

Regional and County Trends Related to the Ten Year Revenue Forecast

Stephen Levy, CCSCE

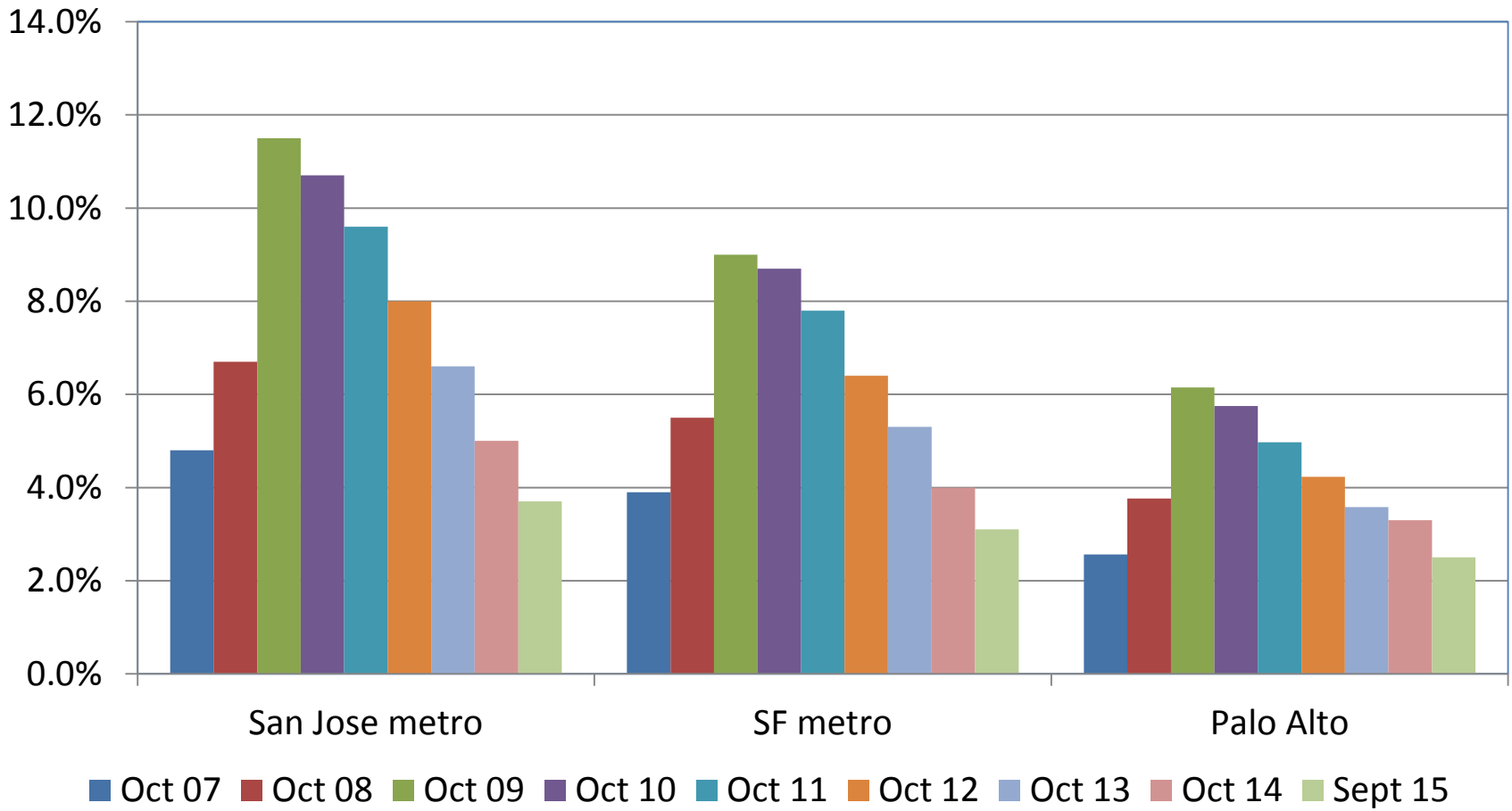
November 19, 2015

A Surging Peninsula Economy

- Strong Job Growth—100,000 per year since 2010—far above forecasts made in 2012.
- Sharp Declines in Unemployment and Residents Returning to the Workforce
- 50% of Nation's VC Funding, Companies Plan for Expansion
- Bay Area Leads the State in Population Growth
- Baby Boomer Aging and Retirement Key Trend to 2020 and 2030. Job Growth will Slow but Population and Housing Growth will Continue
- The Challenges to Growth—Housing and Transportation

Unemployment Rates

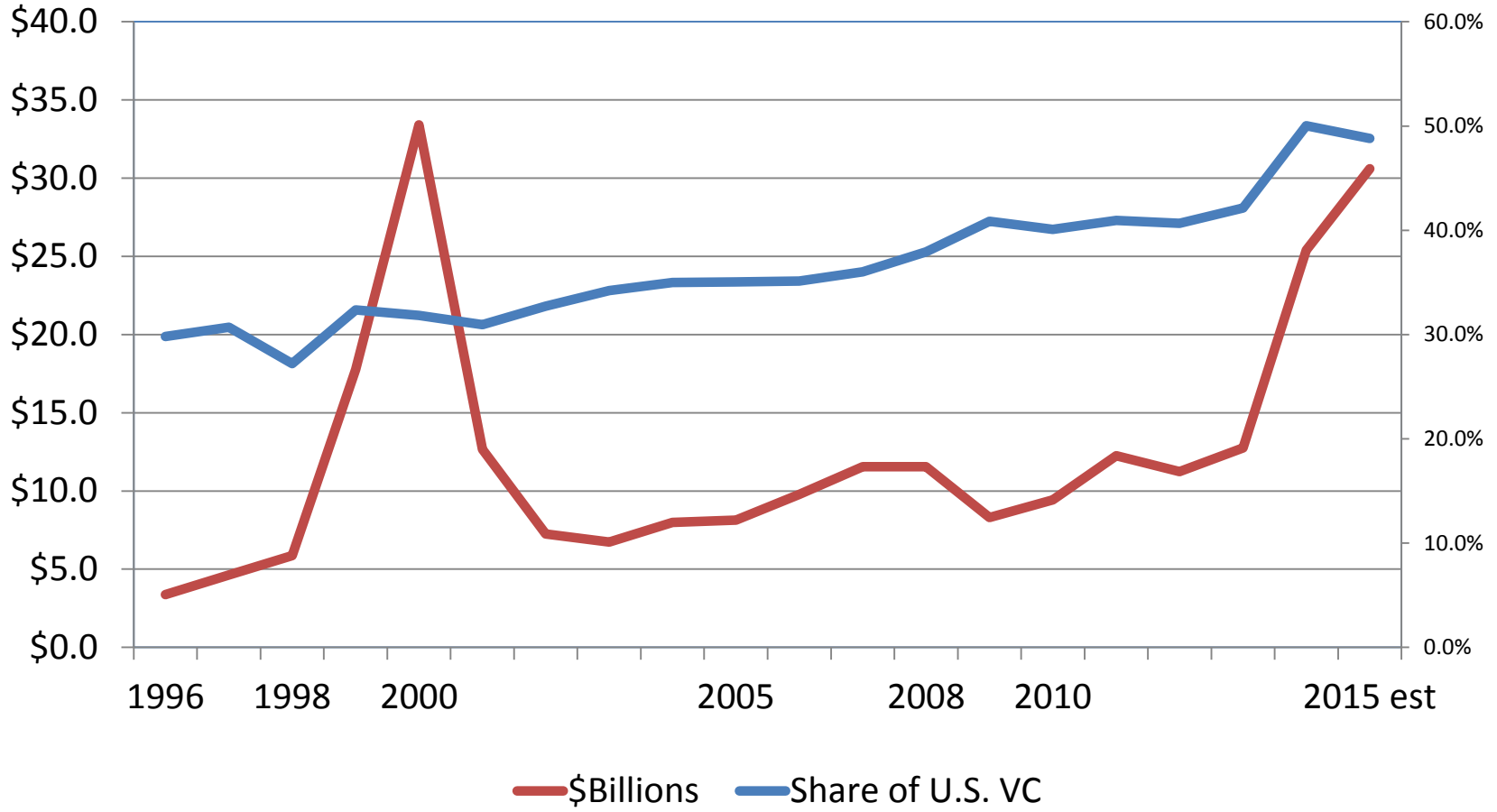
(Below Pre Recession Levels)



What Will the Future Bring for the County and Region?

- Continuing but slower job growth to 2019, then slowing more as boomers retire.
- But population growth and migration should increase for a while with increasing housing demand
- Significant age changes to 2030—lower birth rates, more residents 65, 75 and older
- Longer term growth partly dependent on meeting housing and transportation challenges

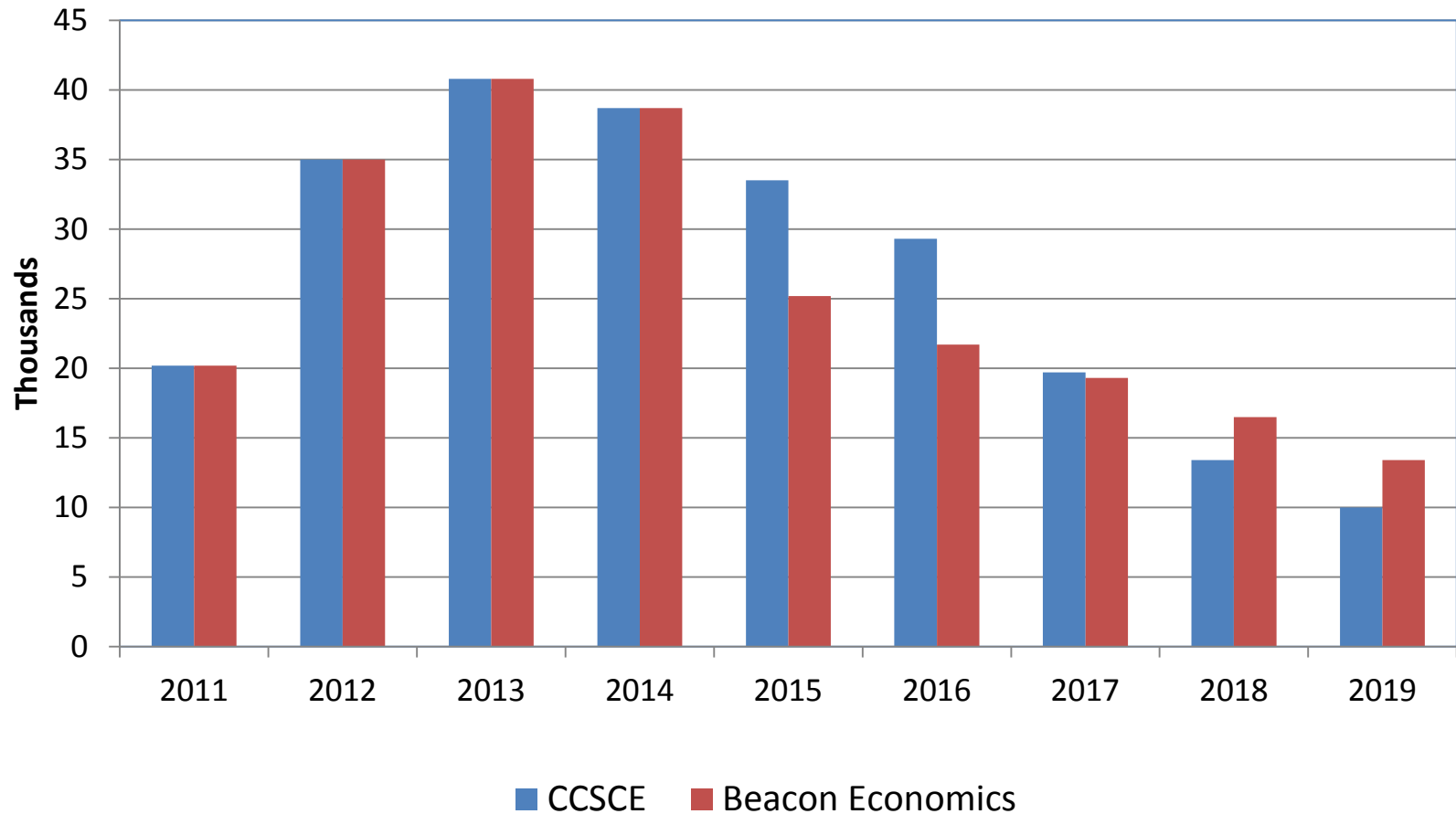
Bay Area VC Funding Trends



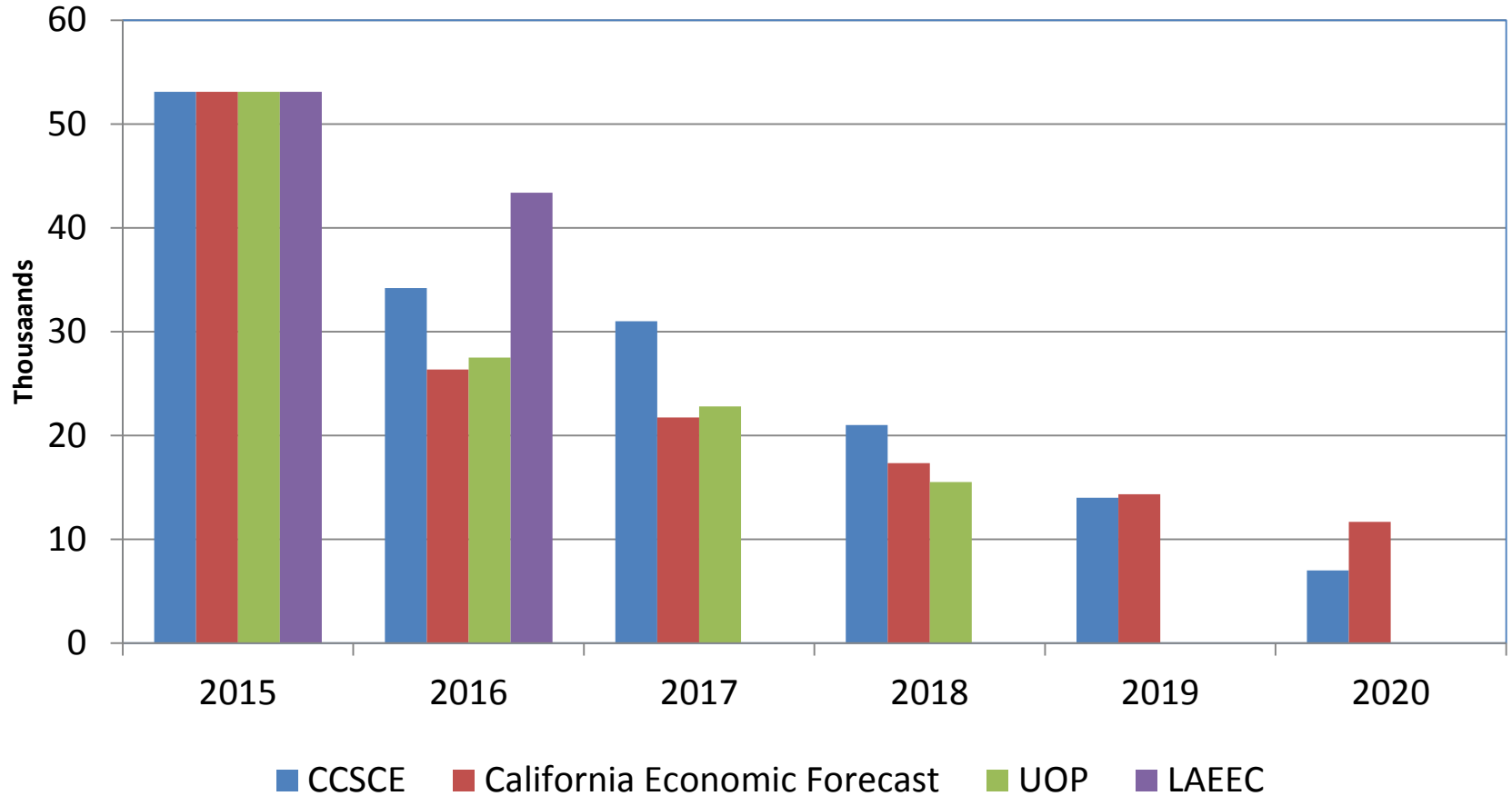
Typical Headlines These Days

- Apple plans major expansions in San Jose
- And Cupertino near Vallco Center
- Toyota opens PA office, plans \$1 billion AI research effort
- Facebook and North Bayshore expansion plans moving forward with housing being added to the discussion
- Apple, Google, Facebook, LinkedIn and others see profit and sales surge
- Google buying/leasing space for expansion

Likely Pattern of SJ Metro Area Job Growth (From Last Year)



Selected SJ Metro Area Job Growth Forecasts



But Population Growth Will Remain Strong

- Recent population growth low compared to job growth as unemployed workers filled jobs—Bay Area still led the state for 1st time since 1840s
- For a few years population growth will increase to fill new jobs and replace retiring boomers, and then slow down but remain high compared to ten years ago
- As years pass land use, housing, transportation and immigration policies will influence population growth through effects on job growth

Implications for City Finances

- Near term 2016 and 2017—continued strong job and wage growth combined with rising home prices and rents. So the overall economy supports revenue growth
- Medium term property and transfer tax may grow above forecast if more boomers sell and markets remain tight.
- The over 65 share in Palo Alto likely to grow from 17% to 25% of population by end of forecast period
- Sales tax growth will lag income gains unless Internet sales and some services are taxed
- Business/Stanford visitors to continue strong growth

Comments on Revenue Forecast

- Later years sales tax growth may be lower unless tax rate or base changes or Internet sales are captured more
- TOT growth looks conservative to me
- No opinion on transfer tax
- Large property tax components are change in ownership, new construction and inflation. Most factors favor 6% growth or a bit higher.

Joe's Questions

- Strong economy—ours to help or mess up
- No bubble in real economy agnostic re stocks
- Consensus of DOF expert panel was no recession in next two years
- Need to better tax Internet sales
- Worries on local economy—muck it up by not addressing housing and transportation
- Budget worries on cost side re retirement benefits and solutions