CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

2008-2012 Preliminary Five-Year Forecast

For the General Fund

Office of the City Manager

November 2006

2008-2012 PRELIMINARY FIVE-YEAR FORECAST

For the General Fund

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Prepared by
Office of the City Manager
November 2006

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Manager

November 17, 2006

HONORABLE MAYOR AND CITY COUNCIL:

This initial 2008-2012 General Fund Five-Year Forecast provides very preliminary financial projections to be used as a planning tool for the 2007-2008 budget process. The revenue and expenditure estimates contained in this report update the figures that were last presented in the February 2006 Five-Year Forecast as amended in the 2006-2007 Adopted Budget. The projections reflect actual 2005-2006 performance, activity through the first quarter of 2006-2007, updated salary, benefit and other cost information, updated revenue growth assumptions, and the operating impact of capital projects that are scheduled to come on-line over the next five-years.

This document presents the financial impact of the City's current obligations. It does not, however, reflect any impacts associated with the Police Department Five-Year Staffing Plan, the unmet/deferred infrastructure and maintenance needs, and selected non-public safety service restorations. The impacts associated with these initiatives are being presented as separate documents. In addition, the impact of implementing the GASB 43/45 (retirement benefits) requirements are not reflected in these forecast figures.

The figures presented in this document will continue to be updated as additional information becomes available. This will be critical since there is minimal current year data for some of the City's largest revenue sources, such as Sales Tax. A final 2008-2012 General Fund Forecast is currently scheduled to be released in February 2007 and will be used as a starting point in the development of the 2007-2008 Proposed Budget. When the final forecast is released in February, two alternative case forecasts for the General Fund will also be presented to model the potential impact of more optimistic and more pessimistic views of the future economic environment.

2008-2012 GENERAL FUND FORECAST HIGHLIGHTS

- The estimated General Fund deficit for 2007-2008 is $19.8 million. This reflects improvement from the 2007-2008 deficit last presented in the February 2006 of $39.0 million that was projected to increase to $41.7 million based on the 2006-2007 Adopted Budget actions.

- The reduction in the projected 2007-2008 deficit from $41.7 million to $19.8 million reflects increased revenues ($20.6 million) and expenditure savings ($1.3 million). The additional revenue is spread among several categories with the largest impacts in the Sales Tax, Property Tax, Money and Property, Overhead, Jail Booking Fees, Cardroom, and 2006-2007 Beginning Fund Balance revenue categories. The expenditure savings primarily reflect the combined impact of the change in the employee's maximum contribution (cap) for medical benefits and lower than anticipated growth rate in the employer contribution rate for the lowest-priced medical insurance plan.

2008-2012 GENERAL FUND FORECAST HIGHLIGHTS (CONT'D.)

- It is assumed that continued modest economic growth will be experienced over the next five years, with some impacts associated with the slowdown in the housing market. As a result, the initial forecast projects sustained, but moderate, growth in General Fund revenue collections in the first couple years of the forecast with slightly stronger growth in the out-years as the housing market is expected to show some improvement.

- Shortfalls ranging from $9.5 million in 2011-2012 to $38.6 million in 2009-2010 are projected for each of the remaining years of the Five-Year Forecast. Over half of the shortfall in 2009-2010 ($20.6 million) is associated with the presumed sunsetting of the Emergency Communication System Support Fee. The persistent funding gaps reflect the assumption that expenditure growth will continue to outpace increases in revenues.

2008-2012 PRELIMINARY FIVE-YEAR GENERAL FUND FORECAST DOCUMENT

This 2008-2012 Preliminary Five-Year General Fund Forecast document is divided into three sections.

1. **Elements of the General Fund Forecast** – This section begins with a description of the overall economic outlook and the expected performance of the economy over the five-year period, followed by detailed descriptions of the assumptions made concerning each of the General Fund revenue and expenditure categories. The Elements of the General Fund Forecast section ends with the information regarding the projected General Fund operating margin for each of the five years included in the forecast period.

2. **Base General Fund Forecast** – The forecast model itself is presented in this section. It includes projections for each of the revenue and expenditure categories. The expenditure summary is divided into two sections:

   - *Base Case without Additions* – This section describes projections associated with existing expenditures only.

   - *Base Case with Committed Additions* – This section describes the existing expenditures (Base Case) along with those expenditures to which the City is committed and has less discretion, such as debt service payments and maintenance and operating costs.

3. **Committed Additions to the Base General Fund Forecast** – This section describes the committed additions considered in the forecast.

An appendix that provides descriptions of the City's major General Fund revenue categories is also included.

2008-2012 PRELIMINARY FIVE-YEAR GENERAL FUND FORECAST COMPARISON

The following table shows how the projected shortfall has changed in the most recent forecasts. The incremental shortfall (assuming each preceding deficit is solved completely with ongoing solutions in the year it appears) for each of the four out years of the forecast is shown below, along with a comparison with the increments projected for those years in the February 2006 forecast.

Base Case with Committed Additions
Changes in Operating Margin
2008-2012
($ in Millions)

($ in Millions)	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
February 2006 Incremental Surplus/(Shortfall)	($39.02)	($11.44)	($15.24)	($4.93)	N/A
2006-2007 Adopted Budget Impact Incremental Surplus/(Shortfall)	($2.7)				
Revised Forecast	**($41.73)**	**($11.44)**	**($15.24)**	**($4.93)**	N/A
November 2006 Incremental Surplus/Shortfall	**($19.85)**	($27.25)	($38.56)	($12.51)	($9.51)
One-Time Funding Available	**$6.44**				
Revised Forecast	**($13.41)**	**($27.25)**	**($38.56)**	**($12.51)**	**($9.51)**

The projection for 2007-2008 is improved from the $41.7 million shortfall projected in our February 2006 forecast (and updated to include the impact of the 2006-2007 Adopted Budget) to $19.8 million, reflecting a series of updates to revenue and expenditure estimates. As discussed above, the improvement to the forecast is primarily the result of upward revisions to the revenue estimates. In many cases, these adjustments reflect higher than projected 2005-2006 actual collections that are carried forward. In addition, the growth rates for 2007-2008 have been increased in some of the categories to reflect recent trends.

One-time funding of $6.4 million from the 2007-2008 Future Deficit Reserve that was established per City Council policy as part of the 2005-2006 Annual Report actions is also available. With this funding, the 2007-2008 deficit could be reduced to $13.4 million.

2008-2012 PRELIMINARY FIVE-YEAR GENERAL FUND FORECAST COMPARISON (CONT'D.)

In the remaining years of the forecast, the incremental shortfalls are slightly higher than those presented in February 2006. The changes reflect projections for higher expenditure growth in each year and lower revenue growth in the first couple of years to reflect the impact of the slowdown in the housing market as well as the sunsetting of the Emergency Communication System Support Fee.

It is very important to reiterate that this forecast always utilizes an incremental approach to each year's projection. Under this approach it is assumed that the budget is completely balanced on an ongoing basis in each year. To the extent that a shortfall in any one year is closed using one-time measures, the shortfall in the following year would be increased by that amount.

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

CONCLUSION

This document provides a very preliminary estimate of the General Fund deficit projected for 2007-2008 and each of the remaining years of the Forecast. The estimated 2007-2008 deficit of $19.8 million is less than half of the deficit initially forecasted for 2007-2008 of $41.7 million. This initial General Fund Five-Year Forecast, however, illustrates that even in this improved situation, a structural imbalance in the General Fund budget continues. Expenditure growth outpaces revenue growth in each year of the forecast. These gaps, however, are relatively small when considering the overall size of the General Fund budget.

The revenue and expenditure projections will continue to be refined over the next few months as additional information becomes available. The final 2008-2012 General Fund Five-Year Forecast is currently scheduled to be released in February 2007 and will incorporate those changes. This initial information can be used to provide a starting point in developing plans for the 2007-2008 budget process.

Les White
City Manager

Preliminary
Five-Year Forecast

2008-2012

Section 1

Elements of the General Fund Forecast

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides a preliminary 2008-2012 General Fund Forecast to be used as an initial planning tool for the 2007-2008 budget process. The figures presented are very preliminary given the limited amount of data available for 2006-2007. A final 2008-2012 General Fund Forecast is currently scheduled to be released in February 2007 and will be used as a starting point in the development of the 2007-2008 Proposed Budget. When the final forecast is released in February, two alternative case forecasts for the General Fund will also be presented to model the potential impact of more optimistic and more pessimistic views of the future economic environment.

As with all forecasts, this one is based on a series of assumptions regarding the overall economic environment, now and in the future. These assumptions were reached after reviewing the projections included in a number of economic forecasts. The economic conditions and the projected impacts on the City revenues will continue to be closely monitored over the next few months and any new developments will be factored into the final 2008-2012 General Fund Forecast and into the City Manager's 2007-2008 Proposed Operating Budget, scheduled to be published on May 1, 2007.

The preliminary forecast has been built on the assumption that continued modest economic growth will be experienced over the next five years, with some impacts associated with the slowdown in the housing market. As a result, the initial forecast projects sustained, but moderate, growth in General Fund revenue collections in the first two years of the forecast with slightly stronger growth in the out-years as the housing market is expected to show some improvement.

The following is a discussion of both the national and local economic outlooks used to develop the revenue estimates upon which this initial forecast is based. Our revenue forecast is largely based on the national and State economic forecasts produced by the Anderson School of Management at UCLA, the expectations of local forecaster Steven Levy, Senior Economist and Director of the Center for the Continuing Study of the California Economy, and the California Fiscal Outlook report issued by the Legislative Analyst's Office.

National Outlook

Based on several economic forecasts, the U.S. economy is expected to continue to grow but at a slower rate in 2007, primarily as a result of the housing market slowdown.

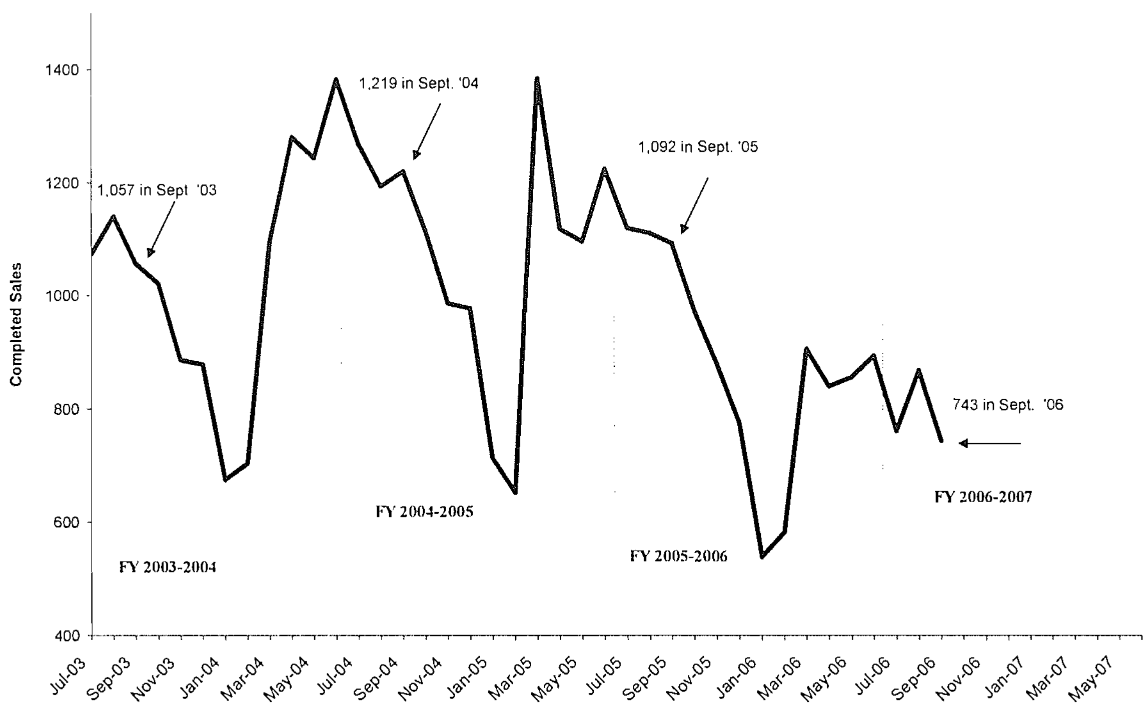
The impact of the slowing housing market has been the subject of many forecasts. In its press release for its third quarterly report, the UCLA Anderson Forecast says "while the U.S. economy appears to have seamlessly downshifted to a soft landing (and) we are not forecasting a recession...the economy is about to get bumpy as the housing market continues to deteriorate." The UCLA Anderson Forecast calls for sustained period of 1.5-2.0% growth. The 2006 edition of the Calforinia Economic Growth issued by the Center for Continuing Study of the California Economy states that "Economic growth in 2007 should be slower than in 2006. A housing slowdown has begun and should continue into next year. This will restrain job growth and consumer spending."

On the positive side, national unemployment remains low, with a rate of 4.1% (not seasonally adjusted) in October. Energy prices have dropped sharply, helping to ease concerns regarding inflation and boost discretionary incomes of households and businesses. In addition, interest rates are not expected to increase further in the near term.

Santa Clara County/City of San José Outlook

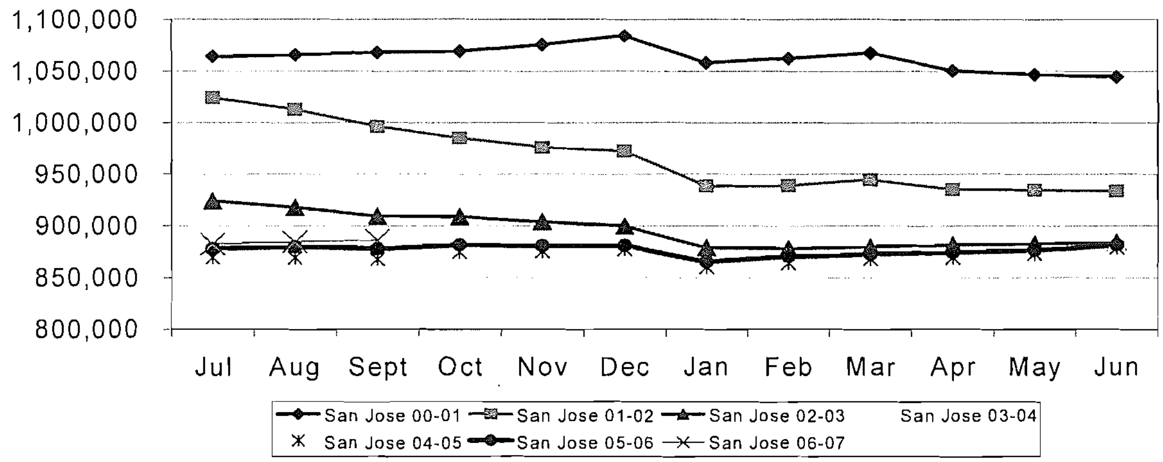
Consistent with the national outlook, the slowdown in the housing market is expected to impact this region. For San José, the slowing housing market can directly impact a number of the City's revenue sources, including Property Taxes and Construction and Conveyance Taxes. The slowdown in this area can also indirectly impact Sales Tax collections with the downward spending in construction materials and the reduction of consumer spending as the "wealth effect" associated with housing appreciation diminishes. As shown in the chart below, the number of housing sales has dropped significantly in the last year.

San Jose Real Estate Sales (All Residences)



While the housing market continues to present challenges, employment in the area has now stabilized and shown slight gains. The total employment figure of 886,400 jobs in September 2006 was approximately 1% above the 877,900 jobs in September 2005 and 2% above the 867,600 jobs in September 2004. In addition to the return to some slight job growth, the unemployment rate in this region also remains low at 4.2%. The region has also seen an increase in business capital investment, growth in the export of technology products, and rapid productivity growth.

San José Metropolitan Statistical Area
(Santa Clara County)
Employment: Total Jobs Comparison



In summary, the preliminary forecast for the General Fund assumes that during the forecast period the City will experience moderate levels of revenue growth. As explained elsewhere in this forecast document, even these improved revenue growth levels are not sufficient to match the higher expenditure growth levels anticipated during the same period. The result is a forecast with relatively small, but persistent, shortfalls in the General Fund in each year of the forecast period.

Impact of Forecasted Economic Conditions on Revenue Collections

The economic conditions discussed above are the primary drivers for approximately half of the City's General Fund revenues, with the most significant impacts in the Sales Tax and Property Tax categories. The remaining areas, while impacted by overall economic performance, are primarily driven by other factors. For example, the Utility Tax and Franchise Fee categories are much more heavily impacted by utility rate changes and energy prices than economic growth. Collections in the Fines, Forfeitures, and Penalties category remain relatively flat under all economic conditions, while collections from local, State, and federal agencies are primarily driven by the grant and reimbursement funding available from these agencies. In the cost-recovery fees and charges programs, revenue collections must be directly linked to costs with the result that the General Fund experiences no 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 hold down the City's overall revenue growth. Conversely, in an economic slowdown, these categories can act as a buffer, easing the impact of drops in the economically sensitive categories.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Consistent with past forecast methodologies, the first year of the revenue forecast (2007-2008) was prepared in a manner similar to the preparation of the base budget revenue estimates. Over 400 revenue sources were examined to estimate the outcome in 2006-2007 and, building upon those projections, revenue estimates for 2007-2008 were developed. These initial revenue estimates will be closely examined and updated again for the final General Fund Forecast released in February 2007 and during the development of the 2007-2008 Proposed Operating Budget.

As displayed in the forecast, revenues (exclusive of Beginning Fund Balance) are shown to increase from $781.2 million in 2007-2008 to $870.8 million in 2011-2012, for an average growth rate of 2.78% per year. This growth rate is lower than that projected in the last forecast presented in February 2006 (3.19%) primarily due to the sunset of the Emergency Communication System Support Fee in 2009-2010 and slightly lower growth rates in the economically sensitive categories.

Understanding the basis for the revenue estimates included in this forecast requires discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2007-2008 initial forecast.

Property Tax

Property Tax receipts of $186.3 million are projected for 2006-2007, which represents growth of 11.8% over the prior year. This strong growth reflects increases in both the Secured and Unsecured categories, offset by decreases in the SB 813 (property resales) collection areas. In 2007-2008, the overall rate of growth is expected to slow to 5.5% to a total collection level of $196.6 million. In the out years of the Forecast, growth is expected to range from a low of 4.13% to a high of 5.74% annually. These projected growth rates are far below those experienced in recent years and reflect the impact of the slowing housing market. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Taxes account for approximately 90% of the revenues in this category. In 2007-2008, Secured Property Tax growth will be driven by annual growth in the property tax roll. The 2007-2008 Secured Property Tax levy will be based on real estate activity in calendar year 2006. Performance in 2006, while still relatively strong, started to slow down with a reduction in the number of property transfers and a leveling off of home prices. Secured Property Tax roll growth of 7.0% is projected for 2007-2008 based on very preliminary information from the County of Santa Clara and recent activity trends. This would bring Secured Property Tax collections to $180.3 million. It should be noted that final data on the actual tax levy for 2007-2008 is not available as adjustments are made through July 1, 2007. Updated information on the growth in the tax roll should be available for the development of the final Forecast and the 2007-2008 Proposed Operating Budget, which will allow for further refinement of the growth estimate in this category.

REVENUE FORECAST

Property Tax (Cont'd.)

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. Collections have been going down in recent years as a result of economic conditions in the region. For the first time in several years, slight growth of 2.2% is projected for 2006-2007 and would bring receipts to $10.7 million. This collection level is also projected for 2007-2008.

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. With the significant drop in the number of housing resales, collections are expected to fall from the extremely high level of $10.1 million in 2005-2006 to $6.0 million in 2006-2007. Collections are projected to fall an additional 25% to $4.5 million in 2007-2008 based on the assumption that the housing market will continue to experience declines through 2007-2008. All other property taxes (Homeowners Property Tax Relief and Agricultural Tax Relief) are assumed to have little or no growth in 2007-2008, consistent with historical trends.

Sales Tax

The Sales Tax category includes General Sales Taxes and Proposition 172 Sales Taxes. Overall, collections are expected to increase 8.4% in 2006-2007 to $152.1 million and increase an additional 4.9% in 2007-2008 to $159.6 million.

The forecast for the General Sales Tax revenue estimate assumes collections of $147.7 million in 2006-2007, an increase of approximately 8.5% over the actual prior year collection level. Because it is early in the fiscal year, there is no data on the actual sales tax performance for 2006-2007. The 2006-2007 estimate reflects a projected 4% increase over the 2005-2006 actual collections, with upward adjustments based on the one-time under-accrual from 2005-2006 and the revised estimate from the State on the Sales Tax "Triple Flip" payment, partially offset by a downward one-time adjustment to reflect a large prior year tax adjustment. For 2007-2008, General Sales Tax receipts are expected to reach $155.0 million, an increase of 5% over the 2006-2007 estimated collection level. The 5% growth rate assumes some continued improvement in business-to-business Sales Tax collections and moderate consumer spending that may be somewhat impacted by the softening housing market.

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for the use in funding public safety programs) are expected to total $4.5 million in 2006-2007, which represents growth of 4% from the actual 2005-2006 collections. In 2007-2008, growth of 4% is projected and results in a projected collection level of $4.7 million.

Through the remaining years of the forecast in the Sales Tax category, the growth rate range from a low of 3.73% in 2008-2009 to a high of 4.52% in 2010-2011.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Departmental Charges and Other Licenses

The Departmental Charges and Other Licenses categories contain fees and charges imposed by various departments within the City. The most significant revenue sources are from the collection of construction and development-related fees. Revenue collection levels are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. When developing the forecast estimates for these categories, the revenues are set at the anticipated collection levels. For 2007-2008, it is assumed that development-related revenues will experience flat growth from the 2006-2007 Adopted Budget levels. In cases where the development-related revenues are projected to exceed costs, the impacted departments will need to develop budget proposals for incorporation into the 2007-2008 Proposed Operating Budget to increase resources to meet the service demands or to reduce fees. On the other hand, if the projected revenues are not sufficient to cover the base costs, departments will be submitting proposals to reduce costs and/or increase fees to bring projected revenues and expenditures back in line for a net-zero General Fund impact. For the non-development-related fees and charges, the 2007-2008 estimates are based on current collection trends. In the out years of the forecast, both the Departmental Charges and Other Licenses categories are expected to experience growth of approximately 4% annually.

Business License Tax

This category includes General Business License Tax and Disposal Facility Tax. In 2006-2007, General Business License Tax proceeds are expected to reach $13.0 million, an increase of $1.0 from the 2005-2006 collection level. The projected increase in receipts is attributed to the Business Tax Amnesty Program that was conducted at the beginning of 2006-2007. In 2007-2008, collections are projected to fall to $12.3 million, based on the assumption that there will be no Amnesty Program and there will be some ongoing increases associated with the Amnesty Program that was conducted this year.

In the Disposal Facility Tax category, revenue collections in 2006-2007 are expected to meet the budgeted estimate of $14.7 million and increase by 2% in 2007-2008 to $15.0 million. In the remaining years of the forecast, the Business License Taxes category is expected to experience very minimal growth of less than 1% per year.

Money and Property

This category consists primarily of interest income. The 2007-2008 estimate for interest earnings on the General Fund and several other funds' cash assume an average interest rate of 4.4%, applied to an average cash balance of approximately $210.0 million for a total collection level of $9.2 million. This forecast reflects an increase to the average interest rate yield (up from 3.5%) and an increase in the average cash balance (up from $190 million), used to develop the 2006-2007 Adopted Budget estimate. Interest transfers from capital and special funds have been adjusted to reflect the various impacts of expected activity and fund balance levels in 2007-2008. These remaining sources in this category are expected to generate $4.7 million in 2007-2008. In the out years of the forecast, increases ranging from 2.2% to 4.5% are projected.

REVENUE FORECAST

Motor Vehicle In-Lieu

In 2006-2007 Motor Vehicle In-Lieu collections are expected to reach $6.3 million based on current collection trends and adjustments for prior year payments. In 2007-2008, slight growth of 2.0% is projected, bringing projected revenues to $6.4 million. In the out years of the forecast, small annual increases ranging from 2.5% to 2.9% are anticipated.

Federal Revenue/Other State Revenue

These categories consist primarily of grant revenues. In the Federal Revenue category, no grants are currently projected to be ongoing into 2007-2008. In prior forecasts, the Federal Revenue category had included the San José LEARNS grants, which will now be administered by the school districts. For State grants, Public Library Foundation funding is projected at $548,000 and the Senior Companion Program grants are projected at $141,000 for both 2006-2007 and 2007-2008. The Abandoned Vehicles Abatement Program funding from the State is estimated to be $710,000 in 2007-2008, which is consistent with the current year estimate. Other ongoing revenues are projected to be received approximately at the current year level for 2007-2008 and are estimated to be relatively flat over the remaining years of the forecast.

Gas Tax

The Gas Taxes estimate assumes that collections in both 2006-2007 and 2007-2008 will total $17.0 million. This collection level is in line with historical tracking patterns for this category. In the out years of the forecast, the expected changes range from a decline of 0.9% in 2010-2011 to an increase of 2.05% in 2009-2010.

Transient Occupancy Tax

It is currently estimated that Transient Occupancy Tax receipts for 2006-2007 will total $8.2 million, reflecting growth of 7% from the 2005-2006 collection level. In 2007-2008, growth of 7% from the 2006-2007 estimate is anticipated based on continued strength in this area. In the remaining years of the forecast, annual growth ranging from 4.44% to 5.10% is projected.

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2006-2007 are anticipated to end the year at $78.3 million, representing an increase of 3.7% from the 2005-2006 collection level. In 2007-2008, an overall increase of slightly less than 1% is anticipated and would bring collections to $78.8 million. This low growth rate reflects slight increases in the electricity and water categories and flat growth in the telephone and gas utility categories. In the Electricity Utility Tax category, an increase of 2% is projected based on the assumption that rate increases will be minimal and consumption will experience slight growth. Growth of approximately 5% is anticipated in the Water Utility Tax category based on projected rate increases. The Gas and Telephone Utility Tax Categories are expected to experience flat

Utility Tax (Cont'd.)

growth in 2007-2008. It should be noted that weather conditions can significantly impact collections in both the Water and Gas Utility Tax categories.

In the out years of the forecast, growth ranging from 0.8% and 2.15% annually is expected in the Utility Tax category.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. For 2006-2007, overall collections are expected to reach $37.4 million, an increase of 1.7% from the 2005-2006 actual collection level. In 2007-2008, growth of 1.4% is projected and would bring total receipts to $37.9 million. Minimal increases are projected for the Electricity and Commercial Solid Waste categories. Other categories are expected to remain fairly consistent with the 2006-2007 estimated collection levels.

In the out years of the forecast, Franchise Fee revenues are anticipated to increase from .59% to 1.88% annually.

Fines, Forfeitures and Penalties

In 2006-2007, the Fines, Forfeitures and Penalties category is expected to generate $13.2 million. It is assumed that collections in 2007-2008 will increase by 1.9% to $13.5 million. The majority of this increase is associated with Business Tax Penalties that were lower in 2006-2007 as a result of the Business Tax Amnesty Program and are expected to increase in 2007-2008 to historical collection levels. In the out years of the forecast, growth ranging from 1.25% to 2.15% is projected annually.

As with the prior forecasts, the long delayed collection of the Garden City penalty payment ($582,900) is not included in this forecast. While three full penalty payments are still due from Garden City, it is not known when or if these payments will be made due to Garden City's continued involvement in bankruptcy proceedings. The scheduled payments have not been received for the last several years.

Revenue from Local Agencies

The largest portion of the Revenue from Local Agencies category consists of reimbursements from the Redevelopment Agency. The Redevelopment Agency reimburses the General Fund for the Convention Center lease payment that is projected at $14.0 million for 2007-2008. Estimated Agency reimbursements for City service costs for 2007-2008 are based on the assumption that ongoing support will remain consistent with current levels. Redevelopment Agency reimbursements for past capital expenditures (which enable the City to fund the San José Best Program - $3.0 million) have also been included in the forecast.

REVENUE FORECAST

Revenue from Local Agencies (Cont'd.)

For 2006-2007, Central Fire District payments are expected to end the year at $6.0 million. Property taxes fund the Central Fire District activities, and those payments for the County areas covered by the San José Fire Department are passed on to the City. Growth of 5.0% is projected for 2007-2008, which factors in a potential impact from annexations. Enterprise Fund In-Lieu payments, representing revenue from the Water Pollution Control Plant and Municipal Water System in lieu of taxes, are expected to increase by a net 1.3% in 2007-2008 to $4.3 million.

Also in 2007-2008, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed at $1.6 million as the receipts are based on the annual adjustments approved by the contract with the County.

An overall growth of 1.0% from the 2006-2007 year-end estimate is expected in the Revenue from Local Agencies category in 2007-2008. In the remaining years of the forecast, annual growth ranging from 1.66% to 1.73% is projected.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including proceeds from the Sale of Surplus Property, cost reimbursements for the Investment Program, Arena Rental, Suite, Parking, and Naming revenues, and reimbursements from the Airport to cover the FMC property debt service payments. Revenue estimates assume continuation of current year activity levels with revisions, where appropriate for 2007-2008 costs or agreements. Proceeds from the Sale of Surplus Property category has been set at $100,000 to assume that, at a minimum, the costs of the Real Estate Division related to the sales process will be recovered.

The 2007-2008 estimate for Other Revenue is $17.2 million. In the remaining years of the forecast, minimal growth ranging from 0.32% to 0.49% annually is projected.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. While the 2007-2008 overhead rates are not yet available, preliminary projections have been included in this forecast totaling $31.4 million based on the existing overhead rates with adjustments for estimated salary increases to positions for which an overhead rate is applied. It should be noted that the Airport rates have not yet been set for 2006-2007 and a more historical collection level has been assumed for the overhead associated with the Airport funds. It is anticipated that updated projections will be incorporated into the final forecast based on the actual 2007-2008 overhead rates. In the remaining years of the forecast, an overall average increase of approximately 4.0% is assumed annually reflecting the anticipated cost of living adjustments.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Transfers

The Transfers category is projected at $43.7 million for 2007-2008, a drop from the 2006-2007 Adopted Budget estimate of $49.6 million to reflect the elimination of one-time transfers. Upward adjustments to the Airport Crash Fire Rescue and Airport Police Consolidation reimbursements have been assumed in 2007-2008 and the remaining four years of the forecast to reflect cost of living adjustments. The remaining transfers have been reflected at current year levels, with slight adjustments for costs or payment schedules as necessary.

This category is reduced significantly in 2009-2010 due to the potential sunsetting of the Emergency Communication System Support Fee. This would result in a loss of $20.6 million annually.

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2007-2008, with average increases of approximately 4% in the out years of the forecast to reflect anticipated cost of living adjustments.

Beginning Fund Balance

The forecast estimate for available Beginning Fund Balance in 2007-2008 of $46.0 million is based on the following assumptions:

- A Contingency Reserve balance of at least $26.0 million will remain uncommitted by year-end; and
- A total of $25.0 million will be achieved from a combination of excess revenue, expenditure savings, and the liquidation of prior-year carryover encumbrances. This reflects a base level of excess revenue and expenditure savings that is expected to be available each year of $20.0 million plus $5.0 million that is considered available on a one-time basis in 2007-2008 from higher than anticipated collections projected in 2006-2007.

The future year beginning fund balance estimates assume $20.0 million for the unrestricted portion of the balance. This reflects an increase from $18.0 million included in the February 2006 Forecast. The carried over Contingency Reserve portion is adjusted upward based on the Contingency Reserve allocation from the prior year.

REVENUE FORECAST

One-Time Funding Available

Not included in the forecast but available for Council consideration is the **2007-2008 Future Deficit Reserve** that was established, per City Council policy, as part of the 2005-2006 Annual Report ($6.4 million) actions. This reserve was set aside to fund a portion of the shortfall that was projected for 2007-2008 in the February 2006 forecast. This reserve is not assumed in the remaining forecast years. However, the amount of funding that has been set aside historically for future year deficits has ranged from a low of $4.3 million in 2000-2001 to a high of $18.4 million in 2005-2006. Per City Council policy, any remaining unallocated funds available at the close of each fiscal year are directed to be used to cover any projected shortfall in the following year based on the Five-Year General Fund Forecast.

EXPENDITURE FORECAST

Personal Services

As is our usual practice, the first year (2007-2008) projection for personal services costs has been calculated at a detailed level. An extract of payroll system information as of September 2006 was used as the starting point. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, accurate salary step status, as well as any position reclassifications. In addition, 2006-2007 ongoing position reductions and additions were annualized, and projections for all categories of benefit costs in the coming year were made. Funding for projected, but not yet finalized, bargaining unit agreements is carried in a separate earmarked Salary and Benefit Reserve.

The resulting 2007-2008 personal services preliminary estimate, as displayed in Section Two of this report, represents growth of approximately 4.4% from the 2006-2007 Adopted Budget level. The growth of approximately $24.6 million results primarily from the combined impact of salary and benefit growth from negotiated agreements to be implemented in the current year (2006-2007) and third year salary and benefit costs for four of thirteen employee groups.

It should be noted that the level of growth shown for departmental personal services costs in the forecast actually understates the total personal services growth projected for 2007-2008 because costs for nine of the thirteen employee groups are not included in the personal services total. The nine groups not included are the International Association of Firefighters (IAFF), the International Union of Operating Engineers (OE3), Unrepresented Non-Management (Unit 8), International Brotherhood of Electrical Workers (IBEW), Association of Engineers and Architects (AEA), Association of Building, Mechanical and Electrical Inspectors (ABMEI), Association of Maintenance Supervisory Personnel (AMSP), and Executive Management (Unit 99). In the case of IAFF and OE3, no compensation adjustments have been reflected since their contracts expired February 29, 2004 and April 15, 2006, respectively, and labor negotiations continue to be ongoing. In addition, a portion of the Police Officers Association's (POA) Memorandum of Agreement for 2006-2007 included a retirement benefit enhancement which has not yet resulted in an approved retirement rate by the Police/Fire Retirement Board and, therefore, is not reflected here. The projected salary and benefit cost increases for these four employee groups as well as estimated retirement cost increases for the POA retirement enhancement are carried separately in the Salary and Benefit Reserve.

It should also be noted that due to the mechanism used to represent the desired outcome in fee programs, personal services expenditures in this forecast are further understated by approximately $2.8 million. The $2.8 million represents the shortfall that would exist in the development-related fee programs in the Fire, Public Works and Planning, Building and Code Enforcement Departments if all costs were reflected. These fee programs are intended by the City Council to recover 100% of the cost of development review and inspection and, as a result, costs are reflected in this forecast at the expected revenue collection level. Each of the fee programs will be required to develop strategies that will address this $2.8 million shortfall in the 2007-2008 Proposed Operating Budget process.

EXPENDITURE FORECAST (CONT'D.)

Personal Services (Cont'd.)

As with past forecasts, personal services costs in years two through five of the forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit adjustments. For this forecast, the out years were projected to inflate at a composite rate of approximately 6.6%. This projected rate of growth is up from the 5.6% presumed in the February 2006 forecast due to refinements in the forecast model for turnover and salary assumptions.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the forecast have also been calculated at a detailed level. The process utilized by the Budget Office includes adjusting each department's current year budget to eliminate one-time allocations, annualizing all partial-year reductions or additions approved for 2006-2007, and including projected adjustments for specific large non-personal/equipment allocations (e.g., utilities, leases, contracted services and Police Department vehicle replacement) as described later in greater detail. The resulting 2007-2008 estimates represent an increase ($1.9 million) from the current year level. This reflects the net impact of deleting one-time additions and rebudgeted items and annualization of actions included in the 2006-2007 Adopted Budget.

Departmental gas and electricity funding for 2007-2008 has been projected to remain flat in this forecast to reflect approved gas and electricity rates, and projected consumption changes from expanded City facilities. Other specific adjustments included in the 2007-2008 non-personal/equipment base include increases for vehicle maintenance and operating costs ($852,000) and contractually required cost of living increases to major contracts. For the out years of the forecast, a growth rate of 2.0% has been assumed from the 2007-2008 non-personal/equipment base level in each of the four years. This projection is unchanged from that assumed in recent forecasts.

Other Expenditures

The **City-Wide Expenses** program in the first year of the forecast (2007-2008) represents a net reduction of $34.6 million from the 2006-2007 level. This large reduction reflects the combined impact of deleting rebudgets ($29.6 million), one-time grants ($6.8 million) and other one-time items ($1.8 million) budgeted in 2006-2007. This overall reduction is partially offset, however, by increases of $325,000 for debt service payments for the Convention Center ($14.0 million in 2007-2008); the annualization of debt service payments for the FMC property acquisition debt service payments, a portion of which are offset by additional Airport reimbursements ($2.7 million increase); the inclusion of maintenance costs ($300,000) for the recently acquired FMC property; and an increase for the Jail Bookings Fee ($1.2 million) to align with recent actions

EXPENDITURE FORECAST (CONT'D.)

Other Expenditures (Cont'd.)

included in the State Budget. Workers' Compensation Claims payments in this forecast range from $17.4 million in 2007-2008 to $21.3 million in 2011-2012.

The **Other Transfers** category includes funding for Communications Center debt service as required under the terms of financing used for construction of this facility ($2.4 million in 2007-2008) and funding to cover a portion of the debt service payments for the Hayes Mansion Conference Center ($4.2 million per year) and Rancho del Pueblo and Los Lagos Golf Courses ($1.25 million per year). All of the debt service and maintenance and operations costs for these facilities are funded in the Community Facilities Revenue and Municipal Golf Course Funds, however, revenues in those funds are not projected to be sufficient to totally cover all of these costs. In addition, revenue-offset payments for the Camden Lifetime Activities Center debt service ($215,000 in 2007-2008), Fiber Optics loan repayment and various Maintenance Assessment Districts for the General Fund's share of landscape services in those areas are included.

The General Fund **Capital Projects** category includes $785,000 for the Congestion Management program and debt service payments for Central Service Yard – Phase I ($796,000 in 2007-2008). This is a reduction of $878,000 from the previous forecast to reflect budget actions taken in 2006-2007 for two years. Also included in this category is the continuation of allocations for Arena repairs, unanticipated maintenance of City facilities, and fuel tanks and methane monitoring control and replacement.

As was the case in previous forecasts, continued capital funding for the Replacement of Fire Apparatus is carried in this forecast. In 2007-2008, the level of funding is $1.05 million and increases to $2.4 million in 2011-2012 to fund the current Fire Vehicle Replacement Policy. This is a reduction of $850,000 from the previous forecast to reflect budget actions taken in 2006-2007 that impacted both 2006-2007 and 2007-2008.

A Sidewalk Repair Program capital allocation of $683,000 per year is included to provide ongoing funding for the repair of deteriorating sidewalks for owner-occupied residences. In 2005-2006 the amount of funding the City would contribute for sidewalk repairs was capped. The property owners are responsible for those costs above the cap.

As in previous years, the **Equipment** category includes a general equipment reserve of $100,000 for subsequent allocation in the 2007-2008 Proposed Budget. Similarly, $250,000 is assumed annually for computer equipment and automation projects also for subsequent allocation in the Proposed Budget.

The 2007-2008 forecast **Salary and Benefit Reserve** includes projections for required funding for potential compensation increases for nine of the thirteen employee groups open during 2007-2008. In addition, the funding necessary to implement the Police Officers Association's retirement benefit enhancement, discussed previously, has been included here. In the out years of

EXPENDITURE FORECAST (CONT'D.)

Other Expenditures (Cont'd.)

the forecast, the personal services line item includes the estimated impact of prior year negotiated increases and is inflated at a rate considered appropriate to cover likely further negotiated growth.

The **Earmarked Reserves** category includes a reserve for the Comprehensive General Plan Update ($200,000). Funding for this activity is being built over a four year period and now totals $800,000. This reserve is entirely offset by revenues collected from a surcharge on development permits.

A **Vehicle Replacement/General Fleet** allocation of $1.75 million per year is included to fund a vehicle replacement schedule for the General Fleet.

In 2007-2008, **Vehicle Replacement/Police Fleet** funding is carried in the departmental budget ($4.6 million). Due to the large variation in funding levels necessary to fund the replacement of Police vehicles over the five-year period, the incremental costs necessary to ensure that replacement schedules for the marked covert and unmarked Police fleet are met are shown as a separate line item. In this forecast, they range from an increased need of $1.7 million in 2009-2010 to a reduced need of $1.6 million in 2008-2009.

Contingency Reserve

Per Council policy, the 2007-2008 Contingency Reserve is projected at the level necessary to comply with the Council policy to maintain a 3% Contingency Reserve ($27.4 million). Amounts necessary to remain in compliance with that policy are also included in each of the remaining four years of the forecast.

Committed Additions to the Base General Fund Forecast

In this forecast, projected additions to the base expenditure level have been included as **Committed Additions**. The **Committed Additions** are additional expenditures to which the City is considered to be committed by prior Council action and has less discretion, such as the costs related to maintaining and operating capital projects previously approved by City Council. Typically, the forecast Base Case, considered most closely by the City Council, includes ongoing program costs plus committed additions.

The following committed additions are included in the 2008-2012 forecast and explained in more detail in a later section of this document:

Increased costs for street lighting and maintenance of scheduled **Street Improvements** ($338,000 in 2007-2008) are shown as a Committed Addition.

EXPENDITURE FORECAST (CONT'D.)

Committed Additions to the Base General Fund Forecast (Cont'd.)

New Parks and Recreation Facilities Maintenance and Operations costs ($375,000 in 2007-2008) are included at the levels necessary to support the additional costs of maintaining and operating new park facilities that were included in the City's latest Five-Year Capital Improvement Program and those that are being developed by other agencies.

A new item for completion of a **Comprehensive General Plan Update** ($820,000 in 2007-2008) has been included in three of the five years. Traditionally, General Plans undergo a comprehensive update every ten years. San José's last comprehensive update was completed in 1994. The completion of this Update would ensure that the City would not lose its authority to regulate land use and issue permits that could not be challenged under state law. The Mayor's June Budget Message for Fiscal Year 2006-2007 directed that a Comprehensive General Plan Update begin in January 2007. This is a new funding requirement that was not included in the February 2006 Forecast.

The approved bond measures from the elections of November 2000 and March 2002 will result in new and expanded library **(Measure O)**, parks **(Measure P)**, police and fire facilities **(Measure O)** and will require additional **Maintenance and Operations** funding ($324,000 in 2007-2008).

OPERATING MARGIN

Base Case expenditures, including committed additions, increase from $852.0 million in 2007-2008 to $1.03 billion in 2011-2012, for an average growth rate of approximately 4.9%. General Fund sources (including Beginning Fund Balance), on the other hand, total $832.2 million in 2007-2008, and grow to $922.2 million in 2011-2012, an average growth rate of only 2.6%.

Compared to the last forecast, produced in February 2006, expected growth rates in the out years of the forecast for expenditures have changed, increasing from 4.3% to 5.0% for the comparable period of 2008-2009 through 2010-2011. Expectations for overall growth rates for revenue collections during the comparable three-year period have on the other hand decreased from 3.4% to 2.3%.

As discussed above, the Base Case with Committed Additions forecast for the General Fund projects a shortfall in the first year (2007-2008) of $19.9 million. This compares with the last projection for that year released in the February 2006 forecast that estimated a $39.0 million shortfall.

OPERATING MARGIN (CONT'D.)

The following table shows how the projected shortfall has changed in the most recent forecasts. The incremental shortfall (assuming each preceding deficit is solved completely with ongoing solutions in the year it appears) for each of the four out years of the forecast is shown below, along with a comparison with the increments projected for those years in the February 2006 forecast.

Base Case with Committed Additions
Changes in Operating Margin
2008-2012
($ in Millions)

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
February 2006 Incremental Surplus/(Shortfall)	($39.02)	($11.44)	($15.24)	($4.93)	N/A
2006-2007 Adopted Budget Impact Incremental Surplus/(Shortfall)	($2.71)				
Revised Forecast	**($41.73)**	**($11.44)**	**($15.24)**	**($4.93)**	N/A
November 2006 Incremental Surplus/Shortfall	**($19.85)**	($27.25)	($38.56)	($12.51)	($9.51)
One-Time Funding Available	**$6.44**				
Revised Forecast	**($13.41)**	**($27.25)**	**($38.56)**	**($12.51)**	**($9.51)**

In the February 2006 forecast, an incremental shortfall of $39.02 million for 2007-2008 was projected. This figure was based on the assumption that the entire 2006-2007 shortfall would be solved with ongoing actions. However, the 2006-2007 Adopted Budget included a combination of ongoing and one-time solutions. The carryover impact of those one-time measures is reflected in the 2006-2007 Adopted Budget Impact incremental shortfall of $2.7 million and, when combined with the previous shortfall anticipated for 2007-2008, would result in a deficit of approximately $41.73 million in 2007-2008.

OPERATING MARGIN (CONT'D.)

For the November 2006 forecast, as discussed previously, an in-depth review of anticipated revenues and expenditures for 2007-2008 and the remaining four years of the forecast period was completed. Based on this updated information, a General Fund shortfall for 2007-2008 in the amount of $19.9 million is projected, a net decrease of $21.9 million from the February 2006 figure. This reduction results from additional revenues of $20.6 million and expenditure savings of $1.3 million. The additional revenue is spread among several categories with the largest impacts in the Sales Tax, Property Tax, Money and Property, Overhead, Jail Booking Fees, and Cardroom, and 2006-2007 Beginning Fund Balance revenue categories. The largest expenditure savings ($1.9 million) resulted from the combined impact of the change in the employee's maximum contribution (cap) for medical benefits and lower than anticipated growth rate in the employer contribution rate for the lowest-priced medical insurance plan. These savings were partially offset by miscellaneous increases in other areas.

In the out years of the forecast, incremental shortfalls ranging from $9.5 million to $38.6 million annually are projected. The persistent shortfalls reflect the fact that revenue growth is projected to lag behind the growth in expenditures in all five years. The large spike in the shortfall ($38.56 million) in 2009-2010 is based on the presumption of a sunsetting of the Emergency Communication Support System Fee, with a resulting loss of $20.6 million in revenue that year.

Preliminary
Five-Year Forecast

2008-2012

Section 2
Base General Fund Forecast

BASE CASE

November 2006 Forecast

REVENUE SUMMARY

	ADOPTED 2006-2007	FORECAST 2008	2009	2010	2011	2012
PROPERTY TAX	183,914,000	196,564,000	204,682,000	215,059,000	226,845,000	239,866,000
		6.88%	4.13%	5.07%	5.48%	5.74%
SALES TAX	144,008,000	159,647,000	165,602,000	172,044,000	179,820,000	187,840,000
		10.86%	3.73%	3.89%	4.52%	4.46%
DEPARTMENTAL CHARGES	29,455,625	29,038,000	30,199,000	31,407,000	32,663,000	33,970,000
		(1.42%)	4.00%	4.00%	4.00%	4.00%
BUSINESS LICENSE TAX	26,700,000	27,300,000	27,322,000	27,357,000	27,401,000	27,456,000
		2.25%	0.08%	0.13%	0.16%	0.20%
MONEY & PROPERTY	10,541,869	13,881,000	14,186,000	14,782,000	15,447,000	16,143,000
		31.67%	2.20%	4.20%	4.50%	4.51%
OTHER LICENSES	47,960,399	49,622,000	51,607,000	53,671,000	55,818,000	58,051,000
		3.46%	4.00%	4.00%	4.00%	4.00%
MOTOR VEHICLE IN LIEU	5,202,000	6,388,000	6,551,000	6,730,000	6,920,000	7,117,000
		22.80%	2.55%	2.73%	2.82%	2.85%
FEDERAL REVENUE	16,469,051	0	0	0	0	0
		(100.00%)	N/A	N/A	N/A	N/A
OTHER STATE REVENUE	5,072,423	3,566,000	3,637,000	3,710,000	3,784,000	3,860,000
		(29.70%)	1.99%	2.01%	1.99%	2.01%
GAS TAX	17,000,000	17,000,000	17,240,000	17,593,000	17,428,000	17,396,000
		0.00%	1.41%	2.05%	(0.94%)	(0.18%)
TRANSIENT OCCUPANCY TAX	7,600,000	8,802,000	9,194,000	9,632,000	10,124,000	10,636,000
		15.82%	4.45%	4.76%	5.11%	5.06%
UTILITY TAX	76,098,000	78,845,000	79,476,000	80,422,000	82,151,000	83,490,000
		3.61%	0.80%	1.19%	2.15%	1.63%
FRANCHISE FEES	36,904,000	37,875,000	38,098,000	38,460,000	39,183,000	39,720,000
		2.63%	0.59%	0.95%	1.88%	1.37%
FINES, FORFEITURES & PENALTIES	12,536,567	13,452,000	13,741,000	13,947,000	14,122,000	14,298,000
		7.30%	2.15%	1.50%	1.25%	1.25%
REVENUE FROM LOCAL AGENCIES	45,422,621	46,237,000	47,003,000	47,794,000	48,610,000	49,451,000
		1.79%	1.66%	1.68%	1.71%	1.73%
OTHER REVENUE	15,522,457	17,245,000	17,300,000	17,383,000	17,464,000	17,550,000
		11.10%	0.32%	0.48%	0.47%	0.49%
TOTAL GENERAL REVENUES	**680,407,012**	**705,462,000**	**725,838,000**	**749,991,000**	**777,780,000**	**806,844,000**
		3.68%	2.89%	3.33%	3.71%	3.74%

November 2006 Forecast

REVENUE SUMMARY	ADOPTED 2006-2007	FORECAST 2008	2009	2010	2011	2012
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	28,799,936	31,439,000	32,696,000	34,004,000	35,364,000	36,779,000
TRANSFERS	49,629,235	43,721,000	44,594,000	24,802,000	25,652,000	26,543,000
REIMBURSEMENTS FOR SERVICES	579,100	579,000	596,000	614,000	633,000	652,000
TOTAL TRANSFERS & REIMBURSEMENTS	**79,008,271**	**75,739,000**	**77,886,000**	**59,420,000**	**61,649,000**	**63,974,000**
		(4.14%)	**2.83%**	**(23.71%)**	**3.75%**	**3.77%**
TOTAL GENERAL FUND REVENUES	**759,415,283**	**781,201,000**	**803,724,000**	**809,411,000**	**839,429,000**	**870,818,000**
		2.87%	**2.88%**	**0.71%**	**3.71%**	**3.74%**
BEGINNING FUND BALANCE	174,896,871	51,000,000	47,438,000	48,784,000	50,112,000	51,389,000
GRAND TOTAL SOURCES	**934,312,154**	**832,201,000**	**851,162,000**	**858,195,000**	**889,541,000**	**922,207,000**
		(10.93%)	**2.28%**	**0.83%**	**3.65%**	**3.67%**

November 2006 Forecast

EXPENDITURE SUMMARY	ADOPTED 2006-2007	FORECAST 2008	2009	2010	2011	2012
TOTAL PERSONAL SERVICES	**562,352,258**	**586,951,916**	**649,742,000**	**683,405,000**	**718,823,000**	**756,091,000**
		4.37%	**10.70%**	**5.18%**	**5.18%**	**5.18%**
TOTAL NON-PERSONAL/EQUIPMENT	**90,741,301**	**92,611,844**	**94,464,000**	**96,353,000**	**98,280,000**	**100,246,000**
		2.06%	**2.00%**	**2.00%**	**2.00%**	**2.00%**
OTHER EXPENDITURES						
CITY-WIDE EXPENSES	113,235,009	78,683,000	80,696,000	82,326,000	84,014,000	85,802,000
OTHER TRANSFERS	28,925,668	28,497,000	29,762,000	29,758,000	27,371,000	27,910,000
CAPITAL PROJECTS	23,073,635	3,914,000	5,812,000	5,847,000	6,076,000	6,305,000
EQUIPMENT (INCLUDING COMPUTER)	0	350,000	350,000	350,000	350,000	350,000
SALARY AND BENEFIT RESERVE	34,278,686	29,797,000	*Included in P/S*	*Included in P/S*	*Included in P/S*	*Included in P/S*
EARMARKED RESERVES	54,700,597	200,000	200,000	200,000	200,000	200,000
VEHICLE REPLACEMENT/GENERAL FLEET	0	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000
VEHICLE REPLACEMENT/POLICE FLEET	*Included in N/P*	*Included in N/P*	(1,581,000)	1,683,000	319,000	(1,352,000)
TOTAL OTHER EXPENDITURES	**254,213,595**	**143,191,000**	**116,989,000**	**121,914,000**	**120,080,000**	**120,965,000**
		(43.67%)	**(18.30%)**	**4.21%**	**(1.50%)**	**0.74%**
					193	
CONTINGENCY RESERVE	27,005,000	27,438,000	28,784,000	30,112,000	31,389,000	32,618,000
TOTAL BASE EXPENDITURES (w/o ADDITIONS)	**934,312,154**	**850,192,760**	**889,979,000**	**931,784,000**	**968,572,000**	**1,009,920,000**
		(9.00%)	**4.68%**	**4.70%**	**3.95%**	**4.27%**

OPERATING MARGIN

BASE EXPENDITURES (w/o ADDITIONS)	ADOPTED 2006-2007	FORECAST 2008	2009	2010	2011	2012
GRAND TOTAL REVENUE	934,312,154	832,201,000	851,162,000	858,195,000	889,541,000	922,207,000
GROWTH RATE		(10.93%)	2.28%	0.83%	3.65%	3.67%
TOTAL BASE EXPENDITURES (w/o ADDITIONS)	934,312,154	850,192,760	889,979,000	931,784,000	968,572,000	1,009,920,000
GROWTH RATE		(9.00%)	4.68%	4.70%	3.95%	4.27%
OPERATING MARGIN CHANGE		**(17,991,760)**	**(20,825,240)**	**(34,772,000)**	**(5,442,000)**	**(8,682,000)**
From Prior Year						

November 2006 Forecast

EXPENDITURE SUMMARY

	ADOPTED 2006-2007	FORECAST 2008	2009	2010	2011	2012
COMMITTED ADDITIONS:						
Street Improvements		338,000	580,000	786,000	975,000	1,159,000
New Parks and Recreation Facilities Maintenance and Operations		375,000	794,000	1,060,000	1,207,000	1,255,000
Comprehensive General Plan Update		820,000	840,000	380,000		
Measure O (Library) Maintenance and Operations			1,351,000	4,711,000	6,802,000	7,244,000
Measure P (Parks) Maintenance and Operations		43,000	1,765,000	1,543,000	3,548,000	4,008,000
Measure O (Public Safety) Maintenance and Operations: Fire		281,000	2,589,000	2,885,000	5,860,000	5,553,000
Measure O (Public Safety) Maintenance and Operations: Police			358,000	703,000	739,000	739,000
TOTAL COMMITTED ADDITIONS	**0**	**1,857,000**	**8,277,000**	**12,068,000**	**19,131,000**	**19,958,000**
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	**934,312,154**	**852,049,760**	**898,256,000**	**943,852,000**	**987,703,000**	**1,029,878,000**
		(8.80%)	**5.42%**	**5.08%**	**4.65%**	**4.27%**

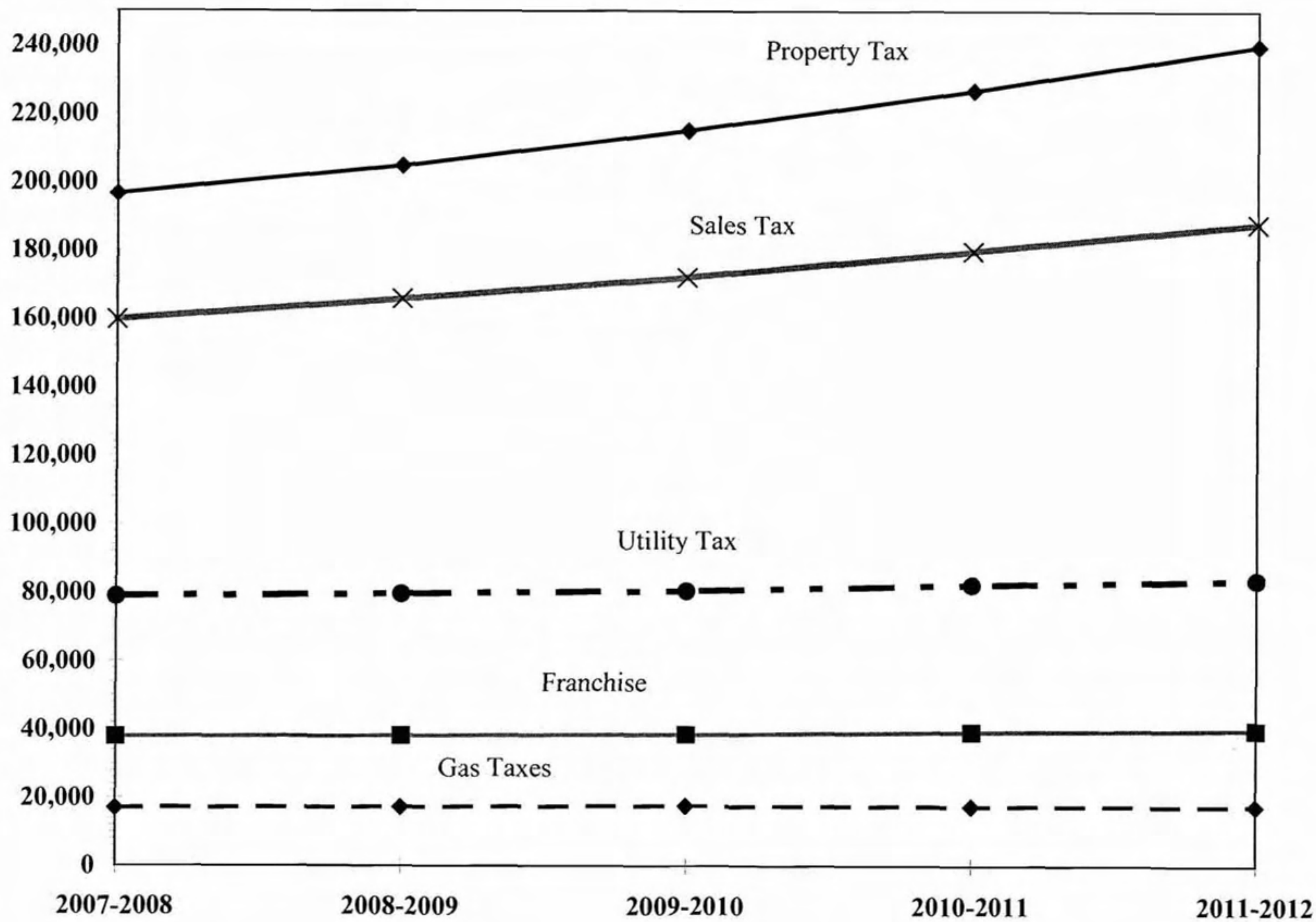
OPERATING MARGIN

BASE EXPENDITURES (w / COMMITTED ADDITIONS)	ADOPTED 2006-2007	FORECAST 2008	2009	2010	2011	2012
GRAND TOTAL REVENUE	934,312,154	832,201,000	851,162,000	858,195,000	889,541,000	922,207,000
GROWTH RATE		(10.93%)	2.28%	0.83%	3.65%	3.67%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	934,312,154	852,049,760	898,256,000	943,852,000	987,703,000	1,029,878,000
GROWTH RATE		(8.80%)	5.42%	5.08%	4.65%	4.27%
ONGOING OPERATING MARGIN CHANGE *From Prior Year*		**(19,848,760)**	**(27,245,240)**	**(38,563,000) ***	**(12,505,000)**	**(9,509,000)**

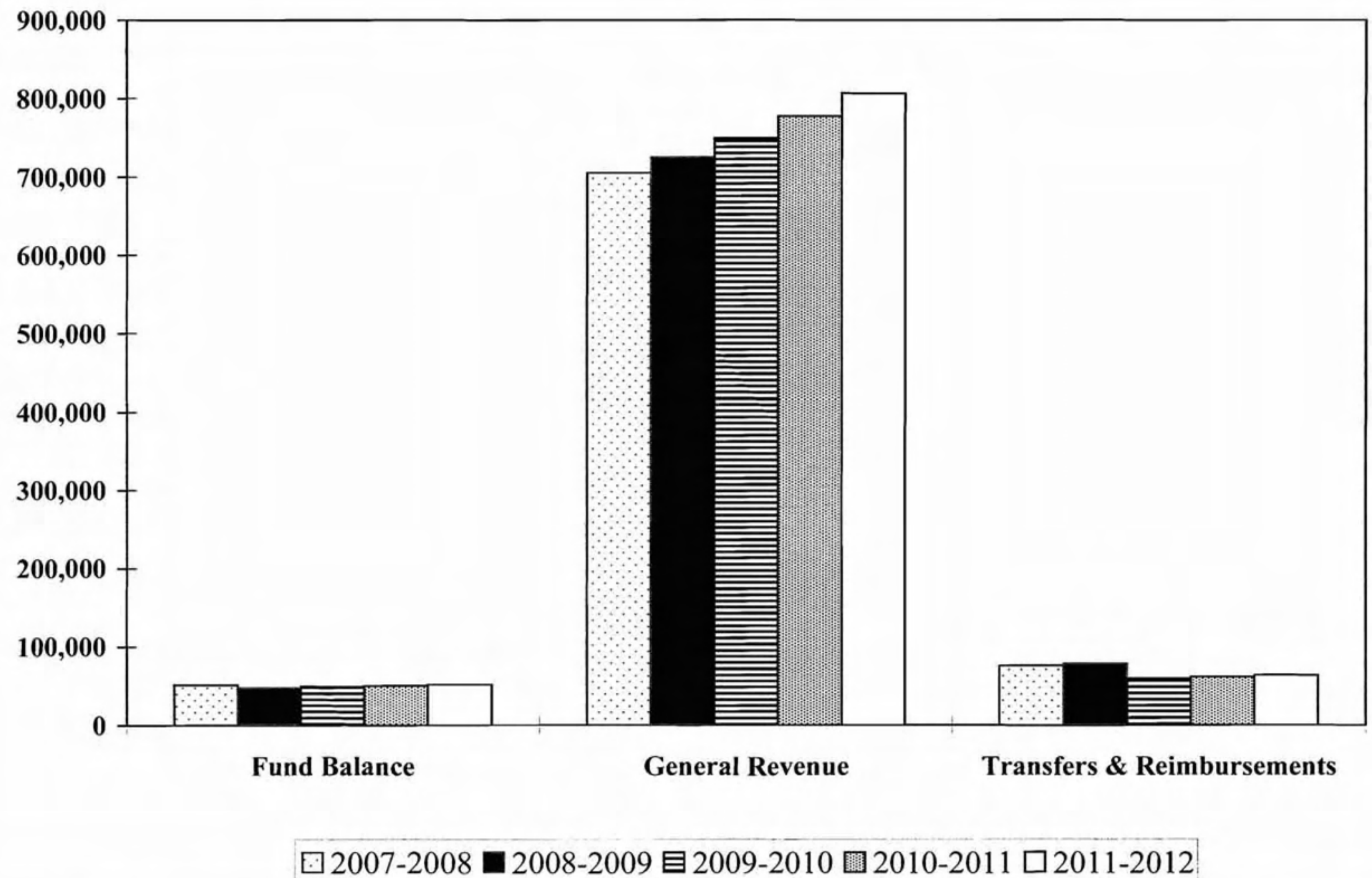
* Reflects the reduction of $20.6 million due to the sunsetting of the Emergency Communications Support System Fee

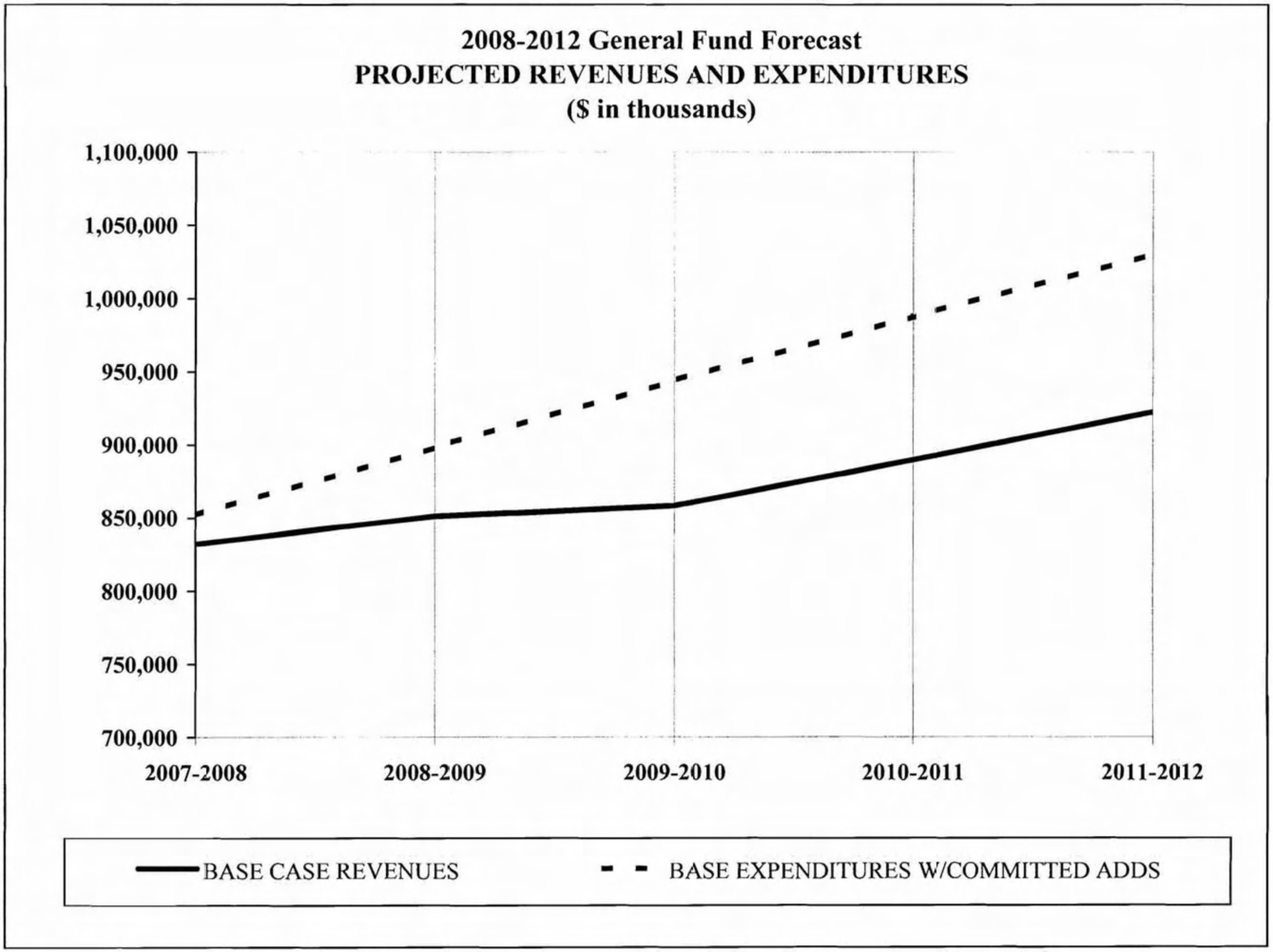
ONE-TIME FUNDING AVAILABLE	
2007-2008 Future Deficit Reserve	6,436,717
TOTAL ONE-TIME FUNDING	**6,436,717**

2008-2012 General Fund Forecast
FIVE-YEAR PROJECTION OF KEY REVENUES
($ in thousands)



2008-2012 General Fund Forecast
FIVE YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)




2008-2012 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)
1,100,000
1,050,000
1,000,000
950,000
900,000
850,000
800,000
750,000
700,000
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
BASE CASE REVENUES
BASE EXPENDITURES W/COMMITTED ADDS

Preliminary
Five-Year Forecast

2008-2012

Section 3

Committed Additions to the Base General Fund Forecast

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

As has been our practice, potential future year program expenditure additions considered unavoidable have been included in a "**committed**" additions section of the General Fund forecast.

Committed additions involve expense changes that are deemed relatively unavoidable. The majority of items included in this category are additional maintenance and operating expenses that will be required to fully operate and maintain funded capital projects that will be completed within the five-year horizon of this forecast. This includes the expenses that will be associated with the maintenance and operations of new street improvements, new parks and community facilities, and new community and public safety facilities. It should be noted that the projected costs included in this category have been submitted by the various departments involved, but have not yet been fully analyzed by the Budget Office. It can be anticipated that refinements of these estimates would be performed prior to bringing them forward for consideration by the City Council.

Projections factor in an inflation escalator for the out years of the forecast.

COMMITTED ADDITIONS

Street Improvements - This category reflects the projected additional costs that will be necessary to maintain new traffic signals, landscaping, and street lighting included in the City's Five Year Capital Improvement Program.

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 Year Total
338,000	580,000	786,000	975,000	1,159,000	3,838,000

New Parks and Recreation Facilities Maintenance and Operations - This category reflects the projected additional costs of maintaining and operating new parks and recreation facilities included in the City's Five Year Capital Improvement Program, including those that will be developed by other agencies.

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 Year Total
375,000	794,000	1,060,000	1,207,000	1,255,000	4,691,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

COMMITTED ADDITIONS (CONT'D.)

Comprehensive General Plan Update - This additional item, new to the forecast, provides funding necessary to complete a Comprehensive General Plan Update as directed by the City Council in the Mayor's Revised June Budget Message for Fiscal Year 2006-2007. The last comprehensive update of San José's General Plan was adopted in 1994. Traditionally, General Plans undergo a comprehensive update every ten years. Given the significant growth issues facing the City, another comprehensive update is needed to allow City staff and the City Council to engage the community in preparing a land use vision to direct future growth while preserving the quality of life in neighborhoods.

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 Year Total
820,000	840,000	380,000			2,040,000

Measure O (Library) Maintenance and Operations - This reflects the projected additional maintenance and operations costs of new and expanded branch libraries that were approved in the November 2000 election.

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 Year Total
	1,351,000	4,711,000	6,802,000	7,244,000	20,108,000

Measure P (Parks) Maintenance and Operations - This reflects the projected additional maintenance and operations costs of new and expanded parks and community facilities that were included as part of a bond measure approved in the November 2000 election.

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 Year Total
43,000	1,765,000	1,543,000	3,548,000	4,008,000	10,907,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

COMMITTED ADDITIONS (CONT'D.)

Measure O (Public Safety) Maintenance and Operations: Fire - This reflects the projected additional maintenance and operations costs of new and expanded fire facilities that were included as part of a bond measure adopted by the voters in the March 2002 election. Included are the projected costs for new fire companies that will be required. These include Fire Station 34 (Berryessa) and Fire Station 37 (South Willow Glen).

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 Year Total
281,000	2,589,000	2,885,000	5,860,000	5,553,000	17,168,000

Measure O (Public Safety) Maintenance and Operations: Police - This reflects the projected additional maintenance and operations costs of new and expanded police facilities that were included as part of a bond measure adopted by the voters in the March 2002 election. Included are the projected costs for South and East San José Community Policing Centers and South San José Substation.

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 Year Total
	358,000	703,000	739,000	739,000	2,539,000

Preliminary
Five-Year Forecast

2008-2012

Appendix A

General Fund Revenue Descriptions

Property Tax

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

In 1979, in order to mitigate the loss of Property Tax revenues after approval of Proposition 13, the State legislature approved Assembly Bill 8 (AB 8). This action was approved to provide a permanent method for allocating the proceeds from the 1 percent property tax rate, by allocating revenues back to local governments based on their historic shares of property tax revenues. AB 8 shifted approximately $772 million of school district property tax revenue to local governments and backfilled schools' lost revenue with subsidies from the State General Fund. Actions taken by the State in order to balance the 1992-1993 and 1993-1994 State budgets partially reversed the AB 8 formula. The 1992-1993 action reduced the City's Property Tax proceeds by nine percent, and shifted this funding to schools in order to reduce the amount of State backfill required. As part of the State's 1993-1994 Budget, the AB 8 formula was again altered requiring another ongoing shift in City Property Tax revenue to K-12 schools and community colleges.

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

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

Sales and Use Tax

The Sales Tax is an excise tax imposed on retailers for the privilege of selling tangible personal property. The Use Tax is an excise tax imposed on a person for the storage, use, or other consumption of tangible personal property purchased from any retailer. The proceeds of sales and use taxes imposed within the boundaries of San José are distributed by the State to various agencies, with the City of San José receiving one percent. The total sales tax rate for the County of Santa Clara is currently 8.25%. On November 5, 1996, voters approved the imposition of a ½ percent increase to the rate (Measure B) for Santa Clara County for a period commencing April 1, 1997 and terminating March 31, 2006. The distribution of the sales tax proceeds is as follows:

Agency	Distribution Percentage
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)	0.50%
Total Sales Tax	**8.25%**

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

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

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

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

Transient Occupancy Tax

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

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (six percent of room rent) is restricted by Ordinance number 20563 to the following uses:

1) Funding for the Convention and Visitors Bureau, including a rental subsidy of City facilities for convention purposes.

2) Funding for cultural grants such as the San José Repertory Theatre and the San José Museum of Art, and a rental subsidy for the cultural use of City facilities.

3) Funding for the City's operating subsidy to the Convention and Cultural Facilities.

The General Fund portion of the Transient Occupancy Tax was enacted as a general tax and cannot be legally dedicated to any specific purpose.

Franchise Fees

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

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

On July 1, 1996, commercial solid waste collection franchise fees (CSW) were converted to a volume basis. This revision amended the previous structure (which had been in effect since January 1, 1995) that assessed a franchise fee equal to 28.28% of gross receipts in excess of $250,000. With that change, fees were set at $1.64 per cubic yard per collection for cubic yards in excess of 43,000 (the cubic yard basis is tripled if the waste has been compacted) in a fiscal year, and were assessed on any

Franchise Fees (Cont'd.)

commercial business engaged in the collection, transportation, or disposal of garbage and/or rubbish (solid waste) accumulated or generated in the City of San José. In December 1997, the City Council increased the rate to $2.41 (excluding the first 29,200 cubic yards hauled in the fiscal year), effective on January 1, 1998. In 1999-2000, this fee was increased to $2.84 per cubic yard. In 2002-2003, a three year gradual shift in the revenue distribution between the CSW and AB 939 fees (also known as the "commercial source reduction and recycling fee" collected and deposited in the Integrated Waste Management Fund) was approved, that increased the amount collected for CSW to $3.34 per cubic yard in 2004-2005. In 2005-2006, the City Council increased the fee by 4.5% ($0.15 per cubic yard) to $3.49 per cubic yard. In 2006-2007, an additional 5% increase was approved by the City Council, which brings the fee to $3.67 per cubic yard. The CSW is authorized by Title 9 of the Municipal Code, Chapter 9.08.

The City collects a Franchise Fee from any company that provides cable television (Ordinance No. 22128). The current fee is five percent of gross receipts derived from subscriptions. Excluded from the gross receipts are amounts derived from installation, late charges, advertising, taxes, line extensions, and returned check charges.

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

Utility Tax

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (e.g., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). The telephone utility tax is assessed on the basic charges and intrastate calls. Consumers pay five percent of their utility charges to the utility company that acts as a collection agent for the City. The utility company collects the tax from consumers on a monthly basis and is required to remit that amount to the City by the 25th of the following month. The tax is not applicable to State, County, or City agencies. Also, per State regulations, insurance companies and banks are exempted from the tax. This tax is authorized by Title 4 of the Municipal Code, Section 4.68. In November 1996, a five percent utility tax was imposed on interstate and international calls as part of the New Realities Task Force recommendations contingent on voter approval. Since voters did not approve the continuation of the increase, this tax was eliminated. This tax was collected from November 1996 through October 1998.

Business Tax

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

Category	Annual Tax
1 – 8 Employees	$150.00
9 – 1,388 Employees	$150.00 plus $18.00 per Employee
1,389 and over Employees	$25,000

In addition to the rates listed above, City Ordinance 21518 specifies the assessment of taxes by grouping taxed businesses (each at a different rate) in the following categories: Rental or Lease of Residential or Non-Residential property, Mobile Home Parks, and Water Companies. Rented or leased properties (if three or more residential rental units) are subject to the $150.00 minimum tax, but are also assessed $5.00/rental unit over 30 units for residential properties and $0.01 per square foot in excess of 15,000 square feet for non-residential properties. Fees for both residential and non-residential properties are limited to a maximum of $5,000. Mobile home parks are treated as residential properties. Water companies are assessed by a schedule that assigns an amount (from $200 to $20,000) depending on the number of active metered connections. In November 1996, the rates had been increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates (as reflected) have been returned to the levels prior to November 1996.

There are several exclusions (by Federal or State regulations) or exemptions (by the City Council) from the General Business Tax. Among the major ones are Banks and Insurance Companies, Charitable and Non-Profit Organizations, and Interstate Commerce. In addition, on June 8, 1993, City Council deleted the sunset provision of a business tax exemption for certain artists and craftpersons selling their wares at one location. The Business Tax is authorized by Title 4 of the Municipal Code, Chapter 4.76.

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

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

Other Licenses and Permits

The City requires payment for the issuance of Building Permits, Fire Permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. For example, the City requires fire safety inspections of all commercial property. The fee provides for inspection charges and a number of special charges. Authorized exceptions include the addition and/or alteration of under 20 sprinkler heads and the installation of portable fire extinguishers. The fee is authorized by Title 17 of the Municipal Code, Chapter 17.12.

Where appropriate, license and permit fees take into consideration approved exceptions to Council's full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City's Fees and Charges Report, which is released in May of each year.

Fines, Forfeitures, and Penalties

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

The City receives fines and forfeitures of bail resulting from violation of State Health and Safety Codes and City Ordinances. These fees, authorized by the State Criminal Code and City Ordinances, are collected by the County and remitted to the City on a monthly basis.

The City also receives revenue collected in connection with violations of the City's vehicle parking laws. These fines vary according to the nature of the violation. The City pays an agency to process and collect the fines. The only authorized exemption is for "on call" emergency vehicles.

Use of Money and Property

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

Revenue is also received from the rental of City-owned property and from the sale of agricultural products grown on City land. Exceptions are created by Council resolution. The fees are authorized in Title 2 of the Municipal Code, Section 2.04.1070.

Revenue from Local Agencies

This revenue category contains revenue received from a variety of other local government agencies. The five primary sources of revenue are the reimbursement for City staff and overhead costs from the Redevelopment Agency; the reimbursement from the Redevelopment Agency for payment of the Convention Center debt service; Enterprise Fund In-Lieu charges; payments from the Central Fire District for fire services provided to District residents by the San José Fire Department; and payments from the County for the Paramedic Program.

Revenue from the State of California

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

The Motor Vehicle In-Lieu (MVLF) Tax revenues are license fees collected by the California Department of Motor Vehicles (DMV). Until 1998-1999, the annual license fee was two percent of the market value of the vehicle as determined by the DMV. In 1998-1999, the State reduced the license fees by 25%, but agreed to backfill local jurisdictions for the loss in revenue, which represented 67.5% of MVLF revenues received by the City at the time. In 2004-2005, as part of State budget actions, the MVLF rate was permanently reduced from 2% to 0.65% (the current effective rate) and all future receipts of the backfill were approved to be in the form of increased Property Tax receipts and is reflected in that category. Thus, the backfill amount due the City has permanently become property tax revenue that now grows based on assessed valuations.

Revenue from the State of California (Cont'd.)

The State withholds less than five percent of these fees for the support of the DMV. More than 95% of these fees are divided equally between counties and cities, and their aggregate shares are distributed in proportion to the respective populations of the cities and counties of the state. The exemptions authorized by the State Constitution, Article 13, include vehicles owned by insurance companies and banks, publicly owned vehicles, and vehicles owned by certain veterans with disabilities. The tax is authorized by the State Revenue and Taxation Code.

In-Lieu Taxes are also levied against airplanes. While the method of collection is similar, the distribution is different. Revenue is distributed according to the location of the aircraft, which is then allocated to cities, counties, and school districts. State legislative action in 1992-1993 eliminated local Trailer Coach In-Lieu Tax revenues. These funds were shifted to the State General Fund.

Revenue from the Federal Government

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

Departmental Charges

Departmental Charges are comprised of fees charged for services which are primarily provided by the following departments: Planning, Building and Code Enforcement; Police; Public Works; Transportation; Library; and Parks, Recreation, and Neighborhood Services. The Parks, Recreation, and Neighborhood Services Department, for example, charges specific fees for various recreational programs, such as aquatic and adult sports programs. The prices and rates are determined by ordinance, and each of the several hundred charges is fully explained in the City's Annual Fees and Charges Report.

State Gas Tax

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

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

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

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

Other Revenue

This revenue category contains revenue received from a variety of miscellaneous sources. For several years, Solid Waste Program revenues comprised the majority of revenues in this category. However, as approved by the City Council on November 22, 1994, approximately $55.77 million in budgeted Solid Waste revenues were removed from this category to reflect the implementation of the newly established Integrated Waste Management (IWM) Fund. Revenue categories appearing in the IWM Fund include: Recycle Plus charges (Residential and Commercial), Assembly Bill 939 (AB 939) fees, and lien revenues related to billings which took place after the creation of the new fund. Revenues that remained in the General Fund are related to the collection of solid waste enforcement fees. These fees are now reflected in the Departmental Charges category.

Other Revenue (Cont'd.)

Other significant sources of revenue in this category include the following components: cost reimbursements related to Finance Department staff in the Investment Program; and HP Pavilion rental, parking, suite, and naming revenues. The remainder of revenue collected represents one-time and/or varied levels of reimbursements, including sale of surplus property receipts and miscellaneous revenues associated with the Office of the City Attorney.

Transfers and Reimbursements

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

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

Transfers consist of both one-time and ongoing revenue sources to the General Fund. Ongoing transfers include Airport Maintenance and Operation Fund reimbursements for Airport Police and Fire services, Municipal Water System return on investment transfer, and capital fund transfers for maintenance and operating expenses incurred by the General Fund. One-time transfers occur on a sporadic basis and have included the disposition of uncommitted fund balances in several special funds and the transfer of monies to fund a variety of City projects. Reimbursements from other funds represent the cost to the General Fund for services provided on behalf of the other City funds.

Included in this section is the transfer of Emergency Communication System Support Fee revenue from the Emergency Communication System Support Fee Fund to the General Fund. This revenue reflects reimbursement of eligible costs attributable to the operation of the Emergency Communication System for telephone subscribers. Effective January 1, 2005, the fee imposed a charge of $1.75 per month for each access line and $13.13 per month for each trunk line, with an annual cap on landline fees of $20,000 per location. As part of the 2006-2007 Adopted Budget, the Emergency Communication System Support Fee sunset date was approved to be extended from December 31, 2006 to June 30, 2009.