ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2024-2025 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast, however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment that affect the City's revenue collections.

- **Base Case** – The Base Case Forecast is built on the assumption of a slowing economy that still has signs of moderate levels of growth. The local region is anticipated to slightly improve in 2024-2025, with unemployment levels expected to very modestly improve. While inflation has still not returned to pre-pandemic levels, due to the relative slowness of the economy, the Federal Reserve is anticipated to reverse course from the continuous interest rate hikes that were used in the past two years to combat the soaring inflation that was occurring. As interest rates level off and then decline, the real estate market is anticipated to improve. Median home prices have remained high over the past few years, however, activity levels have been declining. With the anticipation of declining mortgage rates, home sale activity levels are estimated to improve, which will positively impact the Real Property Transfer Tax. Property Tax receipts are anticipated to continue to grow, but at a slower rate. Commercial property re-assessments are anticipated to negatively impact Property Tax growth, but due to the timing of re-assessments, that impact is not anticipated until 2025-2026. Other economically sensitive revenue categories, such as Sales Tax and Transient Occupancy Tax revenue are anticipated to have moderate growth throughout the forecast period.

- **Optimistic Case** – The Optimistic Case Forecast assumes that the national economy grows at a faster pace in the Optimistic Case. Higher than forecasted inflation and national and local employment levels signify improved national economic conditions that will trickle down to local economies and, along with higher levels of inflation, result in higher tax revenues than the Base Case. Due to boosted economic activity, housing prices rise to higher levels through the entire forecast period, and higher inflation for a prolong period of time is also expected in the Optimistic Case. These growth factors result in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.

- **Pessimistic Case** – The Pessimistic Case Forecast assumes a longer period of slow growth with a corresponding growth of unemployment rates. Decreases are assumed for several of the key determinants of the City's revenues, including home prices and property sales. These factors further decrease national and local economic activity, which deepens into a recession scenario. However, this scenario does not assume an economic crash at local or national levels. In this scenario, economically sensitive revenues, particularly Property Tax and Sales Tax, are significantly negatively impacted by an economic slowdown.

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Base Case Forecast

As with all forecasts, this General Fund Forecast is based on a series of assumptions regarding the overall economic environment, both 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 City revenues will continue to be closely monitored and any new developments will be factored into the 2024-2025 Proposed Operating Budget, scheduled for release on May 1, 2024.

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

Current National Economic Conditions

As of the timing of this Forecast being released, the U.S. economy remains remarkably resilient despite the prevailing high interest rate environment. One year ago, there were widespread concerns of an impending recession, yet a recession never materialized. Currently, the economy continues to expand at a modestly positive pace, with recent indicators showing no imminent signs of recession. Policy wise, the economy is transitioning from a period of Federal Reserve interest rate hikes to a more stable rate environment, with expectations of rate cuts in the coming months. Although economic growth remains subdued compared to recent historical standards, the latest GDP estimate indicates a 3.3% annual rate, with an overall rate hovering around 2.5% for the past year.

Much of the ongoing economic strength can be attributed to substantial deficit spending by the federal government, injecting billions of dollars into the economy annually. Besides regular social spending, the spending has notably increased investments in alternative energy and infrastructure. However, concerns are rising as deficits approach unsustainable levels, nearing $2 trillion annually. While domestic fiscal and monetary policies remain stable, global uncertainties, particularly the conflicts in Ukraine and the Middle East, pose significant threats to the national economic outlook.

Interest rates have stabilized after a period of significant increases in 2023, aimed at tempering inflation expectations. Despite this, rates remain high, dampening housing market activity. However, inflation rates are showing signs of moderation, primarily due to declining rents, gasoline prices, and wage growth, although food prices remain elevated.

Housing is one of the most critical sectors in the United States economy. Home construction, especially in multifamily units, remains a key strength of the economy, despite recent mortgage rate fluctuations. New factory construction is experiencing a surge, reversing years of sluggish growth, largely attributed to energy and trade policies.

ELEMENTS OF THE GENERAL FUND FORECAST

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Base Case Forecast

The automobile sector, while experiencing a slight downturn in sales, remains resilient with steady month-to-month increases. Sales of new cars and trucks have been in the 15 million per year range down somewhat from the usual 17 million per year annual rate typical for the economy with this low of unemployment.

The technology sector is another critical sector in the United States economy. Venture Capital (VC), the driving force of the technology sector, was sluggish in 2023. Deal values fell to the lowest levels experienced since the end of 2019. Deal activity, however, while still below 2022 levels, has remained relatively strong. Economic pressures on the VC markets may be receding as inflation levels are rescinding and interest rates have stopped increasing. Therefore, in 2024, it is estimated that the VC industry will remain relatively stable. Economic signals point to lessening of economic uncertainty throughout the year, which should help the VC industry find a new level or normalcy moving forward.[1]

Another key driver to the U.S. economy is energy production. The energy sector is one of the backbones of the United States economy, with petroleum accounting for approximately one-third of the nation's energy production. Beginning in 2018, the United States became the top crude oil producer in the world, accounting for 21% of the world's crude oil production in 2022. The second largest producer is Saudi Arabia, who produces 13% of the world's crude oil, and Russia, who produces 10% of the world's crude oil.[2] Prior to the Russian-Ukrainian War, Russia was the second largest crude oil producer in the world.

Crude oil is one of the leading commodity prices that is scrutinized due to its impact on all production process costs and therefore sways the price of consumer goods. In addition, Brent crude oil is the world's leading price benchmark for Atlantic basin crude oils. In 2022, due to the energy supply shortage and concerns over the Russian-Ukraine War, Brent Crude oil average prices reached $100 per barrel. In 2023, prices significantly dropped with an average price per barrel dropping almost $20 and totaling $82 per barrel.[3] Furthermore, in early February 2024, the United States Energy Information Administration stated the Brent crude oil price averaged $80 per barrel in January 2024 due to the heightened uncertainty about global oil shipments as a result of the increased attacks to vessels in the Red Sea. Over the next few months, crude oil prices will likely rise to the mid $80 per barrel range; however, beginning in mid-2024 global oil inventories will likely increase, putting downward pressure on crude oil prices,[4] which will have a dampening effect on domestic economic growth. It is important to note that the ongoing risk of supply disruptions in the Middle East can create the potential for higher oil prices.

National Economic Outlook

United States economic growth is anticipated to slow down enough to mitigate inflationary pressures without precipitating a recession. Inflation and interest rates are anticipated to remain

[1] National Venture Capital Association and PitchBook, Venture Monitor, 4th Quarter 2023
[2] U.S. Energy Information Administration, Independent Statistics and Analysis, Updated September 22, 2023
[3] Statista, Updated January 11, 2024
[4] U.S. Energy Information Administration, Short-Term Energy Outlook, February 2024

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

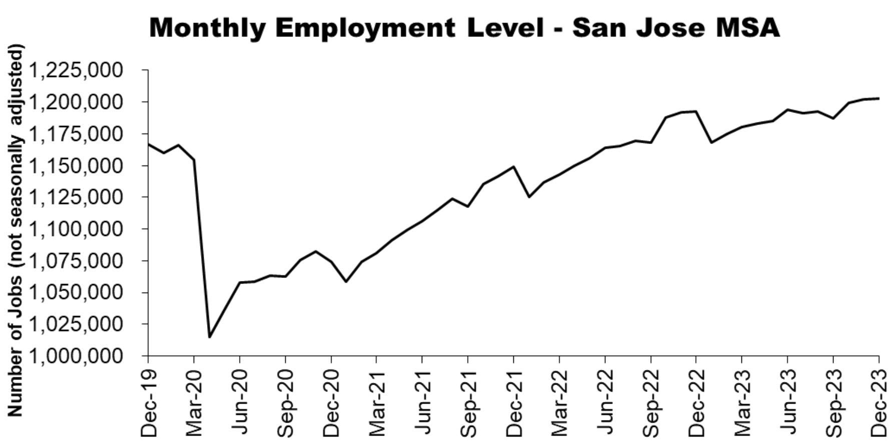
lower compared to recent years, with the lower interest rates anticipated to stabilize the housing sector and bolster the economy's resilience against recessionary pressures. However, despite the absence of a recession, economic growth is anticipated to be sluggish. Gross Domestic Product (GDP) is expected to hover around 1% for most of 2024, then modestly grow to 2% in 2025 and 2026.

As of December 2023, per the U.S. Bureau of Labor Statistics, the national unemployment rate of 3.5% has shown little net movement since early 2023. As a recession is not anticipated to occur, unemployment levels are anticipated to remain low, between 3.5%-4% over the next several years.

On a national level, consumer confidence increased in December after experiencing a decline in November. According to Dana Peterson, Chief Economist at The Conference Board, "December's increase in consumer confidence reflected more positive ratings of current business conditions and job availability, as well as less pessimistic views of business, labor market, and personal income prospects over the next six months."[5]

Current City of San José Economic Conditions

While Silicon Valley continues to show an overall positive economic performance, there are several areas that have shown signs of concern. Over the last year, layoff notices in the technology sector were consistently being publicized, indicating a slowdown in Silicon Valley's economy. In addition, due to interest rates consistently raising, transactions in the local real estate market have been sluggish.



The December 2023 employment level of 1.20 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 10,500 jobs, or 0.9%, from the December 2022 level of 1.19 million. This increase includes private education and health services adding 10,900 jobs; leisure and hospitality growing by 8,500 jobs; manufacturing decreasing by 3,600 jobs; the information sector eliminating 3,500 jobs; construction dropping 2,600 jobs, and financial activities decreasing by 2,400 jobs.[6]

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[5] The Conference Board, Consumer Confidence Survey, December 2023.

[6] State of California Employment Development: Labor Market Information Division Press Release, January 19, 2024.

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Base Case Forecast

Unemployment Rate (Unadjusted)			
	Dec. 2022	Nov. 2023	Dec. 2023**
San José Metropolitan Statistical Area*	2.4%	3.9%	4.0%
State of California	3.9%	4.9%	5.1%
United States	3.3%	3.5%	3.5%

* San Benito and Santa Clara Counties Source: California Employment Development Department.
** December 2023 estimates are preliminary and may be updated.

The local unemployment rate for December 2023 was 4.0%, which is slightly higher than the November 2023 rate of 3.9% and is significantly higher than the prior year unemployment rate of 2.4%. While the December 2023 San José Metropolitan Statistical Area unemployment rate continues to be lower than the unadjusted unemployment rate for the State (5.1%), it is higher than the national rate (3.5%).

Overall construction activity through December 2023 decreased 8.7% from prior-year levels primarily due to activity for the commercial and industrial land use categories experiencing significant year-over-year decreases. The year-over-year decrease would be more prominent if it were not for the significant increase in residential construction, which is showing a 90.8% increase when compared to the prior year. The 2023-2024 Adopted Budget was developed with the expectation that development activity would increase slightly from the levels experienced in 2022-2023. If current trends continue, construction activity would underperform the activity projected by the Planning, Building and Code Enforcement Department in the 2024-2028 Five-Year Forecast, which was released in February 2023. The Planning, Building and Code Enforcement Department has updated development activity outlook with further modest decreases anticipated through 2028-2029, as included in *Appendix D, Development Activity Highlights*.

Private Sector Construction Activity (Valuation in $ Millions)			
	YTD December 2022	YTD December 2023	% Change
Residential	$ 121.4	$ 231.7	90.8%
Commercial	$ 363.6	$ 221.0	(39.2%)
Industrial	$ 184.7	$ 159.0	(13.9%)
	$ 669.8	**$ 611.8**	**(8.7%)**

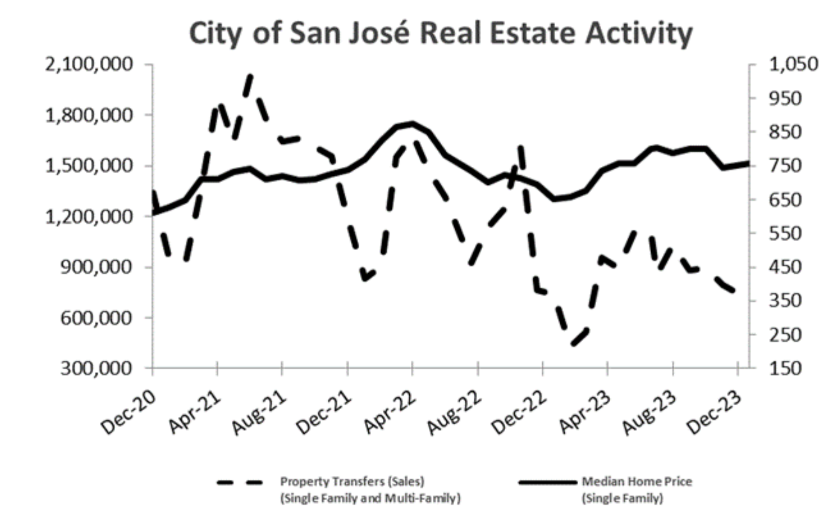
Through December, residential permit valuation has increased 90.8% from prior-year levels, primarily driven by a 137% increase in new construction ($156.2 million in 2023-2024 from $65.9 million in 2022-2023). Residential activity through December included 739 multi-family units and 241 units of single-family construction for a total of 980 units (45% increase). Notable projects for November and December include permits for a 64-unit affordable residential project located on North Bascom Avenue, near the intersection with Heatherdale Avenue, a 90-unit 100% affordable residential project located on Race Street, between West San Carlos Street and Park Avenue, and an 81-unit 100% affordable project including 17,000 square feet of social services (Parkmoor Hub Youth Center) located at the corner of Parkmoor Avenue and Meridian Avenue.

Commercial valuation through December 2023 was 39.2% lower than the 2022-2023 level, led by a 62% drop in new construction ($50.4 million in 2023-2024 from $131.1 million in 2022-2023). Alterations accounted for 77% ($170.6 million) of the commercial activity through December. A notable project for November and December includes a permit issued for a new service station located on Evergreen Loop, west of East Capital Expressway.

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Industrial construction valuation through December was 13.9% lower than prior-year levels. Alterations accounted for 80% of activity through December ($127.8 million).



According to data from the Santa Clara County Association of Realtors, in December 2023, the median single-family home price totaled $1.5 million, which is 16.5% above the December 2022 price of $1.3 million. In addition, these more expensive homes are selling at a quicker rate. The average days-on-market through December 2023 totaled 19 days, while the average days through December 2022 totaled 25 days. Conversely, through the first half of the fiscal year, property transfers have fallen almost 20% from the prior year's level. On a positive note, the pace of decline has lessened, with November and December transactions showing only single digit percentage declines, as opposed to double digit year-over-year drops over the prior year.

City of San José Economic Outlook

Similar to the outlook regarding the national economy, the local economy is anticipated to continue growing, but at a more moderate level. The initial forecast period is anticipated to have lower growth rates compared to the later years of the forecast; however, a recession is not anticipated. As mentioned earlier in this document, unemployment levels have risen. Unemployment may continue to slightly raise over the next year; despite this, the forecast assumes increasing employment levels and overall low unemployment rates. An area of growing concern impacting the local area is the declining population of San José and surrounding areas. According to the State of California, San José's population has continuously declined over the past several years. There are multiple plausible explanations for this trend of declining population, but likely scenarios include the high cost of living and the significant congestion impacting the Bay Area. If this negative growth trajectory persists, the City's future revenue streams may be significantly impacted. This forecast assumes a minimal population decline for the entire forecast horizon, though, population levels will continue to be closely monitored.

Many policies and decisions made at the national level significantly influence the local economy. In order to combat extremely high inflation rates, the Federal Reserve has consistently increased interest rates. However, as inflation has decreased, it is anticipated interest rate hikes will cease and the Federal Reserve will likely drop interest rates several times over the next year, which will positively impact real estate activity. As discussed, the local real estate market has continued to experience high home values; however, activity levels have been dropping. With interest rates dropping, mortgage rates will follow and this decline will positively impact the local real estate market.

Taken together, the City's revenues are anticipated to grow moderately over the five-year forecast period among economically sensitive revenues such as Property Tax, Sales Tax, Business Tax, and Transient Occupancy Tax receipts.

Optimistic Case Forecast

The Optimistic Case Forecast assumes that the national economy grows at a faster pace than the Base Case. The Consumer Price Index (CPI) increases more than expected and improved national economic conditions help the local economy, which results in better revenue than the Base Case. As a result, almost all tax revenues will increase, with the exception of Gas Tax revenue.

Higher than forecasted inflation and national and local employment levels are key variables for this Optimistic Case. These variables will signify improved national economic conditions that will trickle down to local economies and result in higher tax revenues than the Base Case. Sales Tax revenues benefit greatly from both employment levels and inflation being at higher levels, as higher prices at the retail level translates directly into higher tax collections. Revenue from the Transient Occupancy Tax continue to marginally rise in the Optimistic Case. The higher inflation assumption promotes increases in room rates while the increased levels of economic activity in Optimistic Case increases occupancy rates. Rising room prices and occupancies lead directly to higher revenues for hotels, resulting in increased tax collections. In addition, Utility Tax and Franchise Fees rise moderately above the Base Case. These increases arise from the higher rate of inflation, which causes utility rates to rise, and the increasing levels of economic activity, which increases usage. The most significantly impacted is electricity related revenues, which rise faster than gas and water. However, Gas Tax revenue is lower in the Optimistic Case due to rising inflation increasing gasoline prices, which lowers gasoline consumption. Since the Gas Tax is a per gallon tax, lower consumption results in less tax revenues.

Pessimistic Case Forecast

The Pessimistic Case Forecast assumes a longer period of slow growth compared to the Base Case Forecast. With already low local employment growth rates, the Pessimistic Case assumes ongoing layoffs from Silicon Valley companies, which raises the possibility of slipping into negative employment growth for the local economy and translates into lower economic activity. In the Pessimistic Case, the housing market will show a significant drop of home prices, as well as lower activity levels. These slowing economic activities will have a compounding impact on other revenues in the Pessimistic Case.

Revenue from Property Tax experiences marginal growth from 2024-2025 through 2026-2027 before slowly rebounding in the final two years of the Forecast. One aspect of Property Tax, which sets it apart from other revenues, is that it is much slower to recover from declines as there is a

Pessimistic Case Forecast

long lead time from when real estate conditions improve to when these improvements are translated to higher assessments and then show up as property tax collections. Sales Tax revenue is also lower in the Pessimistic Case due to a combination of lower economic activity and a significant reduction in inflation.

In the Pessimistic Case, the Transient Occupancy Tax revenues show slower growth in the out-years than it does in the Base Case. Weaker economic activity causes a low inflation rate which suppresses room rates, and a slightly lower number of new hotel rooms coming online than the Base Case. Utility Tax and Franchise Fees also show lower growth than the Base Case. These taxes, particularly for electricity and gas, decline with the lower levels of economic activity expected in this scenario. Gas Tax revenues are higher in the Pessimistic Case scenario due to the decline of oil prices. Lower oil prices reduce gas prices, which leads to greater quantities of gasoline consumption in this scenario. The Gas Tax is collected on a per gallon basis, so more gallons sold translates into higher tax collections.

Impact of Forecasted Economic Conditions on Revenue Collections

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

An in-depth analysis of the General Fund revenue categories was completed to develop 2024-2025 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2023-2024 and build upon those projections to develop the 2024-2025 revenue estimates. These estimates are based on the Base Case Forecast economic scenario described in this section. These revenue estimates will be closely examined and updated again during the preparation of the 2024-2025 Proposed Operating Budget scheduled to be released on May 1, 2024.

Elements of The General Fund Forecast

Revenue Forecast

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown from $1.5 billion in 2024-2025 to $1.8 billion in 2028-2029.

General Fund 2025-2029 Forecast
Revenue Summary

	Modified Budget	Forecast				
General Fund Revenue Category	**2023-2024**	**2024-2025**	**2025-2026**	**2026-2027**	**2027-2028**	**2028-2029**
General Revenues						
Property Tax	473,900,000	492,000,000	510,844,000	531,686,000	553,751,000	576,123,000
Sales Tax	336,400,000	344,000,000	357,588,000	369,603,000	381,061,000	395,007,000
Transient Occupancy Tax	16,000,000	16,000,000	16,645,000	17,314,000	17,916,000	18,651,000
Real Property Transfer Tax	50,000,000	50,000,000	55,000,000	60,000,000	65,000,000	70,000,000
Franchise Fees	51,825,008	54,445,008	57,684,000	60,517,000	63,373,000	66,282,000
Utility Tax	126,550,000	136,000,000	145,670,000	154,322,000	162,964,000	171,765,000
Telephone Line Tax	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000
Business Tax	87,500,000	87,000,000	88,383,000	89,815,000	90,318,000	90,725,000
Licenses and Permits	21,803,666	21,314,491	22,057,000	22,823,000	23,781,000	24,646,000
Fees, Rates, and Charges	24,369,280	24,540,915	25,396,000	26,277,000	27,381,000	28,377,000
Fines, Forfeitures and Penalties	15,080,000	16,804,797	16,709,000	16,458,000	16,345,000	16,232,000
Revenue from Money and Property	18,364,000	18,735,000	19,344,000	20,214,000	21,124,000	22,180,000
Revenue from Local Agencies	22,014,607	17,586,268	18,003,000	18,460,000	18,941,000	19,429,000
Revenue from the State	41,027,677	13,100,000	13,100,000	13,100,000	13,100,000	13,100,000
Revenue from Federal	12,123,181	0	0	0	0	0
Other Revenue	11,900,598	8,738,147	8,821,000	8,894,000	8,967,000	9,042,000
Gas Tax	17,000,000	18,400,000	18,472,000	18,025,000	17,286,000	16,421,000
Total General Revenues	**1,347,858,017**	**1,340,664,626**	**1,395,716,000**	**1,449,508,000**	**1,503,308,000**	**1,559,980,000**
Transfers & Reimbursements						
Overhead Reimbursements	78,154,889	85,507,381	88,487,000	91,558,000	95,402,000	98,872,000
Transfers	32,410,621	31,567,807	33,634,000	35,091,000	35,865,000	37,127,000
Reimbursements for Services	831,102	827,186	856,000	886,000	923,000	956,000
Total Transfers & Reimbursements	**111,396,612**	**117,902,374**	**122,977,000**	**127,535,000**	**132,190,000**	**136,955,000**
Total General Fund Revenues	**1,459,254,629**	**1,458,567,000**	**1,518,693,000**	**1,577,043,000**	**1,635,498,000**	**1,696,935,000**
Beginning Fund Balance	639,359,298	85,174,000	82,412,000	84,877,000	88,126,000	91,359,000
Grand Total Sources	**2,098,613,927**	**1,543,741,000**	**1,601,105,000**	**1,661,920,000**	**1,723,624,000**	**1,788,294,000**

Understanding the basis for the revenue estimates included in this Forecast requires a discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2025-2029 General Fund Forecast.

Elements of The General Fund Forecast

Revenue Forecast

Property Tax

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. In 2023-2024 Property Tax receipts of $474.0 million are projected, which is consistent with the modified budget estimate, and is $25.0 million (5.6%) above the 2022-2023 actual collection level of $449.0 million. In 2024-2025, Property Tax receipts are anticipated to total $492.0 million, which reflects overall growth of 4% from estimated 2023-2024 levels. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Taxes account for over 90% of the revenues in this category. The Secured Property Tax category includes general Secured Property Tax, Educational Revenue Augmentation Fund (ERAF) revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax. In 2023-2024, Secured Property Tax receipts are anticipated to total $444.0 million, including $379.0 million in general Secured Property Taxes, $41.0 million in ERAF revenue, and $24.0 million from SARA Residual Property Tax receipts. In 2024-2025, Secured Property Tax receipts, which will be based on real estate activity through December 31, 2023, are expected to increase by 5% to $465.0 million.

The general Secured Property Tax receipts are estimated at $379.0 million in 2023-2024, which is 6.4% above the 2022-2023 collection level. This growth reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2%, and increased valuation due to changes in ownership or new construction. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. On a County-wide basis, the 2023-2024 roll growth was driven primarily by changes in ownership (52.1%), changes in the CCPI (19.8%), and new construction (16.5%).

In 2024-2025, the general Secured Property Tax receipts are estimated to grow by 5.5% to $400.0 million, reflecting a 2.0% CCPI and 3.5% increased valuation. The CCPI adjustment for the 2024-2025 tax roll is 2.0%, which is consistent with the prior year level. In addition, even though the activity within the local real estate market has slowed down, residential sale prices continue to be high, which will continue to be a positive factor driving growth in this category, albeit at a more moderate level. In calendar year 2023 the average median single-family home price in the City of San José totaled $1.5 million, which was consistent with the calendar year 2022 average median single-family home price. However, the number of single-family and multi-family sales transactions dropped over 28% in calendar year 2023; down by 2,001 sales from 2022's level of 7,089 sales. Moving into 2024, home prices are anticipated to remain high, and with interest rates anticipated to slightly drop, activity levels may improve, resulting in a stronger residential real estate market. The commercial sector, however, is expected to weaken in the future and will exert some downward pressure within this category.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

In addition to the changes in assessed value, Secured Property Tax collections are impacted by excess ERAF revenue. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. In 2023-2024 ERAF receipts are estimated at $41.0 million, which is 8.6% above the 2022-2023 collection level of $37.7 million. After the City receives the ERAF payment from the County in March, the 2023-2024 estimate may be revised with the release of the 2024-2025 Proposed Operating Budget. In 2024-2025 ERAF revenue is estimated at $40.0 million. This figure anticipates slight growth, offset by the anticipated passage of new legislation that is included in the State of California's Budget that would revise the ERAF calculation, resulting in an approximately $3 million decrease to previously expected ERAF receipts. It is important to note, however, that 22% of ERAF revenue is at risk on both an ongoing basis beginning in 2024-2025 ($8 million annually) and a claw back to 2020-2021 ($33 million) due to an anticipated audit from the State Controller's Office that will challenge the ERAF calculation used by Santa Clara County. The County has preemptively filed litigation to dispute the actions taken by the State Controller, however, a decision on this litigation is not likely to occur until after this fiscal year.

The final component of the Secured Property Tax category is the SARA Residual Property Tax receipts. As a result of the SARA bond refunding that occurred in December 2017, the City receives a residual property tax distribution. In 2023-2024, SARA Residual Property Tax receipts are estimated to total $24.0 million, which is 7.3% above the 2022-2023 receipts. In 2024-2025, SARA Residual Property Tax receipts are anticipated to grow 5% from 2023-2024 collections and total $25.0 million.

It should be noted that final data on the actual tax levy for 2024-2025 is not yet available as adjustments are made through June 30, 2024. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Some of the adjustments, however, are not reflected until the latter months of a given fiscal year, such as the reassessments of commercial property, which may experience a spike in activity due to a softening commercial real estate market. As updated information becomes available, refinements to the Property Tax estimates may be brought forward during the 2024-2025 budget process.

Unsecured Property Taxes are the second largest revenue source in this category. Changes in this category are driven primarily by increases or decreases in the value of personal property (e.g., equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through January and information provided by Santa Clara County, Unsecured Property Tax receipts are estimated at $17.0 million in 2023-2024, which is 6.4% above the prior year collection level of $16.0 million. In 2024-2025 Unsecured Property Taxes are estimated to drop by approximately 10% and total $15.0 million.

Elements of The General Fund Forecast

Revenue Forecast

Property Tax

For the other Property Tax categories, collections are estimated at $13.0 million in 2023-2024 and $12.0 million in 2024-2025. SB 813 Property Tax receipts are estimated at $7.1 million in 2023-2024 and $6.0 million in 2024-2025; Aircraft Property Tax receipts are estimated at $5.0 million in 2023-2024 and 2024-2025; and Homeowners Property Tax Relief revenue are anticipated to total approximately $900,000 in 2023-2024 and $1.0 million in 2024-2025.

In the out-years of the Forecast, receipts are projected to increase by 3.8% to 4.2% annually over the five-year period, primarily reflecting the modest economic environment and the downside risk of lower valuations among the commercial sector. A portion of this growth is due to an estimated 2% CCPI increase annually.

Sales Tax

As shown in the following table, the City receives 1.25% of the 9.375% Sales Tax collected for items sold in San José. The distribution percentage includes a 0.25% local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years). The City also receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected State-wide.

Agency	Distribution Percentage
State of California	5.500%
City of San José	1.000%
City of San José (Local Tax)	0.250%
Public Safety Fund (Proposition 172)	0.500%
Santa Clara County (Including VTA)	2.000%
Total	**9.375%**

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. Information related to Sales Tax payments are distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity); February (representing October-December activity); May (representing January-March activity); and August (representing April-June activity). Based on information received through February 2024 (which reflects two quarters of Sales Tax activity; from July 2023 through December 2023), it is anticipated that 2023-2024 Sales Tax revenue will total $333.0 million. The 2023-2024 Sales Tax estimate is 3% below the prior year receipts of $343.5 million, which is reflective of the slowdown in the economy. In 2024-2025, the economy is anticipated to rebound slightly resulting in Sales Tax growing by 3.3% to $344.0 million. Additional information about each of the Sales Tax sub-categories is provided below.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

General Sales Tax is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 2023 and February 2024; both quarters declined from the prior year (-0.7% and -10%, respectively), reflecting a slowdown of the economy. Receipts are anticipated to be suppressed for the remainder of the year, therefore third quarter receipts (which will be received in May 2024) are estimated to decline 4%, and the final quarter of 2023-2024 is anticipated to decline 2% from the same time period in 2022-2023. Based on these assumptions, General Sales Tax collections are anticipated to total $267.0 million in 2023-2024, which reflects an overall decrease of 3.8% from the 2022-2023 collection level.

Information regarding the second quarter payment, which reflected a 10% decrease compared to the prior year, is not available by category. However, based on the first quarter payment (-0.7% year-over-year) categories that decreased included Transportation (-7.9%), Construction (-5.6%), and General Retail (-3.1%). Partially offsetting these drops, categories that increased included Business-to-Business (13.4%) and Food Products (3.4%). In addition, the County Pool, which is where the majority of online transactions are captured, declined in the first quarter (-20.7%). The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 45% - 50% of the total County Pool.

In 2024-2025, General Sales Tax is anticipated to grow between 1%-6% per quarter compared to the prior year receipts for the same time period. Overall, in 2024-2025, General Sales Tax revenue is estimated at $276.0 million; reflecting growth of approximately 3.5%.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 45% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

Similar to General Sales Tax, Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and for the second quarter (sales tax activity from October-December) were received in November 2023 and February 2024; both quarters declined from the prior year (-1.1% and -3.2%, respectively), reflecting a slowdown of the economy. For the remainder of the year, third quarter receipts (which will be received in May 2024) are estimated to grow by 1% and the final quarter of 2023-2024 is anticipated to grow by 3% from the same time period in 2022-2023. Based on these assumptions, Local Sales Tax collections are anticipated to total $58.0 million in 2023-2024, which is consistent with the prior year collection level.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

In 2024-2025, Local Sales Tax is anticipated to grow between 3%-5% per quarter compared to the prior year receipts for the same time period. Overall, in 2024-2025, Local Sales Tax revenue is estimated at $60.0 million; reflecting growth of approximately 3.5%.

Proposition 172 Sales Tax collections (representing the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total $8.0 million in 2023-2024 and 2024-2025.

In the out-years of the Forecast, Sales Tax receipts are projected to increase by 3.1% to 4.0% annually over the five-year period.

Transient Occupancy Tax

In 2023-2024, Transient Occupancy Tax (TOT) receipts in the General Fund (which represent 40% of the total tax) are estimated to reach $15.0 million, which is fairly consistent with the 2022-2023 collection level. In 2024-2025, TOT revenue is anticipated to grow slightly to $16.0 million, which is still significantly below the pre-pandemic annual collections of approximately $20 million.

Based on December 2023 data, the cumulative average hotel occupancy rate reported for the San José market was 64.21%, a slight increase from the average of 64.01% through the same period in 2022-2023. The average daily room rate increased slightly (0.6%), from $158.67 as of December 2022 to $159.58 as of December 2023; and the year-to-date average revenue-per-available room (RevPAR) increased by 0.89%, from $101.57 to $102.47, relative to the same period in 2022-2023.

The 2025-2029 General Fund Forecast assumes TOT receipts will total $16.0 million in 2024-2025 and increase by 3.5% to 4.1% annually in the out-years of the Forecast. These estimates incorporate the City's internal review of available data, along with information received from the City's consultants and forecasted economic and convention performance.

Since TOT projections in the General Fund also drive corresponding revenue estimates in the TOT Fund – which in turn allocates revenues by Municipal Code formula to support the City's cultural arts programs, the operation of the Convention Center and other cultural facilities managed by Team San Jose, and the San Jose Convention and Visitors Bureau – taking a relatively conservative approach in this Forecast should allow for a more predictable spending baseline within the TOT Fund. The Administration will continue to monitor hotel activity and revise the current and future forecasts based on updated information, as appropriate.

Elements of The General Fund Forecast

Revenue Forecast

Real Property Transfer Tax

On March 3, 2020, San José voters approved Measure E, the Real Property Transfer Tax. This new tax, which became effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over $2.0 million. In accordance with City Policy 1-18, Section 22, this tax revenue is allocated for the development of new affordable housing, homeless prevention, and homelessness support programs.

In 2023-2024 collections are projected at $45.0 million, which is significantly below the prior year collections of $56.3 million. While the number of real estate transactions have experienced year-over-year increases compared to 2022-2023, fewer high-value commercial property transfers have occurred, resulting in the significant estimated year-over-year decline in collections. The Real Property Transfer Tax is significantly impacted by high dollar commercial property transactions, if those sales decrease, the tax revenue is impacted. In 2024-2025, transactions are anticipated to continue growing slightly, pushing up collections up slightly to $50.0 million. In the out-years of the Forecast, Real Property Transfer Tax collections are anticipated to increase annually as the real estate market rebounds, particularly commercial properties. In the out-years of the Forecast, Real Property Tax receipts are projected to increase from $50.0 million to $70.0 million over the five-year period.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, City-Generated Tow, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at $50.9 million in 2023-2024, which are 13.6% above the prior year receipts of $44.8 million. In 2022-2023 PG&E changed their timing of Electric and Gas Franchise Fee payments. Previously, PG&E provided 3 advance payments and then a clean-up payment for these franchise fees; however, under the new system PG&E only provides one payment per year, based on the calendar year. As a result of this timing change, no Electric or Gas Franchise Fee information is known until April of each year.

In the **Electricity Franchise Fee** category, collections in 2023-2024 are anticipated to reach $22.0 million, which is significantly above the prior year receipt of $17.0 million. This increase is due to the changing of the timing of PG&E's franchise fee payments in 2022-2023. In 2024-2025, the Electricity Franchise Fee category is estimated to grow to $25.0 million.

In the **Gas Franchise Fee** category, collections in 2023-2024 are estimated at $7.5 million, which is 7.4% above the prior year receipt of $7.0 million. This increase is due to the changing of the timing of PG&E's franchise fee payments. In 2024-2025, the Gas Franchise Fee category is estimated to grow to $8.0 million; however, it is important to note, that receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

Elements of The General Fund Forecast

Revenue Forecast

Franchise Fees

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach $14.0 million in 2023-2024, 7.5% above the prior year collections, which is primarily due to the 2023-2024 CPI-based increase. Collections reflect the revised methodology for assessing this fee that became effective July 1, 2012. On October 19, 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure is a base of $5 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District. This revised structure is subject to an annual increase based on the percentage change in the CPI rate during the prior two calendar years. It should be noted that this increase is not automatic, and is subject to City Council approval each year. Therefore, the 2024-2025 estimate of $14.0 million is consistent with the 2023-2024 estimate and does not automatically assume a CPI adjustment. This adjustment will be brought forward as a proposed change in the 2024-2025 Proposed Operating Budget.

In the **Cable** Franchise Fee category, collections in 2023-2024 and 2024-2025 are estimated at $7.0 million, which is 6.3% below the $7.5 million received in 2022-2023.

Remaining franchise fees include **City Generated Tow, Great Oaks Water, and Nitrogen Gas Pipeline**. City Generated Tow receipts are estimated at $40,000 in 2023-2024 and 2024-2025, Great Oaks Water receipts are estimated at $280,000 in 2023-2024 and $300,000 in 2024-2025, and Nitrogen Gas Pipeline receipts are estimated at $85,000 in 2023-2024 and 2024-2025.

In the out-years of the Forecast, Franchise Fee receipts are projected to increase by 4.6% to 6.0% annually over the five-year period. However, it is important to keep in mind that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels.

Elements of The General Fund Forecast

Revenue Forecast

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2023-2024 are anticipated to total $128.7 million, which is 3.5% above the 2022-2023 collection level of $124.3 million. This increase is due to higher usage and increased rates, primarily related to the Electricity and Gas Utility Tax categories. In 2024-2025, Utility Tax collections are projected at $136.0 million. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases; however, it does take into account changes already approved. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

The **Electricity Utility Tax** is anticipated to generate $72.0 million in 2023-2024 and grow by 5% to $76.0 million in 2024-2025. This increase is anticipated due to electricity rate increases, which will drive up Electricity Utility Tax receipts. As rates have been consistently increasing for several years, however, customers may begin decreasing consumption. The Administration will continue to monitor Electricity Utility Tax receipts and revise estimates based on updated information, as appropriate.

The **Gas Utility Tax** is anticipated to generate $16.0 million in 2023-2024 and grow by approximately 5% to $17.0 million in 2024-2025. This increase is anticipated due to gas rate increases, which will drive up Gas Utility Tax receipts. As rates have been consistently increasing for several years, however, customers may begin decreasing consumption. The Administration will continue to monitor Gas Utility Tax receipts and revise estimates based on updated information, as appropriate.

Based on current year collection levels, **Water Utility Tax** receipts of $23.0 million are anticipated to be received in 2023-2024. In 2024-2025, water rates are anticipated to rise, therefore Water Utility Tax receipts are estimated at $25.0 million, which reflects a 7.5% increase from the 2023-2024 anticipated collection level.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Receipts in 2023-2024 are projected at $17.7 million, a 2% drop from the 2022-2023 collection level. In 2024-2025, receipts are projected to remain fairly flat and total $18.0 million. The Telephone Utility Tax category has experienced continuous declines as a result of wireless consumers shifting to less expensive prepaid wireless plans, competition with cellular companies that keep prices down, and that the data component of wireless plans not being taxable.

In the out-years of the Forecast, Utility Tax receipts are projected to increase by 5.4% to 7.1% annually over the five-year period. However, it is important to note that there is significant volatility and uncertainty regarding the performance in this category based on potential changes in rates and consumption levels. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts (excluding compliance revenue) in 2023-2024 and 2024-2025 are estimated to total $22.0 million. Given the steady nature of collections in this category, receipts are anticipated to remain flat in the out-years of the Forecast as well.

Business Taxes

This category includes Cannabis Business Tax, Cardroom Business Tax, Disposal Facility Tax, and General Business Tax. Business Taxes are estimated to reach $87.0 million in 2023-2024, a 2.9% decrease from prior year levels, which is primarily due to decreased General Business Tax revenue. In 2024-2025, Business Taxes revenues are anticipated to remain flat at $87.0 million.

Cannabis Business Tax collections began after San José voters approved Ballot Measure U on November 2, 2010, which allowed the City to tax marijuana businesses. Further, in November 2016, the California Marijuana Legalization Initiative (Proposition 64) was approved by voters, which legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at licensed dispensaries began in San José in January 2018. Based on current collections, it is anticipated Cannabis Business Tax receipts will total $16.0 million in 2023-2024, which includes $1.0 million in compliance revenue. In 2024-2025 receipts are projected at $15.0 million as compliance revenue isn't budgeted on an ongoing basis due to its inconsistent collection level.

Cardroom Business Tax receipts are estimated at $30.0 million in 2023-2024 and 2024-2025, which is consistent with the 2022-2023 collections of $29.9 million. The estimates for Cardroom Tax receipts are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021.

Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream can vary due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. Based on current collection trends, 2023-2024 DFT collections are estimated at $13.0 million, which is slightly below the 2022-2023 collection level of $13.3 million. In 2024-2025, receipts are anticipated to remain flat at $13.0 million.

Beginning in 2017-2018, **General Business Tax** collections reflect the modernization of the San José business tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017. The adjustments to the business tax included increasing the base tax, increasing the incremental tax and making it more progressive, increasing the cap (the maximum amount of the tax affecting large businesses), updating the application of the tax to more classes of business, and adding inflation-based adjustments for future tax rates. In 2023-2024, General Business Tax proceeds are anticipated to reach $28.0 million, which is 6% below the 2022-2023 collection level of $29.8 million. In 2024-2025, General Business Tax revenue is anticipated to grow slightly (2%) from the 2023-2024 estimate and total $29.0 million.

In the out-years of the forecast, Business Tax receipts are projected to increase by 0.5% to 1.6% annually over the five-year period.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Licenses and Permits and Fees, Rates, and Charges

The Licenses and Permits and Fees, Rates, and Charges categories contain non-development fees and charges collected by various departments. These fees are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. The Licenses and Permits category is estimated to total $21.3 million in 2023-2024 and 2024-2025. The Fees, Rates, and Charges category is estimated to total $24.5 million in 2023-2024 and 2024-2025. In the out-years of the Forecast, both the Licenses and Permits and Fees, Rates, and Charges categories are expected to experience annual growth ranging from 3.5% to 4.2%. The growth rates in the out-years are tied to the expected increases in personnel costs, which the fees are designed to recover, including salary, retirement, and health costs.

Fines, Forfeitures and Penalties

The Fines, Forfeitures and Penalties category is expected to generate $16.3 million in 2023-2024 and $16.8 million in 2024-2025. The largest component of this revenue category is Parking Fines, which are expected to generate approximately $11.0 million in 2023-2024 and $11.5 million in 2024-2025. In the out-years of the Forecast, Fines, Forfeitures and Penalties receipts are projected to decrease by -0.6% to -1.5% annually over the five-year period.

Revenue from the Use of Money and Property

The Revenue from the Use of Money and Property category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, interest income, and small cell lease revenue. Overall revenue in this category is anticipated to generate $19.0 million in 2023-2024 and drop slightly to $18.7 million in 2024-2025, primarily due to slightly less interest earnings on the General Fund due to the partial spend down of accumulated balances. In the out-years of the Forecast, Revenue from the Use of Money and Property receipts are projected to increase by 3.3% to 5.0% annually over the five-year period.

Revenue from Local Agencies

In 2023-2024, revenue of $22.8 million is projected from other local agencies, such as the Central Fire District payment for fire services provided to County residents by the San José Fire Department, the County of Santa Clara payments for the Paramedic Program and Senior Nutrition, and the Valley Transportation Authority reimbursement for police services at the Berryessa BART station. In 2024-2025, revenue in this category is projected at $17.6 million, which is $5.3 million below the 2023-2024 estimate. The decrease in 2024-2025 revenue is primarily due to reimbursements and grants that are not secured on an ongoing basis being eliminated.

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on information provided by the Central Fire District, payments of $9.7 million are anticipated in 2023-2024 and payments of $9.9 million are anticipated in 2024-2025.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue from Local Agencies

The Forecast assumes reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program), which totals $3.3 million in 2023-2024 and 2024-2025. Funding for the Paramedic Program includes the equipment reimbursement component (Annex B, Category A funds; $1.7 million) and service-related component (Annex B, Category B funds; $1.6 million). In addition, the Forecast assumes reimbursement from the Valley Transportation Authority for police services at the Berryessa BART station, which totals $2.2 million in 2023-2024 and 2024-2025.

In the out-years of the Forecast, Revenue from Local Agencies receipts are projected to increase by 2.4% to 2.6% annually over the five-year period.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach $13.1 million in 2024-2025 and remain flat through the out-years of the Forecast.

Tobacco Settlement payments account for the majority of revenue in this category and are estimated at $10.7 million in 2024-2025, which is consistent with the amount projected for 2023-2024. The remaining State grants and reimbursements total $2.4 million in 2024-2025, with the largest reimbursements for the Vehicle License Fees Collection in Excess ($1.0 million), Auto Theft program ($800,000), Abandoned Vehicles Abatement program ($500,000), and Highway Maintenance Charges ($100,000). Vehicle License Fees Collection in Excess account for the Vehicle License Fee revenues that are collected by the Department of Motor Vehicles as a result of certain compliance procedures that are equally apportioned to counties and cities on a population basis.

Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues. In 2024-2025 and the out-years of the Forecast, there is no funding assumed for this revenue category.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including cost reimbursements for the Investment Program, payments from Comcast and AT&T required under the Franchise Agreement, and payments for Sidewalk Repairs. In 2023-2024, this category is expected to generate $11.1 million and the 2024-2025 estimate totals $8.7 million. The 2024-2025 Other Revenue estimate assumes the continuation of current year activity levels with revisions, where appropriate, for 2024-2025 costs or agreements and the elimination of one-time funding sources. In 2024-2025, Sidewalk repair services are estimated at $2.5 million (which has an expenditure offset in City-Wide Expenses).

Other Revenue

In addition, payments from Comcast and AT&T are estimated at $1.4 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities; associated City-Wide Expenses appropriations are also allocated for this purpose. Finally, the cost reimbursement for the Investment Program as administered by the Finance Department is estimated at $1.0 million based on the current allocation of staff to this function.

In the out-years of the Forecast, Other Revenue receipts are projected to increase by 0.8% to 1.0% annually over the five-year period.

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2023-2024 are projected to reach $18.0 million, which is 4.7% above the prior year actuals. This increase reflects increased gas consumption; in addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In 2024-2025, collections are estimated to increase by 2% to $18.4 million. In the out-years of the Forecast, due to a combination of changing fuel prices, increased use of fuel-efficient or hybrid vehicles, and the increased use of electric vehicles, collections are expected to experience changes ranging from -5.0% to 0.4% annually over the five-year period.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2024-2025, a total of $85.5 million in overhead reimbursements are projected based on 2024-2025 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2024-2025 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual growth ranging from 3.6% to 4.3% is assumed, reflecting increases in costs, which the overhead rate is designed to recover, including increased personal services costs.

Transfers

The Transfers category is projected at $31.6 million in 2024-2025. The largest component of the Transfers category is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs ($20.8 million). Additional large transfers programmed for 2024-2025 include the Construction and Conveyance Tax Fund transfer ($3.4 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($1.75 million) for general use and pavement maintenance activities; the General Purpose Parking Fund ($619,000); and the transfer from the Convention and Cultural Affairs Fund ($271,000) for reimbursement of City oversight of the fund. In the remaining years of the Forecast, annual increases range from 3.6% to 4.3%. The reimbursement from the Airport Maintenance and Operation Fund for police and fire services is expected to increase in the out-years based on the increased costs for those services.

Elements of The General Fund Forecast

Revenue Forecast

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program, Voluntary Employee Beneficiary Association (VEBA) Fund, and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2024-2025 of $827,000. In the remaining years of the Forecast, annual growth ranging from 3.6% to 4.3% is anticipated to recover the projected costs.

Beginning Fund Balance

The $85.2 million forecast estimate of available 2024-2025 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of $50.0 million is carried forward at the current level based on the assumption that this amount will not be used in 2023-2024 and will be available for use in 2024-2025. The current funding level is enough to cover General Fund payroll costs for approximately two weeks in an emergency. On the expenditure side, the Contingency Reserve is set at $50.0 million in 2024-2025 and increases in the out-years of the forecast to $57.0 million by 2028-2029 to comply with the City Council policy to set aside at least 3% of General Fund operating expenditures in this Reserve.

- A total of $35.0 million in fund balance will be achieved in 2023-2024 for use in 2024-2025 from a combination of excess revenues and expenditure savings, as well as the liquidation of prior-year carryover encumbrances. Consistent with past practice, the Administration will closely monitor actual General Fund performance through the remainder of the year and may bring forward adjustments to this estimate as appropriate later in the budget process.

- An additional $174,000 reflects the anticipated liquidation of the 2024-2025 Citywide Business Development Staffing Reserve, which will be used to support base costs programmed in 2024-2025.

In the out-years of the Forecast, the Beginning Fund Balance estimates assume that excess revenue and expenditure savings, including liquidations of carryover encumbrances will increase slightly each year from $32.4 million in 2025-2026 to $38.4 million in 2028-2029. In addition, it is assumed that the Contingency Reserve will be carried over each year and will grow slightly from $51.0 million in 2025-2026 to $57.0 million in 2028-2029. In total, the Beginning Fund Balance totals $82.4 million in 2025-2026 and $91.4 million in 2028-2029.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

General Fund expenditure categories were analyzed in depth to develop the 2024-2025 expenditure estimates in this Forecast. These estimates will be re-examined and updated during the preparation of the 2024-2025 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $1.55 billion in 2024-2025 to $1.87 billion in 2028-2029, representing an average annual growth rate of 4.8%.

2025-2029 General Fund Forecast Expenditure Summary

EXPENDITURE SUMMARY	MODIFIED BUDGET 2023-2024	FORECAST PERIOD 2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Personal Services (Departmental)						
Salaries and Other Compensation	626,226,382	653,584,962	690,430,315	719,101,863	744,270,428	770,319,893
Retirement	355,467,304	364,753,334	387,823,900	399,488,947	412,295,128	421,657,324
Health and Other Fringe Benefits	79,552,620	84,010,742	90,052,341	96,004,559	102,350,203	109,115,276
Total Personal Services	**1,061,246,306**	**1,102,349,038**	**1,168,306,557**	**1,214,595,370**	**1,258,915,759**	**1,301,092,493**
Non-Personal/Equipment (Departmental)	**195,340,364**	**168,801,327**	**171,677,000**	**174,611,000**	**178,103,000**	**180,665,000**
City-Wide, Capital, Transfers and Reserves						
City-Wide Expenses - Interim Housing	60,067,439	25,000,000	40,000,000	50,000,000	63,000,000	70,000,000
City-Wide Expenses - Other	306,117,786	82,672,225	80,902,339	81,377,393	81,852,510	82,870,581
Capital Contributions	64,538,195	6,040,000	6,290,000	6,795,000	7,295,000	7,800,000
Transfers to Other Funds	30,472,131	26,993,822	25,492,514	25,048,135	25,614,043	25,675,678
Earmarked Reserves	330,831,706	83,000,000	85,850,000	90,700,000	95,550,000	100,400,000
Contingency Reserve	50,000,000	50,000,000	51,000,000	53,000,000	55,000,000	57,000,000
Total City-Wide, Capital, Transfers and Reserves	**842,027,257**	**273,706,047**	**289,534,853**	**306,920,528**	**328,311,553**	**343,746,259**
Committed Additions						
Police Staffing Addition	0	1,900,000	4,500,000	7,200,000	10,000,000	13,000,000
New Parks and Recreation Facilities Maintenance and Operations	0	247,000	376,000	1,805,000	2,443,000	2,618,000
New Traffic Infrastructure Assets Maintenance and Operations	0	164,000	247,000	321,000	353,000	371,000
New Public Safety Facilities Maintenance and Operations	0	0	0	990,000	2,558,000	3,971,000
Measure T (911 Call Center Expansion)	0	0	42,000	43,000	45,000	46,000
Measure T (Fire Station 8 Relocation)	0	12,000	37,000	38,000	39,000	40,000
Measure T (Fire Station 23 Land Acquisition)	0	48,000	49,000	51,000	52,000	54,000
Measure T (Fire Station 32)	0	0	5,811,000	12,075,000	12,551,000	13,046,000
Measure T (Fire Station 36)	0	0	0	0	808,000	6,808,000
Measure T (Police Air Support Hangar)	0	101,000	312,000	321,000	331,000	341,000
Measure T (Police Training Center Relocation)	0	0	1,448,000	1,998,000	2,068,000	2,141,000
Total Committed Additions	**0**	**2,472,000**	**12,822,000**	**24,842,000**	**31,248,000**	**42,436,000**
Total Forecast Expenditures (inc. Committed Additions)	**2,098,613,927**	**1,547,328,412**	**1,642,340,410**	**1,720,968,898**	**1,796,578,312**	**1,867,939,752**
			6.14%	**4.79%**	**4.39%**	**3.97%**

Adjustments are made to this Forecast to account for one-time additions/deletions included in the 2023-2024 Adopted Budget, and to annualize partial-year allocations. Various one-time additions totaling over $23 million – excluding funding committed for capital projects, equipment, purchases that are truly one-time in nature – are scheduled to expire in June 2024 and will be re-evaluated for inclusion in 2024-2025. Notable one-time allocations included the following: Police Department Sworn Backfill Reserve, various pilot programs within the Beautify San José Program, Californians for All Youth Workforce Program, Police Recruiting and Backgrounding, Supplemental Arts and Cultural Funding, Recruitment Centralization Pilot Program, Coyote Creek and Guadalupe River Trail Patrol, and the Storefront Activation Grant Program. Many of these programs and services will be re-evaluated for continued funding beyond the 2023-2024 fiscal year, with recommendations included in the 2024-2025 Proposed Operating Budget as appropriate, and in the context of other budgetary needs.

Expenditure Forecast

In addition, the Forecast includes contributions from the General Fund to support the City's growing portfolio of interim housing sites serving individuals experiencing homelessness. The costs of this program are a component of City-Wide Expenses and reflected separately for ease of reference and is a new component of the General Fund Base Budget. It is anticipated that a General Fund contribution of $25 million is needed beginning in 2024-2025 rising to $70 million in 2028-2029 as external funding sources are depleted. A comprehensive discussion on revenues and expenditures related to the City's interim housing portfolio is included in *Appendix C: Interim Housing Forecast*.

Understanding the basis for the expenditure estimates included in this Forecast requires discussion of the assumptions used for estimating each of the expenditure categories. The following discussion focuses on the individual expenditure components in the General Fund.

Personal Services

As is the usual practice, the first year (2024-2025) projection for personal services costs in this Forecast has been calculated at a detailed level, using a January 2024 extract from the City's payroll system as the starting point. This included the most recent salary, retirement plan, and health plan information for each position. The individual position-level information was then reviewed, corrected, and updated to ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Further, ongoing position additions (cost increases) and reductions (cost savings), as appropriate, were annualized and all categories of benefit costs in the coming year were projected.

For the 2024-2025 General Fund Forecast, personal services costs continue to account for nearly three-quarters of the total costs in the General Fund. The personal services category has been broken down into three major components: salaries and other compensation, retirement, and health and other fringe benefits. Of the $1.1 billion projected personal services total for 2024-2025, salaries and other compensation costs amount to $653.6 million (59.3% of projected personal services), retirement costs amount to $364.8 million (33.1% of projected personal services), and health and other fringe benefits costs amount to $84.0 million (7.6% of projected personal services).

Following is a discussion of the factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. The out-years are projected to inflate at an average annual rate of approximately 4.2%.

EXPENDITURE FORECAST

Personal Services

Salaries and Other Compensation:

Pay increases for all employees, salary step increases for current non-management employees, and pay for performance for management employees are assumed in each year of this Forecast. The following bargaining units have agreements that will expire on June 30, 2024: International Association of Firefighters (IAFF, Local 230), International Brotherhood of Electrical Workers (IBEW), and International Union of Operating Engineers (OE#3). The following bargaining units have agreements that will expire on June 30, 2026: Association of Building, Mechanical and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA, SEA), Association of Legal Professionals (ALP), Association of Maintenance Supervisory Personnel (AMSP), City Association of Management Personnel (CAMP), Municipal Employees' Federation (MEF), San Jose Police Dispatchers Association (SJPDA), and executive management and professional employees in Unit 99 and other unrepresented employees in Unit 81/82. Agreements with the San Jose Police Officers' Association (SJPOA) and Peace Officer Park Ranger Association (POPRA) will expire on June 30, 2025 and June 30, 2027, respectively.

Except for employees represented by SJPOA and IAFF, non-management step increases have been calculated at a 2.5% step increase rate. For SJPOA and IAFF, a 5% step increase rate was applied in this Forecast.

A Salaries and Benefits Reserve funding is included in each year of this Forecast that sets aside funds to: 1) account for potential pay increases and other compensation beyond the expiration date of the various bargaining unit agreements; 2) allocate funding for pay for performance for management employees; 3) to reserve resources for anticipated increases to employee benefits such as health and dental; and 4) sets aside funding for potential increases as a result of classification/compensation studies. For 2024-2025, this reserve totals $19.8 million and would require City Council action before any form of distribution could be made. As contracts in the out-years of the Forecast are determined, subsequent Forecast documents will be updated to reflect the latest information at that time. The out-years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

The Overtime budget in the General Fund totals $38.2 million for 2024-2025, with most of these funds allocated to Police Department ($24.4 million) and Fire Department ($11.9 million) operations. The out-years of the Forecast continues the ongoing base level costs, with small adjustments using salary and step growth as the inflationary factor.

Elements of The General Fund Forecast

Expenditure Forecast

Personal Services

Retirement:

The City's two retirement systems, the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan, provide defined retirement benefits to eligible employees. Both retirement plans use investment income and employer and employee contributions to provide eligible retirees with pensions and retiree healthcare benefits. Each system also maintains two benefit levels: Tier 1 and Tier 2.

Employees represented by SJPOA and IAFF, Local 230, are members of the Police and Fire Department Retirement Plan and have different retirement benefits with the corresponding different City contributions and rates. Within the Police and Fire Department Retirement Plan, effective August 4, 2013, the City provides for a lower defined benefit plan (Tier 2) for new and rehired Police members. Effective January 2, 2015, a lower defined benefit plan (Tier 2) was implemented for new and rehired Fire members. With the passage of Measure F in 2016, former Tier 1 members previously or newly rehired to the City are placed within the Tier 1 defined benefit plan.

Within the Federated Retirement System, effective September 30, 2012, the City provides for a lower defined benefit plan (Tier 2) for new employees in that system. Federated employees who joined the City between September 30, 2012 and September 27, 2013 are eligible for retiree healthcare coverage (Tier 2A). Effective September 27, 2013, however, new employees no longer receive retiree healthcare coverage (Tier 2B). With the passage of Measure F, former Tier 1 members previously or newly rehired to City are placed within the Tier 1 defined benefit plan.

Effective March 31, 2017, for members of the Police and Fire Department Retirement Plan and June 18, 2017 for members of the Federated City Employees' Retirement System, employees with previous CalPERS or reciprocal retirement system experience are eligible to join the Tier 1 defined benefit pension plan for their respective retirement systems. These employees need to have been employed at their previous agency before January 1, 2013, have less than a six-month break in service before joining the City, and not have concurrent service.

On December 4, 2012, a defined contribution plan (Tier 3) for new employees in Unit 99 (Senior Staff, Executive Staff, and senior managers under the City Manager's Appointing Authority; City Council Office Staff; professional and management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor; and some employees in the City Clerk's Office) was approved. Effective February 4, 2013, new employees to the City hired directly into Unit 99 have the ability to make the one-time election to participate in the defined benefit Tier 2B plan or the Tier 3 plan. The Tier 3 plan provides for a City contribution of 3.75%.

For 2024-2025, retirement costs total $364.8 million for the General Fund, and reflect the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. These assumptions include a discount rate for both pension systems at 6.625%, which is held flat throughout the Forecast period.

Elements of The General Fund Forecast

Expenditure Forecast

Personal Services

Retirement:

To generate budgetary savings, retirement contributions assume the pre-payment of Tier 1 pension costs related to the Police and Fire Department Retirement Plan. For 2024-2025, net budgetary savings from the pre-payment, including short-term borrowing costs, foregone interest earnings, and a reduction to the pre-payment discount rate, are estimated at approximately $7.2 million in the General Fund. While pre-payment is assumed to continue in the out-years of the Forecast, the Administration will continue to evaluate the cost effectiveness of pre-payment as part of the annual budget development process.

A portion of the City's retirement contributions ($38.6 million in the General Fund and $49.6 million in all funds) are associated with retiree healthcare. Prior to Measure F, these contributions were frozen at certain levels for Federated and Police and Fire systems. Subsequent to the passage of Measure F, each board adopted annual contribution amounts for retiree health care, subject to various actuarial assumptions that are evaluated each year.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, Table 1 details the General Fund's retirement costs. These amounts are broken out by Tier 1 contributions (normal cost), Tier 2 contributions, the unfunded actuarial liability (UAL), and retiree healthcare. For reference, Tier 1 normal cost contributions and Tier 2 contributions are also displayed in the tables below as a rate. Over the period in this Forecast, the General Fund retirement costs are expected to increase from $364.8 million ($505.2 million in all funds) in 2024-2025 to $421.7 million ($580.6 million in all funds) in 2028-2029.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution amounts for 2024-2025 and the Cheiron-projected amounts for the out-years of the Forecast. It should be noted that the City budgetary amounts differ from the Federated and Police and Fire Retirement Board approved amounts due to the budgetary spread across vacant, as well as filled, positions. Cheiron applies retirement contributions to an assumed level of filled positions.

EXPENDITURE FORECAST

TABLE 1 – 2025-2029 CITY RETIREMENT BUDGETED CONTRIBUTION AMOUNTS
GENERAL FUND
($ in Millions)*

Retirement Plan	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$22.5	$18.6	$16.8	$17.2	$17.6	$18.3
Tier 1 Pension (Normal Cost) Rate	*20.2%*	*22.8%*	*23.2%*	*23.6%*	*24.3%*	*25.2%*
Tier 2 Pension⁺	$14.8	$13.9	$14.7	$15.7	$16.8	$17.5
Tier 2 Pension Rate	*8.0%*	*8.7%*	*8.7%*	*8.6%*	*8.6%*	*8.4%*
Unfunded Actuarial Liability	$68.7	$82.0	$83.3	$84.1	$88.8	$91.0
Retiree Health Care	$8.0	$8.7	$9.7	$10.4	$10.5	$10.7
Total Federated Contributions	**$114.0**	**$123.2**	**$124.5**	**$127.4**	**$133.7**	**$137.5**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$24.4	$18.9	$28.4	$27.1	$27.3	$27.3
Tier 1 Pension (Normal Cost) Rate	*32.8%*	*28.3%*	*28.2%*	*28.2%*	*28.2%*	*28.2%*
Tier 2 Pension⁺	$13.7	$13.7	$15.2	$16.8	$18.5	$20.1
Tier 2 Pension Rate	*14.4%*	*13.7%*	*13.7%*	*13.7%*	*13.7%*	*13.7%*
Unfunded Actuarial Liability	$69.8	$80.7	$81.5	$82.5	$82.3	$81.4
Retiree Health Care	$17.6	$18.0	$19.6	$21.3	$22.1	$22.9
Total Police Contributions	**$125.5**	**$131.3**	**$144.7**	**$147.7**	**$150.2**	**$151.7**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$24.9	$21.7	$24.5	$24.8	$24.7	$24.9
Tier 1 Pension (Normal Cost) Rate	*33.2%*	*30.7%*	*30.7%*	*30.7%*	*30.7%*	*30.7%*
Tier 2 Pension⁺	$4.5	$6.1	$7.1	$8.1	$9.3	$10.3
Tier 2 Pension Rate	*15.1%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*
Unfunded Actuarial Liability	$67.0	$69.5	$72.8	$76.2	$78.6	$81.1
Retiree Health Care	$11.0	$11.9	$13.0	$14.1	$14.5	$14.9
Total Fire Contributions	**$107.4**	**$109.2**	**$117.4**	**$123.2**	**$127.1**	**$131.2**
Other Retirement Contributions	**$1.0**	**$1.1**	**$1.2**	**$1.2**	**$1.3**	**$1.3**
Total General Fund	**$347.9**	**$364.8**	**$387.8**	**$399.5**	**$412.3**	**$421.7**
Total All Funds	**$479.1**	**$505.2**	**$529.4**	**$546.2**	**$566.8**	**$580.6**

⁺ Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of Unfunded Actuarial Liability (UAL) related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

* City budgetary amounts differ from the Federated and Police and Fire Retirement Boards approved amounts due to the budgetary spread of retirement contributions across vacant, as well as filled positions. Cheiron, the Boards' actuary, applies retirement contributions to an assumed level of filled positions. Figures for 2023-2024 are from the 2023-2024 Forecast and are provided only for reference; these amounts differ from the adjusted amounts currently included in the 2023-2024 Modified Budget.

Source: Cheiron Valuation Results approved by the Boards on December 7, 2023 (Police and Fire) and December 21, 2023 (Federated).

TABLE 2 – 2025-2029 BOARD APPROVED CITY CONTRIBUTION AMOUNTS ALL FUNDS ($ in Millions)

Retirement Plan	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$26.0	$24.4	$22.5	$20.4	$18.3	$16.2
Tier 1 Pension (Normal Cost) Rate	*20.2%*	*18.7%*	*18.6%*	*18.6%*	*18.5%*	*18.4%*
Tier 2 Pension+	$21.4	$27.9	$29.6	$31.6	$33.7	$35.1
Tier 2 Pension Rate	*8.0%*	*8.7%*	*8.7%*	*8.6%*	*8.6%*	*8.4%*
Unfunded Actuarial Liability	$168.8	$176.7	$179.5	$181.3	$191.4	$196.0
Retiree Health Care	$19.1	$20.4	$22.9	$24.4	$24.7	$25.0
Total Federated Contributions	**$235.3**	**$249.4**	**$254.5**	**$257.7**	**$268.1**	**$272.3**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$24.7	$21.7	$19.9	$18.0	$16.1	$14.4
Tier 1 Pension (Normal Cost) Rate	*33.8%*	*29.2%*	*29.2%*	*29.2%*	*29.2%*	*29.1%*
Tier 2 Pension+	$14.0	$13.7	$15.2	$16.8	$18.5	$20.1
Tier 2 Pension Rate	*14.4%*	*13.7%*	*13.7%*	*13.7%*	*13.7%*	*13.7%*
Unfunded Actuarial Liability	$69.8	$83.3	$84.2	$85.1	$84.9	$84.0
Retiree Health Care	$17.6	$18.5	$20.2	$22.0	$22.8	$23.6
Total Police Contributions	**$126.1**	**$137.2**	**$139.5**	**$141.9**	**$142.3**	**$142.1**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$22.3	$20.4	$19.4	$18.2	$16.9	$15.7
Tier 1 Pension (Normal Cost) Rate	*34.2%*	*31.7%*	*31.7%*	*31.7%*	*31.7%*	*31.7%*
Tier 2 Pension+	$4.5	$6.1	$7.1	$8.1	$9.3	$10.3
Tier 2 Pension Rate	*15.1%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*
Unfunded Actuarial Liability	$67.0	$71.9	$75.1	$78.7	$81.2	$83.8
Retiree Health Care	$11.0	$12.3	$13.4	$14.5	$14.9	$15.4
Total Fire Contributions	**$104.8**	**$110.7**	**$115.0**	**$119.5**	**$122.3**	**$125.2**
Total City Contributions	**$466.2**	**$497.3**	**$509.0**	**$519.1**	**$532.7**	**$539.6**

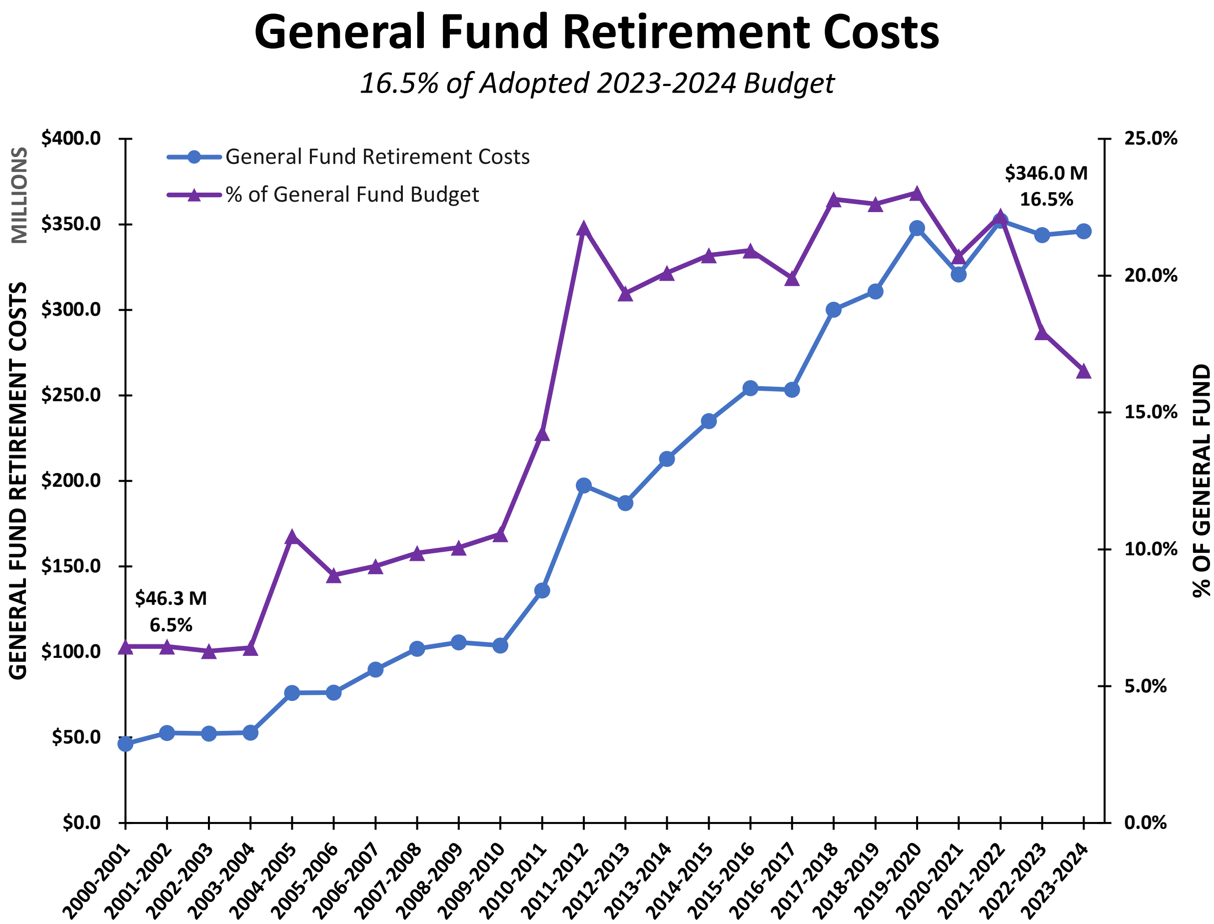
+Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of Unfunded Actuarial Liability (UAL) related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

Source: Cheiron Valuation Results approved by the Boards on December 7, 2023 (Police and Fire) and December 21, 2023 (Federated).

EXPENDITURE FORECAST

Personal Services

The chart below describes the history of retirement costs as a share of the total General Fund Adopted Budget. In 2001-2002, retirement costs of $46.3 million accounted for 6.5% of the General Fund, while in 2023-2024, those costs totaled 16.5% of the General Fund Adopted Budget. It is important to note that, because adopted budgets include carryover costs from the previous year, fund balance, and other one-time elements, this percentage is lower than the ongoing average contribution of approximately 23% reflected in the Forecast.



Health and Other Fringe:

A projected health rate increase of 7.0% is included in the 2024-2025 Forecast effective January 2025 based on national and City trend information received from the City's Human Resources Department benefits consultant. The annual health increase assumptions are held constant at 7.0% annually for the out-years of the forecast.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, no change in dental rates are assumed in 2024-2025 to spend down savings from previously accumulated fund balance in the Dental Insurance Fund. For the out-years, the Forecast assumes no annual dental rate increase based on City trends and actuarial analysis.

Elements of The General Fund Forecast

Expenditure Forecast

Personal Services

Health and Other Fringe:

In the previous Forecast, there was no unemployment insurance rate assumed; however, with the latest information from the Human Resources Department, the cost of claims has been steadily increasing necessitating a 0.08% rate implementation in this year's Forecast. There is no change to the life insurance rate in this Forecast based on projected expenditures.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total $168.8 million in 2024-2025. To determine this ongoing funding level, the City Manager's Budget Office: comprehensively reviews all budgetary actions approved for funding solely in 2023-2024 and decreases or increases corresponding funding levels to account for these one-time additions/deletions; annualizes all partial-year reductions or increases that were approved for 2023-2024; and analyzes historical usage, rate adjustments, contractual obligations, fleet management, and overall expenditures to project future needs for key non-personal/equipment allocations – utilities, vehicle replacement, vehicle maintenance and operations, contractual services, and data processing (software/information system maintenance). The resulting 2024-2025 estimate represents a decrease of $26.8 million (13.7%) from the 2023-2024 Modified Budget level of $195.3 million, primarily due to the removal of rebudgeted funds for initiatives or projects continuing into 2023-2024 from the prior year.

Departmental funding levels for utilities ($30.4 million), including gas, electricity, and water, increased by $3.2 million in 2023-2024 to reflect projected rate increases, the prorated or annualized costs of new facilities coming online, and estimated changes in consumption. Vehicle maintenance and operations costs in the General Fund, including fuel, inventory, and fleet staffing increased by $380,000, primarily due to increased personnel costs and parts costs for the maintenance of vehicles in the City's fleet. The 2024-2025 non-personal/equipment base budget also provides increased funding by $500,000 to total $7.5 million for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles, based on the current replacement schedules and projected costs for these vehicles. This Forecast assumes consistent funding for police vehicle replacement needs, decreasing by an average of $500,000 annually to $5.5 million by 2028-2029. Additional non-personal/equipment increases are included in this Forecast, primarily for: City-wide janitorial contract services ($2.1 million); City-wide security contractual services ($713,000); contractual services for employee health services ($382,000); Police Department taser equipment ($350,000); and Animal Care and Services animal food, medical, and general supplies ($300,000).

Relatively stable growth rates ranging from 1.4% to 2.0% are assumed in the out-years of the Forecast, relative to non-personal/equipment base levels in each preceding year.

EXPENDITURE FORECAST

City-Wide Expenses – Interim Housing

As directed by the City Council, this Forecast also includes the anticipated costs and revenues of related to the City's portfolio of interim housing sites, consisting of bridge housing communities/emergency interim housing, converted motels, and supportive parking spaces. In 2024-2025, costs are estimated at $91.6 million which includes development costs of $40.7 million for new, previously authorized sites, and operating and maintenance costs of $50.9 million. Once the portfolio is built out, operating and maintenance costs in 2025-2026 are estimated at $73.1 million, and are estimated to increase to $79.8 million by 2028-2029.

Over the last several years, the City's interim housing portfolio has been sustained by significant influxes of external funding from the federal government and the State of California, previous one-time contributions from the General Fund, and allocations from revenues generated from Measure E, in accordance with City Council Policy 1-18, Section 22. However, all federal sources are expected to be depleted by the end of 2023-2024, the currently authorized State funding will be spent down by the end of 2026-2027, most of the previous one-time General Fund allocations will be spent by the end of 2024-2025, and the existing ongoing allocation of Measure E revenues are not sufficient to solely sustain the program.

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Estimated Available Funding*	69.1	33.8	25.1	13.9	10.8
Interim Housing Costs	91.6	73.1	72.5	76.0	79.8
Surplus / (Shortfall)	(22.4)	(39.3)	(47.4)	(62.1)	(68.9)
Required Ongong General Fund Contributions	**25.0**	**40.0**	**50.0**	**63.0**	**70.0**
Revised Surplus / (Shortfall)	2.6	0.7	2.6	0.9	1.1

*Includes the Revised Surplus/(Shortfall) from the prior fiscal year

As a result, in order to develop and operate the City's interim housing portfolio as directed by the City Council, ongoing General Fund contributions to the interim housing portfolio will need to begin in 2024-2025 in the amount of $25.0 million and increase to $70.0 million by 2028-2029. It is important to note that the ongoing General Fund contributions shown above do not assume any additional revenue sources beyond those previously committed. However, in accordance with prior City Council direction, staff will pursue additional funding sources to the extent feasible, including from regional partners that are impacted and have responsibility for reducing and addressing the impacts of unsheltered homelessness. If identified in time, any additional revenue sources will be brought forward as part of the 2024-2025 Proposed Budget. Details of the interim housing funding sources and cost assumptions are included in *Appendix C: Interim Housing Forecast*.

EXPENDITURE FORECAST

City-Wide Expenses – Other

All remaining City-Wide Expenses in the first year of the Forecast (2024-2025) total $82.7 million, a decrease of $283.5 million from the 2023-2024 Modified Budget of $366.2 million, largely due to the removal of one-time allocations from 2022-2023 that were rebudgeted into 2023-2024 ($117.8 million), the removal of the one-time Measure E funding allocations for affordable housing projects and homelessness support programs that were primarily reallocated from various reserves ($103.1 million), the removal of one-time budget actions from 2023-2024 ($24.4 million), and various additional technical adjustments to ongoing allocations ($1.4 million).

The line-items in this category are primarily made up of cross-departmental, large grant, and general City-wide expenditures. Forecast funding levels of $82.7 million for 2024-2025 include cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2024-2025 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims ($20.9 million); San José BEST and Safe Summer Initiative Programs ($7.1 million); General Liability Claims ($6.0 million); Elections and Ballot Measures ($4.5 million); Homeless Rapid Rehousing ($4.0 million); Sick Leave Payments Upon Retirement ($3.4 million); Property Tax Administration Fee ($3.0 million); Insurance Premiums ($3.0 million); Measure E – 5% Program Administration ($2.5 million); Sidewalk Repairs ($2.5 million); Property Leases ($2.0 million); Local Sales Tax – San José Works - Youth Jobs Initiative ($1.8 million); The Tech Interactive ($1.5 million); Workers' Compensation State License ($1.4 million); Senior Nutrition Program ($1.3 million); San José Learns ($1.1 million); Public, Educational and Government Access Facilities – Capital ($1.1 million); and Energy Services Company (ESCO) Debt Service ($1.0 million).

For continuing initiatives authorized in 2024-2025, City-Wide Expenses are projected to increase slightly by a net total of $1.4 million. This is the result of several adjustments, including an increase to Elections and Ballot Measures ($250,000) for estimated costs of the November 2024 election; a net projected increase to Workers' Compensation Claims payments ($500,000) to account for a higher rate in the settlement of claims; and various other increases to Property Tax Administration Fee ($437,500), San José BEST and Safe Summer Initiative Programs ($436,000), Workers' Compensation State License ($350,000), Local Sales Tax – San José Works – Youth Jobs Initiative ($111,000), Customer Satisfaction Survey ($100,000) for addition of the quarterly Focus Area surveys, Insurance Premiums ($92,000) that reflects changes in premium rates and growth in the insured value of City assets, Commercial Paper Program Fees ($71,000), San José Learns ($68,000), and Parent Project – Santa Clara County ($66,000). These increases are partially offset by a decrease to San José 311 Enhancements ($350,000) as costs are shifted into IT Department's Non-Personal/Equipment budget; a reduction to Public, Educational, and Government (PEG) Access Facilities – Capital ($150,000) to align projected revenues and estimated costs; and ongoing reductions to Sick Leave Payments Upon Retirement ($650,000), Council District Outdoor Activation ($250,000), and Banking Services ($100,000), actions approved by City Council in September 2023 to balance collective bargaining agreement salary increases.

EXPENDITURE FORECAST

City-Wide Expenses – Other

Overall, Workers' Compensation Claims payments are projected to gradually decrease over the Forecast period, from $20.85 million to $19.40 million to reflect a downward trend in claims and the impact of recently reached one-time settlements, which will decrease Workers' Compensation costs.

Capital Contributions

The General Fund Capital Contributions category totals $6.0 million in 2024-2025, increasing by $250,000 in the following year and leveling to an additional $500,000 each year thereafter. The largest item in this category is for fire apparatus replacement which has an allocation of $3.75 million in 2024-2025, and increases to $4.0 million in 2025-2026, $4.5 million in 2026-2027, $5.0 million in 2027-2028, and $5.5 million in 2028-2029 due to escalating costs for the fire apparatus. This funding is in addition to the $400,000 provided annually from the Fire Construction and Conveyance Tax Fund over the five-year period. Capital Contributions funding also includes the continuation of annual allocations for: the unanticipated/emergency maintenance of City facilities ($1.25 million); closed landfill compliance ($450,000); City-owned property management and maintenance ($200,000); annual capital requirements to maintain power backup for City Hall and the 9-1-1 Police Communications Building ($200,000); arena repairs ($100,000) at the SAP Center; and capital program and Public Works Department support service costs ($90,000).

The City-Owned Property Management and Maintenance allocation was established in 2023-2024 to provide the resources necessary to address urgent maintenance needs to various City-owned properties. The Forecast includes $200,000 annually to support these needs.

Transfers

The Transfers category totals $27.0 million in 2024-2025 and averages $25.5 million for each remaining year of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for the construction of City Hall is the largest recurring line-item in this category at $17.7 million. Other transfers include: a transfer to the Construction and Conveyance Tax Fund – Communications to support the replacement of Silicon Valley Regional Communication System (SVRCS) radios and the Silicon Valley Regional Interoperability Authority (SVRIA) ($3.0 million); a transfer to the San José Arena Capital Reserve Fund for capital rehabilitation and enhancements at the SAP Center in accordance with the San José Arena Management Agreement with Sharks Sports and Entertainment ($2.3 million, planned to cease in 2025-2026); a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement ($2.0 million); transfers to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($1.4 million, increasing to $1.7 million annually by 2028-2029); and a transfer to the Airport Revenue Fund for sales tax collected on jet fuel ($500,000).

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Transfers

The transfer to the Construction and Conveyance Tax Fund – Communications is included to assist for the planned replacement of end-of-life, unsupported radio equipment capable of accessing SVRCS, as well as overall escalating costs to operate the City's Communications program. This ongoing General Fund support of $3.0 million, rising to $3.5 million in 2027-2028 and 2028-2029, partially addresses the estimated $2.2 million annual costs of SVRCS radio replacements, based on a 10-year replacement schedule (2021-2022 through 2030-2031).

The transfer from the General Fund to the Downtown Property and Business Improvement District (PBID) Fund is $1.3 million in 2024-2025 and increases to $1.57 million in 2028-2029, reflecting annualized PBID cost increases effective January 2024 – comprised of a Consumer Price Index increase to baseline service level costs (enhanced cleaning, beautification, and ambassadors), a 5% increase to assessments on City properties, a new general benefit payment to cover costs not exclusive to downtown property owners, and boundary adjustments approved as part of the renewal of the district and resulting in the addition of City properties.

Transfers from the General Fund to the Construction and Conveyance Tax Fund – Service Yards ceased in 2021-2022, as revenues are anticipated to be sufficient to cover debt service payments associated with the Central Service Yard. However, a transfer of $500,000 is anticipated in 2025-2026 needed to meet the shortfall in projected revenues from Construction and Conveyance Tax to fund planned projects.

The General Fund transfer to the Airport Revenue Fund increased by $100,000, from $400,000 to $500,000 to match anticipated collection levels.

Earmarked Reserves

The Earmarked Reserves category totals $83.0 million in 2024-2025, increases by $2.9 million in 2025-2026, and $4.9 million annually in the remaining Forecast years. This category includes $47.5 million in 2024-2025 to be expended on affordable housing development and homeless prevention and support programs in accordance with the Real Property Transfer Tax revenues authorized by Measure E, a ballot measure approved by San José voters on March 3, 2020. Measure E reserves are anticipated to increase by $4.8 million annually in the outyears after program administration costs are deducted from the total amount of Measure E revenues.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Earmarked Reserves

Other reserves include the: Revenue Loss Reserve of $30.0 million, established as part of the 2021-2022 Mid-Year Budget Review, to set aside disputed revenues to address the potential negative impact to the General Fund in the event there is a final adverse determination regarding the ongoing allocation of tax revenues to the City; Deferred Infrastructure and Maintenance Reserve of $2.0 million to fund critical capital maintenance or address urgent technology needs, which will be allocated during development of the 2024-2025 Proposed Budget; recommended Police Equipment Replacement Sinking Fund Reserve of $1.0 million to set aside funding to maintain and replace vital enforcement equipment, including aircraft; Fire Equipment Replacement Sinking Fund Reserve of $500,000 for replacing fire emergency equipment; annual funding of $450,000 for the Artificial Turf Replacement Reserve to set aside funding for the cost of replacing artificial turf fields in various neighborhood parks; and Information Technology Sinking Fund Reserve of $300,000, increasing by $100,000 annually to replace aging information technology systems. Additionally, the annual allocation to the Cultural Facilities Maintenance Reserve is maintained at $1.25 million throughout the Forecast to address the growing deferred infrastructure rehabilitation needs at these facilities.

The Forecast does not include several Earmarked Reserves that may remain unspent in 2023-2024 and later recommended for rebudget or use in 2024-2025. Some of the larger current Earmarked Reserves include the: Revenue Loss Reserve; Budget Stabilization Reserve; Measure E – 30% Low-Income Households Reserve; Measure E – 40% Extremely Low-Income Households Reserve; Workers' Compensation/General Liability Catastrophic Reserve; Community and Economic Recovery Reserve; Salaries and Benefits Reserve; Information Technology Sinking Fund Reserve; Measure E – 5% Moderate-Income Households Reserve; Measure E – Interim Housing Constructions and Operations Reserve – 15% Homeless Support Programs); Measure E – 10% Homelessness Prevention and Rental Assistance Reserve; Google Parking Lots Option Payment Reserve; Artificial Turf Replacement Reserve; Measure E – Interim Housing Maintenance Reserve – 15% Homeless Support Programs); Code Enforcement Permit System Reserve; Federal Emergency Management Agency Non-Reimbursable Expenses Reserve; Berryessa Flea Market Vendor Business Transition Fund Reserve; Sick Leave Payments Upon Retirement Reserve; City Attorney's Office Outside Litigation Reserve; and Police Redistricting Implementation Reserve.

Contingency Reserve

Per City Council policy, the Contingency Reserve ($50.0 million) is projected at the level necessary to maintain a Contingency Reserve equivalent to a minimum of 3% of operating expenses and allows for anticipated rebudget adjustments that will be incorporated into the 2024-2025 budget. This amount would be sufficient to cover approximately one pay period of payroll costs (two weeks). This amount steadily increases each year of the Forecast, ending at $57.0 million in 2028-2029 to remain in compliance with the reserve policy.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Committed Additions to the Base General Fund Forecast

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

As summarized in the chart below, the Committed Additions category reflects increases to Police Department staffing and projected operating and maintenance costs for new or renovated capital projects scheduled to come online after 2023-2024. The costs of the additions total $2.5 million in 2024-2025 and increase to $42.4 million by the end of the forecast period.

Costs in 2024-2025 are largely due to the expenses associated with additional positions in the Police Department. City Council's approval of the Mayor's June Budget Message for Fiscal Year 2022-2023 authorized, as Committed Additions to future Five-Year General Fund Forecasts, the annual addition of up to 15.0 positions in the Police Department in each year where the City Manager determines that the addition of the positions would not require a decrease in existing basic neighborhood services. The positions may be a mix of sworn and civilian positions depending upon the most pressing community safety needs. Given existing vacancy levels, the Forecast includes ongoing funding prorated in 2024-2025; new cohorts of 15 positions are assumed in subsequent years.

Committed Addition costs are expected to increase significantly due to the completion of several Measure T bond projects, including new Fire Station 32, the Police Training Facility, the Police Air Support Hangar (which will have an expanded footprint), and the 911 Call Center Expansion in 2025-2026, and the new Fire Station 36 at the end of 2027-2028. The Police Training Facility, now also expected to come online in 2025-2026, will trigger the activation a year later of the South San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility.

The Committed Additions also include maintenance and operations costs associated with non-Measure T projects, such as new parks and recreation facilities like Columbus Park Soccer Fields – tentatively scheduled to come online in 2026-2027 – and new traffic infrastructure assets.

EXPENDITURE FORECAST

Committed Additions to the Base General Fund Forecast

2025-2029 General Fund Committed Additions

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Police Staffing Addition	$1,900,000	$4,500,000	$7,200,000	$10,000,000	$13,0006000
Measure T Bond-funded Facilities	$161,000	$7,699,000	$14,526,000	$15,894,000	$22,476,000
New Public Safety Facilities	$0	$0	$990,000	$2,558,000	$3,971,000
New Parks and Recreation Facilities	$247,000	$376,000	$1,805,000	$2,443,000	$2,618,000
New Traffic Infrastructure Assets	$164,000	$247,000	$321,000	$353,000	$371,000
Total	**$2,472,000**	**$12,822,000**	**$24,842,000**	**$31,248,000**	**$42,436,000**

A detailed listing of all Committed Additions costs is included in this 2028-2029 General Fund Forecast and can be found in *Section III - Committed Additions to the Base General Fund Forecast* of this document.

It is important to note that the City Council has certified a number of interim housing facilities scheduled to begin operations between 2024-2025 and 2025-2026 as Committed Additions, including Branham-Monterey, Rue Ferrari Expansion, Via Del Oro, Cerone, Cherry Avenue, and the Berryessa Supportive Parking site. However, to provide a complete financial picture, the costs related to these sites, the cost of existing sites, and assumed revenues available for the City's interim housing portfolio are discussed in detail in *Appendix C, Interim Housing Forecast*. The amount of ongoing contributions from the General Fund necessary to support the interim housing portfolio are reflected in the *City-Wide Expenses – Interim Housing* section above.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2024-2025, a General Fund shortfall of $3.6 million is projected. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year, and additional Police Department staffing. General Fund shortfalls are also projected in the out-years of the Forecast: 2025-2026 (-$37.6 million), 2026-2027 (-$17.8 million), 2027-2028 (-$13.9 million), and 2028-2029 (-$6.7 million). These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from 0.2% to 2.3% of the projected annual budget (based on expenditures), which ranges from $1.5 billion to $1.9 billion. However, as stated elsewhere in this document, there are significant expenditure components that are not incorporated into the Forecast, including expanded services to address stormwater permit requirements, programs funded on a one-time basis in 2023-2024, unmet/deferred infrastructure and maintenance needs, and one-time revenue sources or expenditure needs.

The following table shows how the projected surpluses and shortfalls have changed in the most recent forecasts. It is assumed that each preceding surplus is completely expended with ongoing uses in the year it appears. Each year of the February 2024 Forecast is compared to the corresponding year in the February 2023 Forecast.

2025-2029 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2024-2025	2025-2026	2026-2027	2027-2028	2027-2028
February 2023 Incremental Surplus/(Shortfall)	**$0***	**($0.1)**	**$9.4**	**$0.1**	**N/A**
June 2023 Incremental Surplus/(Shortfall)	$0	N/A	N/A	N/A	N/A
February 2024 Incremental Surplus/(Shortfall)	**($3.6)**	**($37.6)**	**($17.8)**	**($13.9)**	**($6.7)**

* The City Council's approval of the 2023-2024 Adopted Operating Budget deliberately did not spend $18.8 million on an ongoing basis, which fully resolved the then projected shortfall for 2024-2025.

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2023-2024; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

Elements of The General Fund Forecast

Operating Margin

For the February 2024 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2024-2025 and the remaining four years of the Forecast period. The 2024-2025 projected deficit of $3.6 million is derived by comparing estimated ongoing revenues with the cost of delivering City Council-approved ongoing services in the General Fund as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year, and additional Police Department staffing. The numerous revenue and expenditure changes anticipated in 2024-2025 are described in this document.

In the out-years of this Forecast, the General Fund has an operating margin ranging from a shortfall of $6.7 million to a shortfall of $37.6 million, reflective of an economic growing with only moderate growth that is outpaced by the growth of expenditures. It is important to note that the shortfall margins in the Forecast, however, are narrow when put into context of the size of the projected General Fund budget (based on expenditures) that ranges from $1.5 billion in 2024-2025 to $1.9 billion by 2028-2029.