

**CITY OF SAN JOSE**  
**2023-2024 ADOPTED OPERATING BUDGET**  
**GENERAL FUND OVERVIEW**

**Introduction**

For 2023-2024, General Fund revenue estimates (excluding Fund Balance) total \$1.4 billion, representing a 4.2% increase from the 2022-2023 Adopted Budget level. When the Fund Balance-Carryover is included, General Fund resources total \$2.0 billion, which is 9.7% above the prior year.

Estimates for the 2023-2024 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2024-2028 Five-Year Forecast that was released at the end of February 2023. These estimates have been reviewed continually since the Forecast document was released and have been revised, as appropriate, in the Adopted Budget based on updated information. Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2022-2023; and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for 2023-2024. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2023-2024 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2021-2022 Actuals	2 2022-2023 Adopted	3 2023-2024 Forecast	4 2023-2024 Adopted	2 to 4 % Change	% of Total
Property Tax	\$ 414,123,282	\$ 427,000,000	\$ 460,400,000	\$ 460,400,000	7.8%	22.6%
Sales Tax	323,143,574	331,000,000	336,400,000	336,400,000	1.6%	16.5%
Transient Occupancy Tax	10,515,117	11,000,000	16,000,000	16,000,000	45.5%	0.8%
Franchise Fees	48,378,348	49,168,393	50,808,393	51,825,008	5.4%	2.5%
Utility Taxes	103,591,802	107,450,000	126,550,000	126,550,000	17.8%	6.2%
Business Taxes	85,375,289	86,000,000	87,500,000	87,500,000	1.7%	4.3%
Real Property Transfer Tax	110,015,391	65,000,000	50,000,000	50,000,000	(23.1%)	2.5%
Telephone Line Tax	21,313,810	20,000,000	22,000,000	22,000,000	10.0%	1.1%
Licenses and Permits	22,032,078	20,993,100	20,361,969	22,005,622	4.8%	1.1%
Fees, Rates, and Charges	22,110,063	23,914,232	22,145,907	22,372,680	(6.4%)	1.1%
Fines, Forfeitures and Penalties	14,959,847	12,232,000	15,080,000	15,080,000	23.3%	0.7%
Rev. from Money and Property	9,126,202	8,779,000	14,864,000	14,864,000	69.3%	0.7%
Rev. from Local Agencies	24,755,916	17,107,945	16,946,171	18,975,403	10.9%	0.9%
Rev. from State of California	26,241,795	26,889,687	12,900,000	22,110,719	(17.8%)	1.1%
Rev. from Federal Government	3,096,138	7,111,452	0	7,391,504	3.9%	0.4%
Other Revenue	329,257,694	16,823,368	9,768,544	10,257,667	(39.0%)	0.5%
Transfers and Reimbursements	171,492,292	122,058,848	124,161,469	125,768,078	3.0%	6.2%
<b>Subtotal</b>	<b>\$ 1,739,528,638</b>	<b>\$ 1,352,528,025</b>	<b>\$ 1,385,886,453</b>	<b>\$ 1,409,500,681</b>	<b>4.2%</b>	<b>69.2%</b>
Fund Balance-Carryover <sup>(1)</sup>	558,987,400	507,133,721	76,351,447	629,626,855	24.2%	30.8%
<b>Total General Fund Sources</b>	<b>\$ 2,298,516,038</b>	<b>\$ 1,859,661,746</b>	<b>\$ 1,462,237,900</b>	<b>\$ 2,039,127,536</b>	<b>9.7%</b>	<b>100.0%</b>

<sup>(1)</sup> The Fund Balance figure does not include the Reserve for Encumbrances.

# CITY OF SAN JOSE

## 2023-2024 ADOPTED OPERATING BUDGET

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### GENERAL FUND OVERVIEW

#### **Economic Performance**

The following is a discussion of both the national and local economic outlooks used to develop the 2023-2024 revenue estimates. Various economic forecasts and models were reviewed in the development of the 2023-2024 revenue estimates. The City also uses an economic forecasting consultant and consultants that focus on particular revenue categories, such as Sales Tax and Transient Occupancy Tax, to assist in the development of the revenue estimates and provide information on the future outlook in these areas. A more detailed discussion on forecasted economic conditions can be found in the 2024-2028 Five-Year General Fund Forecast.

#### **National Outlook**

Prior to the pandemic, the United States economy had been steadily expanding for almost a decade. The pandemic created not only a public health crisis, but an economic crisis as well. As a result of the pandemic, employment levels fell and the Gross Domestic Product (GDP) experienced its steepest quarterly drop on record. The crisis ended quickly, with the economy swiftly rebounding in 2021, as could be seen with several key economic indicators: GDP rose, unemployment dropped, and consumer confidence rose. Beginning in mid-2022, discussion began about the possibility of a looming recession due to prolonged soaring inflation rates, coupled with high interest rates that had begun to impact some sectors of the economy, including housing. However, while a recession is possible to occur in 2023, it is important to note that as of early 2023, many economic indicators remain positive, with very little economic data showing any significant signs of decline, with the exception of the housing market data.

The United States economy ended 2022 with the Gross Domestic Product (GDP) reaching an annualized growth rate of 2.9% in the 4<sup>th</sup> quarter. The increase in GDP reflected increases in consumer spending, private inventory investment, and federal, state, and local government spending. While the 4<sup>th</sup> quarter growth was slightly higher than anticipated, due to a looming mild recession, the GDP is estimated to have three quarters of negative growth in 2023-2024 before the economy recovers and grows again beginning in 2024-2025.

As of January 2023, per the U.S. Bureau of Labor Statistics, the national unemployment rate of 3.4% has shown little net movement since early 2022. If a recession does occur, unemployment is forecasted to hit 5.5% in 2022-2023 and 6.0% in 2023-2024 on a national level. High unemployment rates would impact the economy as personal consumption, which is a driving force of the economy, would likely decrease.

On a national level, consumer confidence dropped in both January and February 2023. According to Lynn Franco, Senior Director of Economic Indicators at The Conference Board, “While consumers’ view of current business conditions worsened in February, the Present Situation Index (consumers’ assessment of current business and labor market conditions) still ticked up slightly based on a more favorable view of the availability of jobs. In fact, the proportion of consumers saying jobs are ‘plentiful’ climbed to 52.0% – back to levels seen in the spring of last year. However, the outlook appears considerably more pessimistic when looking ahead. And, while 12-month inflation expectations improved (falling to 6.3% from 6.7% last month) consumers may be showing early signs of pulling back spending in the face of high prices and rising interest rates”<sup>4</sup>

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<sup>4</sup> The Conference Board, Consumer Confidence Survey, February 28, 2023

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## GENERAL FUND OVERVIEW

### Economic Performance

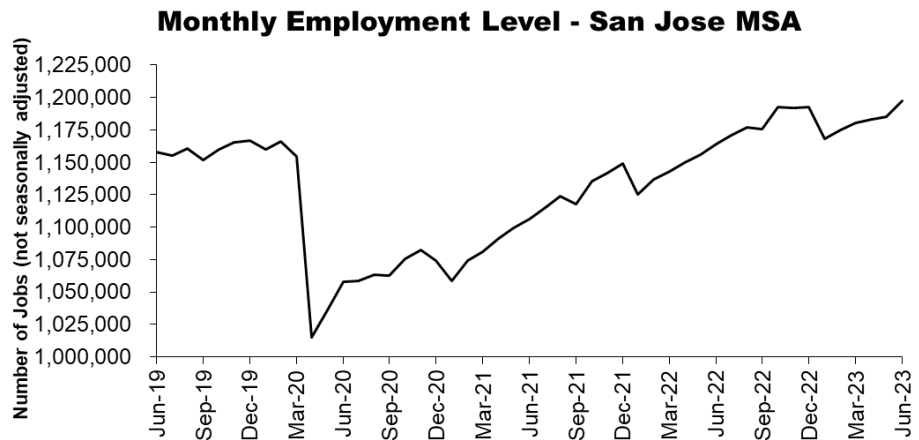
#### National Outlook

In order to continue combatting soaring inflation rates being experienced in the United States, the Federal Reserve is expected to continue raising interest rates in 2023. By continuing to raise interest rates, borrowing money becomes even more expensive, which should reduce spending and curb inflation.

#### City of San José Outlook

Despite recent well-publicized layoff notices in the technology sector that is a potential indicator of future economic weakening, Silicon Valley continues to show overall positive economic performance through the first half of the fiscal year. Key economic areas remain strong, including robust employment figures, rebounding hotel occupancy and room rates, and growing sales tax activity levels. However, while many local economic indicators remain positive, the local real estate market has continued to falter.

The June 2023 employment level of 1.20 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 32,900 jobs, or 2.8%, from the June 2022 level of 1.16 million. This increase includes private education and health services adding 12,200 jobs; leisure and hospitality growing by 11,800 jobs; and professional and business services increasing by 3,400 jobs.<sup>1</sup>



Unemployment Rate (Unadjusted)			
	June 2022	May 2023	June 2023**
San José Metropolitan Statistical Area*	2.7%	3.3%	3.7%
State of California	4.1%	4.5%	4.9%
United States	3.8%	3.4%	3.8%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** June 2023 estimates are preliminary and may be updated.			

The local unemployment rate for June 2023 was 3.7%, which is higher than the May 2023 rate of 3.3% and the prior year unemployment rate of 2.7%. However, the June 2023 San José Metropolitan Statistical Area unemployment rate continues to be lower than the unadjusted unemployment rate for the State (4.9%) and the nation (3.8%).

<sup>1</sup> State of California Employment Development: Labor Market Information Division Press Release, July 21, 2023

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**City of San José Outlook**

Overall construction activity through June 2023 decreased 14.0% from prior-year levels, primarily due to activity for the commercial land use category experiencing a significant year-over-year decline. The 2022-2023 Adopted Budget was developed with the expectation that development activity would increase slightly from 2021-2022 development activity projections identified in the 2023-2027 Five-Year Forecast. Development activity has been on a downward trend since 2019-2020 with valuations at \$2.5 million in June 2020 compared to \$1.3 million as of June 2023 and will continue to be closely monitored. Construction activity has slightly underperformed the activity projected by the Planning, Building and Code Enforcement Department in the 2024-2028 Five-Year Forecast, which was released in February 2023.

Through June 2023, residential permit valuation has increased 0.5% from prior year levels (\$369.2 million in 2022-2023 from \$367.4 million in 2021-2022). Overall valuation for the year was moderately higher for new construction at 62% than alterations at 38%. However, for the last quarter, a large majority of the permit activity was from new construction. Residential activity through June included 482 multi-family units and 1,310 units of single-family construction for a total of 1,792 units. A few notable projects for May and June include permits issued for sixty (60) unit, five story affordable housing apartment project located on Alum Rock east of Highway 101, ninety-nine (99) unit, seven story affordable housing apartment project located on Keyes Street near the intersection with Senter Road, and 154 unit, six story apartment project located on Sunol Street between West San Carlos and Pacific Avenue.

<b>Private Sector Construction Activity (Valuation in \$ Millions)</b>			
	<b>YTD June 2022</b>	<b>YTD June 2023</b>	<b>% Increase</b>
Residential	\$ 367.4	\$ 369.2	0.5%
Commercial	\$ 821.7	\$ 577.6	(29.7%)
Industrial	\$ 325.9	\$ 357.1	9.6%
	<b>\$ 1,515.0</b>	<b>\$ 1,303.9</b>	<b>(14.0%)</b>

Commercial valuation through June 2023 was 29.7% lower than the 2021-2022 level (\$577.6 million in 2022-2023 from \$821.7 million in 2021-2022). Most of the activity for the year was from additions and alterations at about 66% of the total, with approximately 34% for new construction. Alterations accounted for almost 78% (\$65.4 million) and new construction accounted for 22% (\$18.7 million) of the total commercial activity (\$84.1 million) for May and June.

Industrial construction valuation through June 2023 was 9.6% higher than prior-year levels (\$357.1 million in 2022-2023 and \$325.9 million in 2021-2022). Most of the activity for the year was from additions and alterations at about 84% of the total, with approximately 16% for new construction. Alterations accounted for all the activity from March through June.

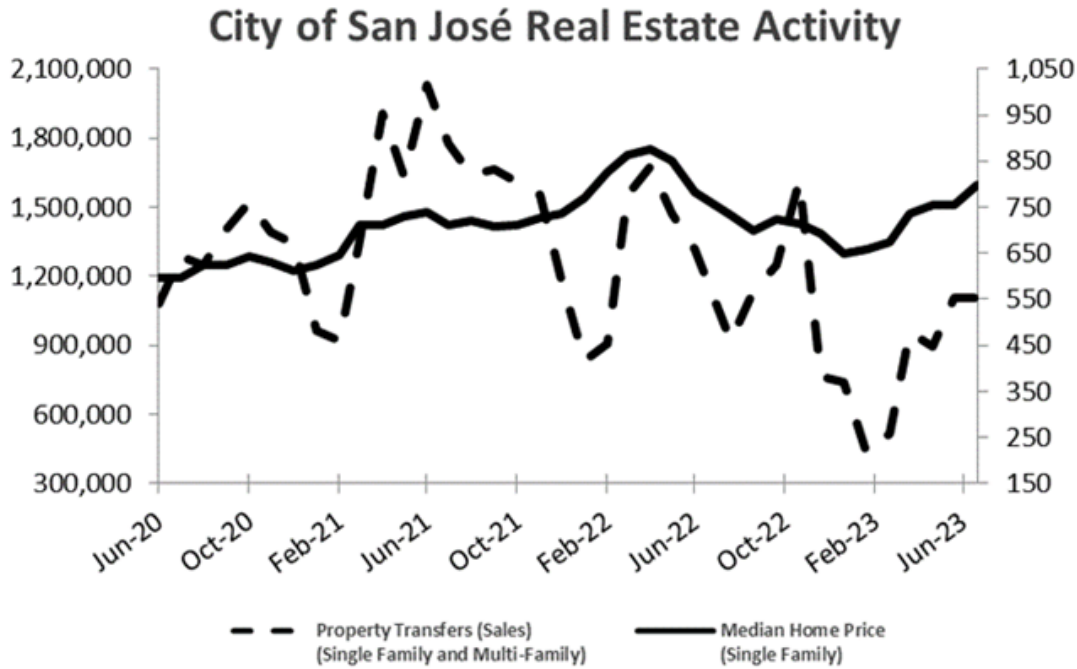
According to data from the Santa Clara County Association of Realtors, in June 2023, the median single-family home price totaled \$1.60 million, which is 2.4% higher than the June 2022 price of \$1.56 million. This year-over-year increase followed seven consecutive year-over-year price drops. Homes are staying on the market for longer periods of time before selling, the average days-on-market for 2022-2023 totaled 24 days, which is significantly above the average of 14 days experienced in 2021-2022.

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## Economic Performance

### City of San José Outlook

In addition, property sales activity has declined for eight consecutive months. Overall, property sales declined 33.4% in 2022-2023 compared to 2021-2022. Local real estate activity will continue to be closely monitored with updates being provided in future bi-monthly financial reports.



## Revised General Fund Forecast

Between the issuance of the Five-Year Forecast in February 2023 and the adoption of the budget in June 2023, revenue collections for 2023-2024 continued to be reviewed and updated. Based on this analysis, several of the revenue estimates presented in the February Forecast were revised in this budget to reflect more recent information. These adjustments resulted in a \$1.9 million net decrease to the General Fund Forecast, decreasing the revenue estimate from \$1.464 billion to \$1.462 billion (including fund balance). On the following page is a summary table of the changes incorporated into the Revised Forecast, which were used as the starting point in preparing the 2023-2024 Adopted Budget.

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**Revised General Fund Forecast**

<b>Category</b>	<b>\$ Change</b>	<b>Description</b>
Property Tax	\$ 1,700,000	Increase of \$1.7 million reflects updated information received in April 2023 from the County of Santa Clara regarding Successor Agency to the Redevelopment Agency Property Tax revenue.
Beginning Fund Balance	351,447	Increase of \$351,447 to reflect the liquidation of two reserves; Vehicle Abatement Program Enhancements Reserve (\$177,000) and East San Jose Small Business Corridor Staffing Reserve (\$174,447). These reserves are being liquidated as the staffing associated with the programs was added in the respective departments 2023-2024 Base Budget.
Licenses and Permits	136,408	Net increase of \$136,408 aligns revenues with estimated base costs and activity levels for Planning, Building and Code Enforcement Department, Police Department, Public Works Department, and Transportation Department permits.
Revenue from Local Agencies	25,000	Increase of \$25,000 reflects an updated revenue estimate for payments from other agencies for Animal Care services.
Other Revenue	(1,720)	Net decrease of \$1,720 aligns revenues with the estimated base costs and activity levels for Transportation Department revenues.
Fines, Forfeitures, and Penalties	(50,000)	Decrease of \$50,000 aligns revenues with estimated base costs and activity levels for Public Works Department fines.
Fees, Rates, and Charges	(177,821)	Net decrease of \$177,821 aligns revenues with estimated base costs and activity levels for Miscellaneous fees (-\$179,611), and Transportation Department fees (\$1,790).
Revenue from the State of California	(900,000)	Net decrease of \$900,000 reflects updated information from the State of California regarding Tobacco Settlement funds (-\$1.1 million) and Vehicle License Fee revenue (\$200,000).
Transfers and Reimbursements	(2,974,020)	Net decrease of \$3.0 million reflects updated overhead reimbursements from capital and operating funds based on the final 2023-2024 base budget and overhead rates (-\$2.8 million) and lower transfers and reimbursements to the General Fund (-\$191,837).
<b>Total</b>	<b>(\$ 1,890,706)</b>	

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**Changes from Revised Forecast to Adopted Budget**

From the Revised Forecast of \$1.46 billion, a net increase of \$576.9 million to the General Fund revenue estimates is included in the Adopted Budget, bringing the 2023-2024 revenue estimate to \$2.04 billion (including fund balance). The components of this change include an increase to the estimate for 2022-2023 Ending Fund Balance/2023-2024 Beginning Fund Balance (\$553.3 million) and an increase to various revenue categories (\$23.6 million). The revenue changes are summarized in the table below.

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Beginning Fund Balance	\$ 553,275,408	Net increase of \$553.3 million reflects: the rebudget of 2022-2023 funds for expenditure-related items and unexpended reserves (\$494.8 million); the liquidation of various reserves (\$23.5 million), which includes various Measure E Reserves (\$17.5 million), Fire Station FF&E Reserve (\$3.8 million), 2023-2024 Recruitment Centralization Pilot Program Reserve (\$1.1 million), Solid Waste Code Enforcement Reserve (\$600,000), and Climate and Seismic Resilience Planning Reserve (\$463,000); and fund balance from additional revenue and expenditure savings that is anticipated to be received in 2022-2023 and be available for use in 2023-2024 (\$35.0 million).
Revenue from the State of California	9,210,719	Increase of \$9.2 million primarily reflects eight new State grants and reimbursements that are anticipated to be received in 2023-2024 (\$6.3 million), the largest of which include the CaliforniansForAll Youth Workforce Development Program (\$2.9 million), 280 Almaden Avenue Beautification Improvement Project (\$1.85 million), and CalTrans Clean California Maintenance Agreement (\$750,000). In addition, State grant and reimbursements were rebudgeted from 2022-2023 to 2023-2024 for various programs (\$2.9 million), the largest of which includes the Local Early Action Planning – Housing and Community Development (\$1.2 million).
Revenue from Federal Government	7,391,504	Increase of \$7.4 million primarily reflects federal grant and reimbursements that were rebudgeted from 2022-2023 to 2023-2024 for various programs (\$5.4 million), the largest of which includes the Hazard Mitigation Program (\$1.2 million) and National Sexual Assault Kit Initiative (\$931,733). In addition, seven new federal grants and reimbursements are anticipated to be received in 2023-2024 (\$2.0 million), the largest of which includes the National Sexual Assault Kit Initiative (\$489,136), Urban Areas Security Initiative – Office of Emergency Management (\$403,000), and Byrne Discretionary Community Project (\$401,327).

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**Changes from Revised Forecast to Adopted Budget**

<b>Category</b>	<b>\$ Change</b>	<b>Description</b>
Revenue from Local Agencies	\$ 2,029,232	Increase of \$2.0 million primarily reflects six new local agency grants and reimbursements that are anticipated to be received in 2023-2024 (\$1.7 million), the largest of which includes ESUHSD Community WiFi Network Maintenance (\$941,368) and Stream Stewardship Law Enforcement Program (\$320,000). In addition, local agency grants and reimbursements were rebudgeted from 2022-2023 to 2023-2024 for various programs (\$318,583), including the Tully Road Ballfields Creek Cleanup Project (\$193,760), and Cash for Trash (\$124,823).
Licenses and Permits	1,643,653	Net increase of \$1.6 million reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Planning, Building, and Code Enforcement Department (\$1.0 million), Fire Department (\$610,000), Police Department (\$5,269), and Finance Department (\$20).
Transfers and Reimbursements	1,606,609	Net increase of \$1.6 million reflects additional overhead from budget actions that change the staffing levels funded by special and capital funds (\$1.4 million) and a transfer from the General Purpose Parking Fund for Downtown Ice (\$200,000).
Franchise Fees	1,016,615	Increase of \$1.0 million reflects an increase in the Commercial Solid Waste fees by 7.8% based on cost changes including a Consumer Price Index adjustment.
Other Revenue	489,123	Net increase of \$489,123 reflects three new grants; San Jose Climate Art (\$200,000), Destination Home Silicon Valley (\$180,000), and NASA Nifty (\$2,500), and reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Transportation Department (\$31,623). In addition, a grant was rebudgeted from 2022-2023 to 2023-2024 for Open Society Foundation (\$75,000).
Fees, Rates, and Charges	226,773	Net increase of \$226,773 reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Miscellaneous fee revenue (\$236,834), Parks, Recreation, and Neighborhood Services department fee revenue (\$101,901), Police Department fee revenue (\$168), and Transportation Department fee revenue (-\$107,130). In addition, as directed in the Mayor's June Budget Message for Fiscal Year 2023-2024, library fee revenue was reduced to reflect the elimination of library fines for seniors (-\$5,000).
<b>Total</b>	<b>\$ 576,889,636</b>	