. A more detailed description of the changes to the various fees is provided in the 2011-2012 Fees and Charges document that is released under separate cover.

Building Permits

In 2011-2012, Building Permit revenue is projected to total \$16.6 million based on current activity levels. This collection level is sufficient to fund the expenditure needs in 2011-2012 without any fee increases. The following expenditure adjustments were approved: make permanent 11.5 positions that were temporarily added in 2010-2011, reallocate 0.45 Senior Engineer from Redevelopment Agency support, reallocate funding for 1.34 Building staff to the Integrated Waste Management Fund, and add one-time non-personal/equipment funding for technology improvements. These adjustments continue the Project Manager/Expediter, the Enhanced Expedited Plan Review line, and the second Special Tenant Improvements/Industrial Tool Installation line, as well as fund a Program Manager to assist customers in the Permit Center and Wireless Inspections equipment

and software, improving services to the development community. With these actions, the Building Fee Program is expected to remain at 100% cost recovery. The Building Fee Program Works in Progress Reserve, currently at \$2.8 million, will remain intact for additional staffing that may be required to support works-in-progress in 2011-2012.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement Department under the City Departments section of this document. A more detailed description of the various fees is provided in the 2011-2012 Fees and Charges document that is released under separate cover.

Miscellaneous Other Licenses and Permits

The 2011-2012 Adopted Budget includes \$10.2 million for a variety of other Licenses and Permits. This figure incorporates approved budget actions that total \$2.2 million and represent: the addition of \$1.3 million for for Medical Marijuana Regulatory fees to fund the oversight of this new program; \$373,000 for Tobacco Retailer Permit fees; a \$320,000 increase in Animal Control Services licensing fees reflecting increased licensing outreach and collection efforts; a \$141,000 increase from the base estimate in Multiple Housing Permit fee revenue to reach 100% cost recovery; and increases of \$78,000 to Police-related permits to maintain cost recovery. These increases were partially offset by a reduction totaling \$11,000 to various code enforcement-related permits and services to bring to cost recovery and a \$400 reduction in taxi stand rental revenues.

GENERAL FUND REVENUE ESTIMATES

FINES, FORFEITURES, AND PENALTIES

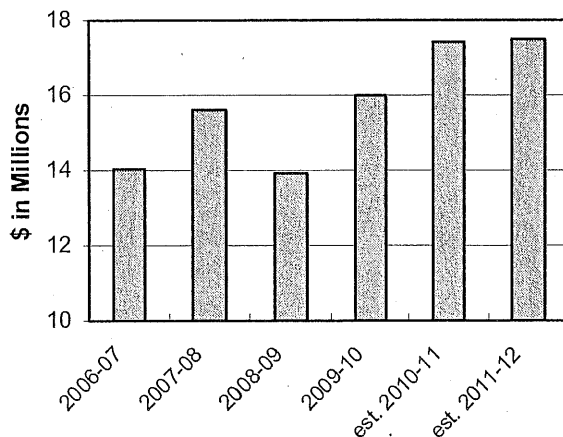
2009-2010 Actual	\$15,998,354
2010-2011 Adopted	\$17,130,000
2011-2012 Forecast*	\$17,471,000
2011-2012 Adopted	\$17,471,000
% of General Fund	2.0%
% Change from 2010-2011 Adopted	2.0%

* Increased by \$43,500 to reflect higher current year Animal Services Citations (\$75,000), Administrative Citations (\$25,000), and Other Penalties (\$13,000), partially offset by lower current year California Vehicle Code Fines (\$35,000), Municipal Court Fines (\$34,000), and Off-Sale Alcohol Penalties and Interest (\$500).

Major Categories:

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

Collection Trend:



Revenue Estimates:

For 2011-2012, overall collections in this category are expected to reach \$17.5 million, a small increase from the 2010-2011 estimate of

\$17.4 million. Following is a discussion of the major components of this category.

Vehicle Code and Municipal Court Fines

In 2011-2012, Vehicle Code Fines are estimated at \$3.2 million and Municipal Court Fines are expected to reach \$649,000, consistent with current collection patterns for these revenue categories.

Parking Fines

Parking Fines are expected to generate approximately \$11.4 million in 2010-2011, an increase of 11.3% from the 2009-2010 receipts of \$10.2 million. A portion of this increase is due to State-mandated fine increases implemented mid-way through the 2010-2011 fiscal year and a portion is expected to come from the City's participation in a program under which the State of California Franchise Tax Board collects past-due parking fines on behalf of the City. In 2011-2012, a total of \$11.6 million is projected from Parking Fines, a 2.0% increase from the current year level, reflecting a full year of the State-mandated fine increases partially offset by a reduction in the estimate for Franchise Tax Board collections.

GENERAL FUND REVENUE ESTIMATES

Fines, Forfeitures, and Penalties

Business Tax Penalties

Business Tax penalties are projected at \$1 million for 2011-2012, which is consistent with historical collection patterns.

Administrative Citation Program

The Administrative Citation Program is projected to generate 2011-2012 revenues of approximately \$153,000 in fines and an additional \$75,000 in penalties, for a total of \$228,000. These estimates are consistent with the 2010-2011 year-end estimates.

Police False Alarm Fines

For 2011-2012, Police False Alarm Fines are expected to generate approximately \$440,000 of revenue with an additional \$12,000 of penalty revenue, for a total of \$452,000. This is a decrease of \$100,000 from the 2010-2011 anticipated collections, which included payments for prior years that resulted from restructuring of this program.

Other Fines and Penalties

In 2011-2012, other Fines and Penalties are expected to generate \$378,000 from a variety of sources, including \$100,000 from Animal Services Citations and \$100,000 from Fire Non-Development Fee Program delinquencies.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM USE OF MONEY AND PROPERTY

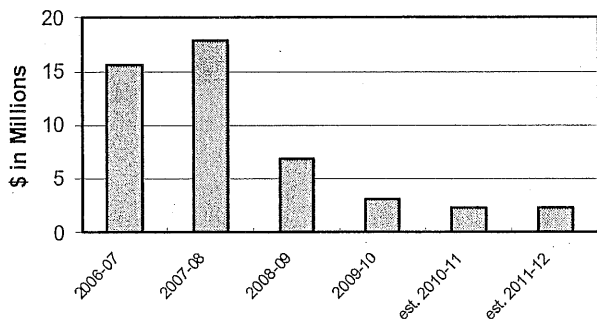
2009-2010 Actual	\$3,190,707
2010-2011 Adopted	\$3,049,614
2011-2012 Forecast*	\$2,371,000
2011-2012 Adopted	\$2,413,000
% of General Fund	0.3%
% Change from 2010-2011 Adopted	(20.9%)

* Decreased by \$1,995 to reflect minor adjustments in interest earnings assumptions.

Major Categories:

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

Collection Trend:



Revenue Estimates:

This category consists of interest income earned in the City's General Fund and revenue associated with the rental of City-owned property.

General Fund Interest Earnings

The 2011-2012 estimate for interest earnings in the General Fund assumes an average interest rate of only 0.22% applied to an average cash balance of approximately \$50 million for a total collection level of \$110,000. This forecast reflects a significant decline in the average interest rate yield (down from 0.50%) assumed in the 2010-2011 revenue estimate of \$250,000. The lower interest yield projection, which was provided by the Finance Department, reflects the impact of current economic conditions.

Rental of City-Owned Property

In 2011-2012, it is anticipated that approximately \$2.1 million will be generated from the rental of City-owned property.

Miscellaneous Collections

It is anticipated that approximately \$192,000 will be generated in 2011-2012 from Property Tax interest, Subrogation Recovery, and interest on various executive loans. In addition, \$42,000 is anticipated to be generated from the use of City's Suite at HP Pavilion during seven regular season hockey games.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

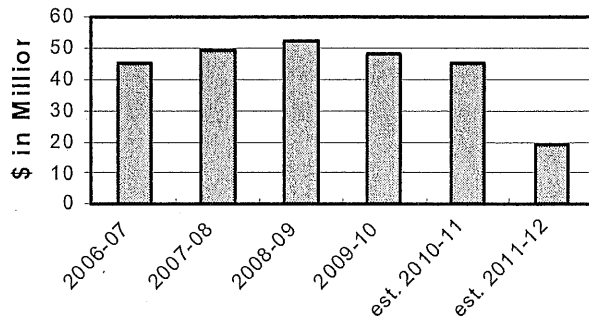
2009-2010 Actual	\$48,067,421
2010-2011 Adopted	\$45,612,582
2011-2012 Forecast*	\$17,289,046
2011-2012 Adopted	\$19,331,237
% of General Fund	2.2%
% Change from 2010-2011 Adopted	(57.6%)

* Revised downwards by \$19,279,890 from the February Forecast to reflect elimination of the majority of reimbursements from the San Jose Redevelopment Agency (\$19,792,814), partially offset by an increased estimate for Paramedic Program payments (\$512,924).

Major Categories:

- Reimbursement from the San Jose Redevelopment Agency
- Central Fire District Payments
- Paramedic Program Payments
- Other Miscellaneous Payments

Collection Trend:



Revenue Estimates:

San Jose Redevelopment Agency

The San Jose Redevelopment Agency (SJRA) reimbursements included in the February Forecast Budget totaled \$25.2 million. This figure included \$8.5 million to cover the estimated 2011-2012 costs for Agency staff and City support services provided to the

Agency, \$15.4 million for the Convention Center Lease payment based on the debt payment schedule, and \$1.3 million for rent payments for SJRA use of City Hall facilities. In accordance with the SJRA Adopted 2010-2011 Revised Capital Budget and Three-Year Spending Plan, adopted by the SJRA Board in November 2010, the February Forecast estimate reflected the elimination of SJRA reimbursements for the San José BEST and Strong Neighborhoods Initiative programs (\$5.4 million combined in 2010-2011).

Due to the financial difficulties of the SJRA, the base figure was reduced by approximately \$19.8 million in the Revised Forecast to reflect the elimination of all of the reimbursements for Agency staff and City support services, the elimination of all rent payments, and the elimination of all but \$5.4 million of the Convention Center Lease payment.

As part of the Adopted Budget, \$800,000 in reimbursement from the SJRA was restored. This additional revenue reflects partial reimbursement for services including City Hall Rent (\$100,000), administrative services (\$133,700), and legal services (\$750,000). A more detailed description of services can be found in the Department Section of this

GENERAL FUND REVENUE ESTIMATES

Revenue From Local Agencies

document in the Office of the City Clerk and Office of the City Attorney respectively.

Central Fire District and Paramedic Program Payments

Property taxes fund the Central Fire District, and those payments for the County areas covered by the San José Fire Department are passed on to the City. For 2011-2012, Central Fire District payments are expected to total \$4.6 million. This assumes a 10% drop in Property Tax receipts due to annexations of County pockets into the City.

In 2011-2012, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed at \$2.3 million based on the agreement with the County.

Other Miscellaneous Payments

A number of other revenue sources are included in this category, such as the Adult Day Care and First Five Partnership Programs. For 2011-2012, the base level of revenue was generally set at approximately the 2010-2011 estimated level. These sources are expected to generate \$5.1 million in 2011-2012. The 2011-2012 Adopted Budget includes the following adjustments:

- Increase of \$808,000 for AFIS Phase I upgrade.
- Increase of \$150,000 for Alameda Urban Village Master Plan and Zoning Revisions grant.
- Increase of \$111,000 for the Assistance to Firefighters Grant
- Increase of \$75,000 for the Summer Safety Initiative Pilot Program.
- Increase of \$56,000 for San José After School-Year 5 contracts.
- Increase of 35,000 for Alum Rock Main Street District Rezoning Grant.
- Increase of \$7,000 for the PG&E Summer Cooling Shelter Program.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

2009-2010 Actual*	\$7,872,927
2010-2011 Adopted*	\$14,636,837
2011-2012 Forecast**	\$13,133,417
2011-2012 Adopted	\$14,211,106
% of General Fund	1.6%
% Change from 2010-2011 Adopted	(2.9%)

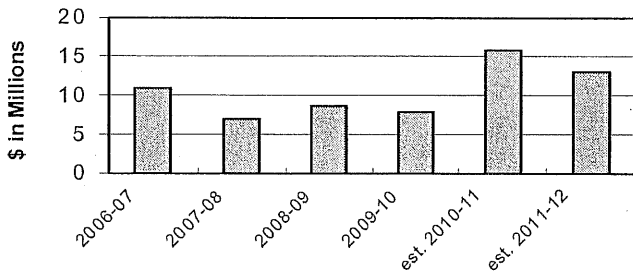
* The Revenue from the State of California revenues for 2009-2010 and 2010-2011 have been re-stated to reflect the recategorization of Aircraft Property Tax into the Property Tax category.

** Decreased by \$2,744,631 to reflect the recategorization of Aircraft Property Tax revenue (\$2,214,000) to the Property Tax category, a reduction in the forecast for Tobacco Settlement revenue (\$530,311), and an adjustment to Motor Vehicle In-Lieu collections (\$320).

Major Categories:

- Tobacco Settlement Revenue
- Motor Vehicle In-Lieu Taxes
- State Grants

Collection Trend:



Revenue Estimates:

Tobacco Settlement Revenue

Beginning in 2010-2011, Tobacco Settlement revenue is deposited in the General Fund. Based on the most recent information from the State, the 2011-2012 revenue estimate for this category was set at \$9.0 million, consistent with the 2010-2011 actual receipts and 5.3% below the 2009-2010 collections of \$9.5 million.

Motor Vehicle In-Lieu Taxes

In 2010-2011, Motor Vehicle In-Lieu collections are expected to drop 16.0% from the \$3.3 million received in 2009-2010. In 2011-2012, reflecting stronger automobile sales, collections are projected to increase slightly, by 2.0%, to \$2.8 million. Subsequent to the adoption of the 2011-2012 Budget, the State approved SB 89 which reallocates all Motor Vehicle In-Lieu collections from local agencies to fund public safety grants. Budget adjustments will be brought forward as part of the 2010-2011 Annual Report in September 2011 to adjust for this loss in revenue of \$2.8 million.

State Grants

The City receives a number of grants and reimbursements on an annual basis. For 2011-2012, the following revenue estimates are included from those sources: Abandoned Vehicle Fee revenue (\$600,000); Auto Theft Reimbursement (\$370,000); Waste Tire Enforcement Reimbursement (\$182,000); Highway Maintenance Charges (\$105,000);

GENERAL FUND REVENUE ESTIMATES

Revenue From the State of California

and California Library Literacy Services (CLLS) grant (\$56,000). As part of the 2011-2012 Adopted Budget, new grant funding was recognized for the Pesticide Management Demonstration (\$50,000) and 2008-2012 Avoid the 13 Grant (\$9,000).

In addition, the Adopted Budget incorporates the rebudget of grant funding from 2010-2011 to 2011-2012 for the following: CAD Network Upgrades (\$402,000); various Library Grants (Early Childhood Education Program, Work-Wise, Improving Job Performance & Proficiency, SJ Historeality, Components for Tutors, and Smart Start Quality Improvement) (\$328,000); 2010-2011 DUI Enforcement and Awareness (\$152,000); Pesticide Management Demonstration (\$100,000); State Homeland Security Grant (\$30,000); and 2010-2011 Internet Crimes Against Children Grant (\$7,000).

GENERAL FUND REVENUE ESTIMATES

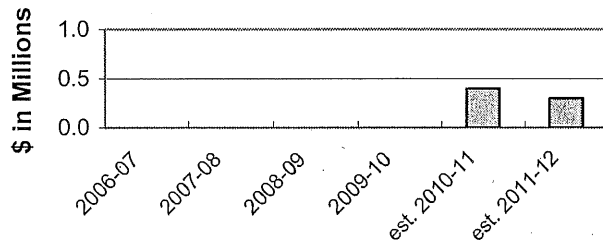
REVENUE FROM THE STATE OF CALIFORNIA AMERICAN RECOVERY & REINVESTMENT ACT
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2009-2010 Actual	\$0
2010-2011 Adopted	\$0
2011-2012 Forecast	\$0
2011-2012 Adopted	\$254,027
% of General Fund	0.0%
% Change from 2010-2011 Adopted	N/A

Major Categories:

- American Recovery and Reinvestment Act of 2009

Collection Trend:



Revenue Estimates:

This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 allocated to the City by the State of California that is recorded in the General Fund. Associated expenditure appropriations are also included in the 2011-2012 budget in the Capital and City-Wide expenditure categories.

As part of the 2011-2012 Adopted Budget, new grant funding was recognized for the Anti-Drug Abuse Enforcement (\$51,000) and 2009 Anti-Human Trafficking Task Force (\$22,000). In addition, the Adopted Budget incorporated the rebudget of grant funding for the following: 2009 Anti-Human Trafficking Task Force (\$140,000), Anti-Drug Abuse Enforcement Team (\$23,000), and 2010-2011 Anti-Drug Abuse Enforcement Team Program Grant (\$18,000).

GENERAL FUND REVENUE ESTIMATES

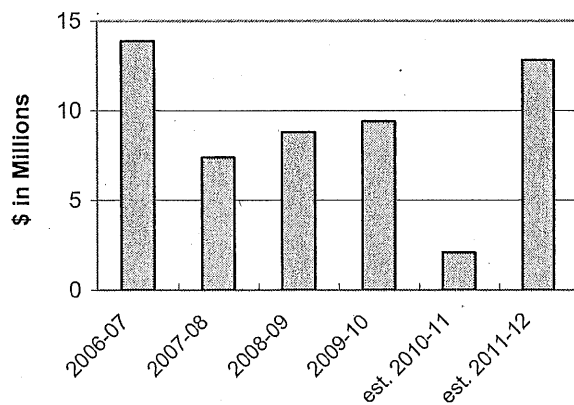
REVENUE FROM THE FEDERAL GOVERNMENT

2009-2010 Actual	\$5,126,784
2010-2011 Adopted	\$5,148,163
2011-2012 Forecast	\$2,170,800
2011-2012 Adopted	\$12,807,900
% of General Fund	1.4%
% Change from 2010-2011 Adopted	148.8%

Major Categories:

- Police-Related Federal Grants
- Other Federal Grants

Collection Trend:



Revenue Estimates:

The revenue in this category is received from various grant programs. The 2011-2012 Adopted Budget only includes those grant proceeds known to be obligated for next year.

The following grants are included in the 2011-2012 Adopted Budget: the Staffing for Adequate Fire and Emergency Response (SAFER) Grant (\$6.0 million), the 2011-2012 COPS Hiring Grant (\$2.2 million), the 2009 Urban Areas Security Initiative (UASI) Grant – Fire (\$601,000), 2009 Urban Areas Security Initiative (UASI) Grant – Police (\$567,000), the Assistance to Firefighters Grant

(\$443,000), the Northern California Regional Intelligence Center SUASI – Police (\$284,000), and the Federal Bureau of Investigation Forensic Laboratory (\$4,000).

As part of the Adopted Budget the following grants were rebudgeted from 2010-2011 to 2011-2012:

- Fire Self Contained Breathing Apparatus grant match (\$1.7 million);
- 2010 COPS Technology Grant (\$382,000);
- 2009 Metropolitan Medical Response System (MMRS) Grant (\$156,000);
- Internet Crimes Against Children Continuation Grant (\$147,000);
- Bulletproof Vest Partnership Grant (\$89,000);
- 2009 Human Trafficking Prevention Grant (\$88,000);
- 2009 COPS Technology Program Grant (\$70,000);
- 2009 Urban Areas Security Initiative (UASI) Grant – Fire (\$45,000);
- 2009 Child Sexual Predator Program Grant (\$41,000);
- Weed and Seed – East San José (Police) (\$21,000);
- Juvenile Justice and Delinquency Prevention Grant 2008 (\$7,000); and
- Human Trafficking Prevention Grant (\$1,000).

GENERAL FUND REVENUE ESTIMATES

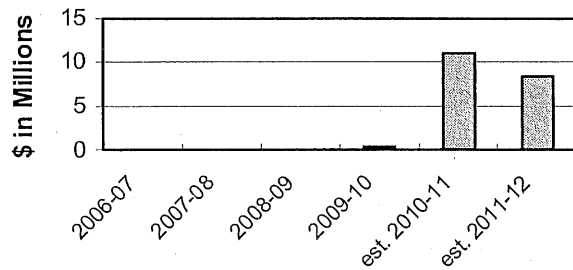
REVENUE FROM THE FEDERAL GOVERNMENT - AMERICAN RECOVERY & REINVESTMENT ACT

2009-2010 Actual	\$366,513
2010-2011 Adopted	\$10,702,598
2011-2012 Forecast	\$699,618
2011-2012 Adopted	\$8,400,311
% of General Fund	0.9%
% Change from 2010-2011 Adopted	(21.5%)

Major Categories:

- American Recovery and Reinvestment Act of 2009

Collection Trend:



Revenue Estimates:

This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 allocated to the City by the federal government that is recorded in the General Fund. Associated expenditure appropriations are also included in the 2011-2012 budget in the Capital and City-Wide expenditure categories.

The \$700,000 of additional grant funds that are programmed for 2011-2012 represent the second year of multi-year grants. As part of the Adopted Budget additional grant funds programmed for 2011-2012 include the Anti-Drug Abuse Enforcement (\$51,000) and the 2009 Anti-Human trafficking Task Force (\$22,000). In addition, the following grants were rebudgeted from 2010-2011 to 2011-2012: Energy Efficiency and Conservation Block Grant (\$6.5 million); 2009 Internet Crimes Against Children Task Force (\$570,000); Solar Market Transformation (\$354,000); Retrofit California Program (\$195,000); 2009 Anti-Human Trafficking Task Force (\$140,000); Local Energy Assurance Planning (\$45,000); Anti-Drug Abuse Enforcement (\$23,000); 2010-2011 Anti-Drug Abuse Enforcement Team Program Grant (\$18,000).

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

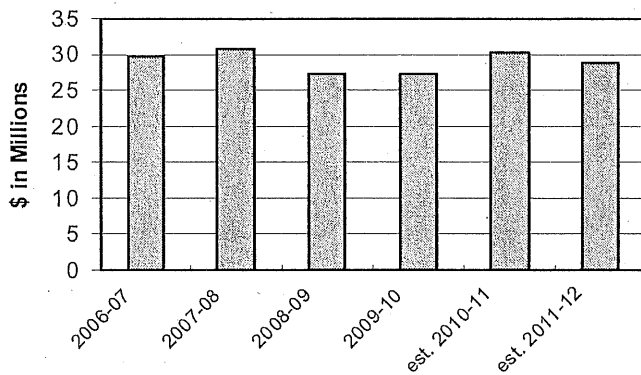
2009-2010 Actual	\$27,281,416
2010-2011 Adopted	\$29,581,573
2011-2012 Forecast*	\$28,713,461
2011-2012 Adopted	\$29,576,872
% of General Fund	3.3%
% Change from 2010-2011 Adopted	(0.0%)

* Increased by \$601,130 from the February Forecast: Parks, Recreation and Neighborhood Services (up \$364,697); Miscellaneous (up \$212,564); and Public Works (up \$23,869).

Major Categories:

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

Collection Trend:



Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2011-2012 Adopted Budget, estimated Departmental Charges of \$29.6 million were 3.0% (\$863,000) higher than the Revised Forecast level.

The increase of \$863,000 in the Departmental Charges category reflects updated fees to maintain or improve cost recovery in the various fee programs (\$1.0 million), partially offset by the elimination of rental revenue from the Mexican Heritage Plaza (\$120,000) based on the new business model for that facility and a reduction to the revenue estimate for the Lake Cunningham Skate Park (\$56,000) to reflect the currently planned elimination of the admission fees and current service structure at this skate park after fall 2011. Fundraising efforts, however, may result in the continuation of this program.

This section highlights the major fee programs in this category. A more detailed description of the changes to the various fee programs is provided in the 2011-2012 Fees and Charges document released under separate cover.

Library Fees

Library Department fees and fines for 2011-2012 are estimated at \$1.4 million, unchanged from the 2010-2011 year-end estimate of \$1.4 million. Library fines, which generate the majority of revenue in this category, are expected to remain at \$1.3 million as a result of the restoration of branch library operations as approved by the City Council as part of the Mayor's June Budget Message for 2011-2012.

GENERAL FUND REVENUE ESTIMATES

Departmental Charges

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are estimated at \$12.9 million in 2011-2012 based on current activity projections, adopted fee changes, and changes in PRNS departmental operations.

The 2011-2012 Adopted Operating Budget includes several revenue adjustments associated with revenue generation strategies and expenditure reductions. Projected revenue increases associated with parking fees (\$150,000), neighborhood park reservations (\$23,500), and aquatics (\$110,000) are partially offset by a revenue decrease at Lake Cunningham Skate Park (\$56,000) resulting from the currently planned elimination of the admission fees and current service structure at this skate park after fall 2011. Fundraising efforts, however, are under way to possibly continue this program beyond the fall.

Planning Fees

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

In 2011-2012, Planning Fees are anticipated to generate approximately \$2.5 million in revenue, which is slightly (4%) above the 2010-2011 revenue estimate. No general fee adjustments were brought forward for this program. To maintain cost recovery, comply with State mandates, and pilot an expedited service, various expenditure actions were approved, including the reallocation of 1.0 Planner II to 0.75 Planner II PT, the addition of 1.0 Senior Planner partially offset by the elimination of 0.50 Senior Planner, and funding equivalent to a Planner II overstrength for seven months to pilot a new

Expedited Coordinated Review process for Planning permits. The new 1.0 Senior Planner position, which will expand Planning's capacity to review and track permits that require Mitigation Monitoring and complete an environmental review required by the California Environmental Quality Act (CEQA), will be offset by additional revenue as applicants subject to these measures will be charged at the Planning hourly rate. The Expedited Coordinated Review will provide customers with an option for faster processing, at 1.5 times the Planning hourly rate.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement Department under the City Departments section of this document.

Police Fees

The 2011-2012 Adopted Budget revenue estimate totals \$1.8 million for Police Department fees, which is close to the 2010-2011 estimated collection level. Fee adjustments to a number of the Police fees were included to maintain or improve cost-recovery levels.

Public Works Fees

In 2011-2012, Public Works fees are expected to generate \$4.8 million, which is \$480,000 above (11.1%) the 2010-2011 Adopted Budget level.

The Public Works Fee Program is structured to be 100% cost recovery. Due to an increase in development activity, mostly in the engineering and inspection, electrical design and review, and development application review categories, combined with approved changes in fees to align with costs of providing services (a net increase of \$5,000), 3.96 positions are shifted from capital funding to this program. In addition, an increase of \$205,000 to the Public Works Fee

GENERAL FUND REVENUE ESTIMATES

Departmental Charges

Reserve for future projects was approved as well as the rebudget of \$979,000 of this reserve from 2010-2011 to 2011-2012, bringing the reserve to \$1.2 million.

Additional detail on these actions is provided in the Public Works Department under the City Departments section of this document.

Transportation Fees

Transportation Departmental Charges are expected to generate \$849,000 in 2011-2012, which is 7.0% below the 2010-2011 year-end estimate of \$913,000. This drop reflects the adjustment of a variety of fees to maintain cost-recovery levels, partially offset by an activity-related increase in revenue for traffic signal design and activation.

Miscellaneous Departmental Fees

Collections of \$5.3 million are anticipated in 2011-2012 from a variety of miscellaneous fees and charges. This figure reflects an increase of \$98,000 from the Forecast estimate based on approved fee changes.

More than half of the revenue in this category is generated from the Solid Waste Enforcement Fee (SWEF) Program. This fee is expected to generate \$3.5 million in 2011-

2012, which is consistent with the 2010-2011 Modified Budget estimate. No fee adjustment was approved for 2011-2012.

In addition, the 2011-2012 Adopted Budget included the establishment of the Enterprise Zone Voucher Application Fee of \$109 which will recover the costs associated with reviewing applications and the State application fee of \$15. It is estimated that roughly 2,000 applications will be submitted in 2011-2012 and revenue of \$218,000 will be received. Additional information can be found in the Fees and Charges document.

As part of the 2011-2012 Adopted Budget actions, the revenue estimate of \$120,000 associated with the Mexican Heritage Plaza fees was eliminated. As part of the new business plan for this facility approved by the City Council on May 24, 2011, the rental revenue generated from the Mexican Heritage Plaza would benefit the Interim Incubator Operator of this facility. To offset this loss of revenue, funding (\$116,000) was provided by the Convention and Cultural Affairs Fund (reflected in the Transfers and Reimbursements revenue category).

This category also includes the Animal Control Services fees, which are projected to generate \$648,000 in 2011-2012.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

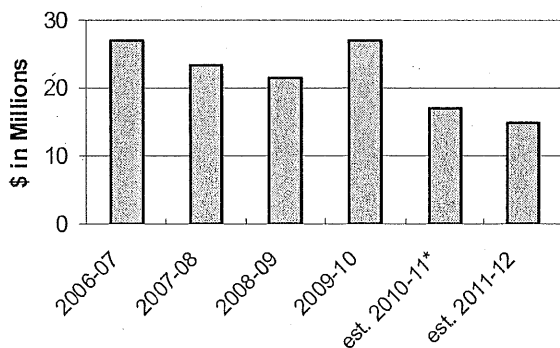
2009-2010 Actual	\$27,022,507
2010-2011 Adopted	\$13,419,768
2011-2012 Forecast*	\$14,546,488
2011-2012 Adopted	\$14,918,888
% of General Fund	1.7%
% Change from 2010-2011 Adopted	11.2%

* Decrease of \$27,682 reflecting elimination of San Jose Redevelopment Agency payments (\$28,582), partially offset by an increase in fees charged on dis-honored check payments to the City (\$900).

Major Categories:

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

Collection Trend:



* The 2010-2011 estimate excludes the \$75.0 million of Tax and Revenue Anticipation Notes issued in July and October 2010 and repaid in January 2011.

Revenue Estimates:

Litigation Settlements

In 2010-2011, it is estimated that approximately \$300,000 will be received in connection with legal settlements. For 2011-2012, Litigation Settlement revenue of \$100,000 is included in the Adopted Budget.

HP Pavilion at San José Revenues

The City receives payments from Arena Management associated with the use of HP Pavilion at San José. In 2011-2012, it is estimated that \$4.8 million will be received for parking, arena and suite rentals, and naming rights.

Investment Program Reimbursement

The 2011-2012 revenue estimate for this category is \$2.3 million based on the estimated costs of this program that will be reimbursed from investment earnings. This reflected a decrease of \$145,000 from the Forecast to bring the program to cost recovery.

GENERAL FUND REVENUE ESTIMATES

Other Revenue

PEG Access Facilities

The 2011-2012 Adopted Budget includes \$1.6 million to reflect the payments from Comcast and AT&T required under the Franchise Agreement. As defined in the Franchise Agreement, these funds will be used to support the Public, Educational, and Government (PEG) Access facilities. There is an associated City-Wide Expenses allocation for this purpose.

Sale of Property

The Adopted Budget includes revenue in the amount of \$1.8 million from the sale of surplus property.

Sidewalk Repair and Tree Maintenance Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2011-2012 revenue estimate for this category is \$500,000.

Property owners are also assessed for the costs of tree services provided by the City. If the City performs emergency tree services, such as removing a tree that has fallen in the street during a storm, the property owner is assessed a fee to cover the cost of this service. This fee is expected to generate \$400,000 in 2011-2012.

Miscellaneous Other Revenue

The 2011-2012 Adopted Budget incorporates miscellaneous other revenues including Banking Services (\$1.0 million), Silicon Valley Energy Watch grants (\$851,000), Wellness Program payments from the City's employee healthcare providers (\$500,000), Labor

Compliance Liquidated Damages (\$150,000), City Hall parking revenue (\$100,000), Secondary Employer Insurance reimbursement from Police Officers (\$100,000), and several smaller revenue categories.

As part of the Adopted Budget, the following adjustments were included in the Other Revenue category:

- An increase of \$247,000 to reflect a rebudget of revenues for the Silicon Valley Energy Watch (SVEW) Innovator Pilots Project.
- An increase of \$116,000 to reflect Wellness Program financial support from the City's employee healthcare providers.
- An increase of \$75,000 to reflect reimbursement from Christmas in the Park for City staff costs.
- An increase of \$74,000 to reflect a rebudget of revenues and expenditures for the Silicon Valley Energy Watch (SVEW) Grant.
- An increase of \$6,000 to reflect a rebudget for the Enhance Fitness Grant.
- An increase of \$2,000 to reflect a rebudget for the Science Program at Alum Rock Youth Center.
- Decreases for New Subdivision – Pavement Markings (\$1,900), Sale of Street Name Signs (\$160), and New Subdivision – Traffic Control Signs (\$100) to reflect fee adjustments to reach cost recovery.
- A decrease of \$145,000 in investment program reimbursements to reach cost recovery.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

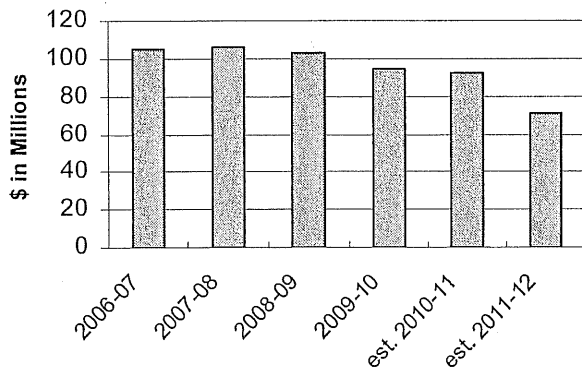
2009-2010 Actual	\$94,950,566
2010-2011 Adopted	\$88,769,779
2011-2012 Forecast*	\$74,354,362
2011-2012 Adopted	\$70,868,919
% of General Fund	8.0%
% Change from 2010-2011 Adopted	(20.2%)

* Decreased by \$1,888,653 from the February Forecast: a reduced transfer from the Construction Excise Tax Fund (\$3,450,000), reduced Gas Tax Funds reimbursements (\$633,000), a reduced transfer from the Low and Moderate Income Housing Fund (\$187,500), a reduced transfer from the Community Facilities Revenue Fund (\$33,587), and a decrease to the Airport Reimbursement for Fire Services (\$26,229), reduced interest earnings transfers from special funds (\$28,507), partially offset by a net increase for overhead adjustments (\$2,229,970), an increase to the transfer from the General Purpose Parking Fund (\$140,000), an increase to the transfer from the District 9 Parks Construction and Conveyance Tax Fund (\$100,000), and an increase to the transfers from the Construction and Conveyance Tax Funds for Parks Maintenance (\$200).

Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services

Collection Trend:



Revenue Estimates:

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

In total, Transfers and Reimbursements are anticipated to generate approximately \$70.9 million in 2011-2012. This amount is significantly below the 2010-2011 Modified Budget level of \$93.3 million.

The following is a discussion of the three major subcategories, including detail regarding the net decrease for 2011-2012.

Overhead Reimbursements

The 2011-2012 Adopted Budget includes \$33.3 million in overhead reimbursements from various special and capital funds. This amount reflects a decrease of \$4.1 million from the revised Forecast estimate, which had incorporated an upward adjustment of \$2.2 million from the February Forecast based on revised overhead rates and updated allocations of staff across various funds.

Approximately \$3.9 million of the \$4.1 million overhead reduction incorporated into the Adopted Budget relates to the 10% reduction in total employee compensation and rollback of wage increases received in 2010-2011, as approved by the City Council, which reduces

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements

the base to which overhead rates are applied.

In addition to the 10% total compensation reduction and rollback of wage increases, adjustments to overhead reimbursements are generated from various budget actions that change the staffing levels funded by special funds. Descriptions of the budget actions that generate these overhead reimbursement changes can be found in the City Departments section of this document.

Following is a summary of the adopted overhead reimbursement changes from the Revised Forecast by fund. These adjustments reflect a net reduction of \$4.1 million.

- Capital Funds: Decrease of \$1,165,376.
- San José/Santa Clara Treatment Plant Operating Fund: Decrease of \$711,071.
- Airport Maintenance and Operation Fund: Decrease of \$432,802.
- Sewer Service and Use Charge Fund: Decrease of \$305,261.
- Storm Sewer Operating Fund: Decrease of \$263,575.
- Convention and Cultural Affairs Fund: Decrease of \$205,766.
- Low and Moderate Income Housing Fund: Decrease of \$204,458.
- Integrated Waste Management (IWM) Fund: Decrease of \$186,272.
- Public Works Program Support Fund: Decrease of \$139,681.
- Vehicle Operations Fund: Decrease of \$136,903.
- Community Development Block Grant (CDBG) Fund: Decrease of \$122,394.
- Water Utility Fund: Decrease of \$95,004.
- General Purpose Parking Fund: Decrease of \$69,828.
- Maintenance Assessment Districts: Decrease of \$26,423.
- Stores Fund: Decrease of \$15,024.
- Benefit Fund: Decrease of \$14,206.
- Multi-Source Housing Fund: Decrease of \$8,248.
- Dental Insurance Fund: Decrease of \$7,177.
- Unemployment Insurance Fund: Decrease of \$2,404.
- Housing Trust Fund: Decrease of \$2,047.
- Home Investment Partnership Program Fund: Decrease of \$1,433.
- Life Insurance Fund: Decrease of \$1,359.
- American Recovery and Reinvestment Act Funds: Increase of \$122,000.

Transfers

In the 2011-2012 Adopted Budget, the revenue estimate from Transfers totals \$21.2 million. The largest transfers in this category are from the following funds: the Airport Maintenance and Operation Fund for Police and Fire services (\$6.3 million); the Construction Excise Tax Fund (\$4.3 million); the Airport West Fiscal Agent Fund (\$3.0 million); the Parks City-Wide Construction and Conveyance Tax Fund (\$2.1 million), the Integrated Waste Management Fund (\$694,000), the Workforce Investment Act (WIA) Fund (\$686,000), and the Lake Cunningham Fund (\$526,000).

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements

The Adopted Budget incorporates the following changes from the Revised Forecast, resulting in an increase of \$643,000:

- An increase of \$3.0 million to the transfer from the Construction Excise Tax Fund as a general budget balancing action.
- A transfer of \$3.0 million from the Airport West Fiscal Agent Fund to apply bond proceeds to the payment of debt service on the bonds.
- A transfer of \$686,000 from the WIA Fund representing rental payments for the use of three Community Centers and reimbursement for related City staff costs.
- Transfers of \$654,000 from a combination of operating and capital funds to pay for an upgrade to the City's PeopleSoft payroll system.
- An increase of \$400,000 to the transfer from the Integrated Waste Management Fund reflecting unclaimed Construction and Demolition Diversion Deposits (CDDD). On an ongoing basis, \$250,000 is expected to be generated annually from this source.
- An increase of \$300,000 to the transfer from the Lake Cunningham Fund to reimburse the General Fund for a portion of the 2011-2012 costs of Lake Cunningham Park maintenance.
- An increase of \$300,000 to the transfer from the Stores Fund as a General Fund budget balancing action, reflecting a reduction to the Inventory Reserve to a level consistent with anticipated activity and the transfer of those funds to the General Fund.
- A transfer of \$200,000 from the Vehicle Maintenance and Operations Fund to reconcile over-collection from departments in prior years.

- A transfer of \$225,000 from the Water Utility Fund reflecting collection of late fees on customer payments.
- A transfer of \$142,000 from the Convention Center Facilities District Revenue Fund to reimburse the City for the cost of administering the District.
- An increase of \$183,000 to the transfer from the Convention and Cultural Affairs Fund to reflect full reimbursement for General Fund costs (\$67,000) and to offset reduced revenue from the Mexican Heritage Plaza (\$116,000).

A decrease of \$8.4 million to the transfer from the Airport Maintenance and Operation Fund for Police (down \$7.5 million) and Fire (down \$808,000) services provided to the Airport. This reflects a reduction in Police staffing beginning in July 2011 and the assumed elimination of Police services after January 2012 due to the potential outsourcing of this function. As described in Manager's Budget Addendum #45, the Fire Department will continue to provide fire services at the Airport through use of staff supported by the Staffing for Adequate Fire and Emergency Response (SAFER) grant and any activity related to the potential outsourcing of this function will be delayed for two years. The Airport reimbursement for fire services was reduced to the equivalent amount proposed by a vendor for the period between February and June 2012.

Reimbursement for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds. For 2011-2012, the revenue estimate for this category is \$16.4 million.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements

expenses. In 2011-2012, collections from this source are projected at \$15.7 million, which is consistent with the 2010-2011 year-end estimate.

The two remaining items in this category are reimbursements from the Assessment District Funds and from the Deferred Compensation Fund. The estimates for these items are \$125,000 and \$580,000, respectively. The Adopted Budget incorporates a \$12,110 reduction to the Deferred Compensation Fund reimbursement.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Unexpended/Rebudgeted Contingency Reserve	29,309,000
Rebudgeted Earmarked Reserves	28,524,070
Expenditure Rebudgets	24,484,201
Unexpended Earmarked Reserves	17,049,313
2010-2011 Ending Fund Balance Reserve	12,931,000
Expenditure Savings/Additional Revenue	4,075,151
Liquidation of Prior Year Encumbrances	4,688,000
Fund Balance Subtotal:	\$121,060,735
Reserve for Encumbrances	20,634,920
Fund Balance Total:	\$141,695,655
% of General Fund*	13.8%

* Excluding the Reserve for Encumbrances.

Estimates for both the unrestricted and restricted (reserve for encumbrances) portions of the 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance, totaling \$141.7 million, were included as part of the 2011-2012 Adopted Operating Budget. The estimate for the encumbrance reserve was set at the 2009-2010 actual level (\$20,634,920). The Adopted Budget includes a matching expenditure amount intended to reflect the corresponding encumbrance appropriations that will be required.

The estimate for the unrestricted fund balance was set at \$121.1 million, representing an \$80.6 million increase from the 2012-2016 Forecast level of \$40.4 million. When the Forecast was developed, the fund balance projection included \$13.0 million from a combination of expenditure savings (\$8.5 million) and the liquidation of prior-year carryover encumbrances (\$4.5 million); an unexpended Contingency Reserve estimate of \$26.3 million; and the use of Earmarked Reserves (\$1.1 million).

The higher fund balance of \$80.6 million primarily reflected the rebudget of funds for expenditure-related line items and

unexpended reserves (\$56.0 million) which were brought to City Council at the end of the budget process. The higher fund balance also reflects the liquidation of several 2010-2011 reserves (\$15.9 million), an increase in expectations for expenditure savings in 2010-2011 (\$4.4 million), additional 2010-2011 revenue (\$4.1 million), and the liquidation of encumbrances (\$188,000).

Following is a discussion of the fund balance components:

- The Contingency Reserve of \$29.3 million was unspent at the end of 2010-2011 and carried over to 2011-2012.
- Rebudgeted Earmarked Reserves totaled \$28.5 million. The largest rebudgeted reserves included: the Workers' Compensation/General Liability Catastrophic Reserve (\$10 million); the Fee Supported Reserve – Building (\$7.7 million); the Salary and Benefits Reserve (\$4.3 million); the Fee Supported Reserve – Fire (\$2.2 million); and the Retirement Pre-Payment Reserve (\$1.0 million)

GENERAL FUND REVENUE ESTIMATES

Beginning Fund Balance

- Expenditure rebudgets totaled \$24.5 million, the majority of which represent City-Wide Expenses and Capital projects that were not completed in 2010-2011 for which funds were carried over to 2011-2012.
- Unexpended Earmarked Reserves that will be not be carried forward to 2011-2012 total \$17.0 million. The following unexpended Earmarked Reserves were approved to be liquidated in 2011-2012, generating \$15.9 million in 2011-2012 in addition to the \$1.1 million included in the February Forecast: the Economic Uncertainty Reserve (\$5.0 million); a portion of the \$6.4 million Unemployment Insurance Reserve (\$5.0 million); the Retiree Healthcare Reserve (\$2.6 million); the Neighborhood Capital Improvements Fund Reserve (\$1.3 million); the 2011-2012 Future Deficit Reserve (\$1.2 million); a portion of the \$325,000 General Plan Update Reserve (\$275,000); a portion of the \$318,000 Wellness Program Reserve (\$162,000); a portion of the \$1.4 million Fire Development Fee Reserve (\$144,000); a portion of the \$387,000 Future Capital Projects (FF&E) Reserve (\$137,000); and the Almaden Lake Park Swim Program Reserve (\$19,000).
- Excess revenues and expenditure savings from 2010-2011 are expected to generate \$17.0 million of additional fund balance. A portion of the excess revenue/expenditure savings (\$12.9 million) was set aside in a 2010-2011 Ending Fund Balance Reserve as part of the 2010-2011 Mid-Year Budget Review actions (\$8.5 million) and the year-end clean-up budget actions (\$4.4 million).

This excess revenues and expenditure savings figure of \$17.0 million reflects the

\$8.5 million set aside in the Forecast and an additional \$4.4 million in expenditure savings and \$4.1 million in excess revenues identified after the release of the Forecast, reflecting a more current review of all revenues and expenditure monitoring.

The \$4.4 million in additional expenditure savings includes \$2.7 million of assumed expenditure savings in various departmental and non-departmental allocations as well as specific savings from the following allocations: the offices of the Mayor and City Council (\$1.4 million); the Comprehensive General Plan Update allocation (\$199,000); the Office of Emergency Services Emergency Response and Preparedness City-Wide allocation (\$128,000); the False Claims Act allocation (\$41,000); the 2009 Urban Area Security Initiative (UASI) Fire Department Grant allocation (\$20,000); and the 2009 Metropolitan Medical Response System (MMRS) Grant allocation (\$3,000).

Additional revenue of \$4.1 million in 2010-2011 consists of the option payment from a developer for purchase of a portion of the Airport West property (\$2.0 million), Medical Marijuana Business Tax (\$1.1 million), additional Sales Tax revenue collections (\$850,000), and a gift from the Friends of the Police Horse-Mounted Unit (\$70,000).

- The estimate for the Liquidation of Prior Year Encumbrances is estimated to increase from \$4.5 million assumed in the Forecast to \$4.7 million to reflect the anticipated liquidation of \$188,000 of encumbrances in 2010-2011 for the City Attorney's Office.