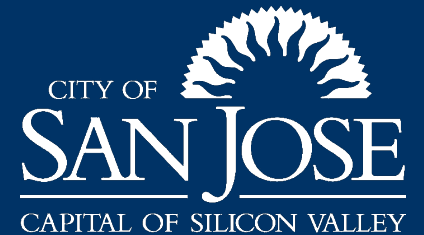


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# 2024-2025 PROPOSED OPERATING BUDGET OVERVIEW

May 8, 2024



# PRESENTATION AGENDA

- Opening Remarks
- Proposed Budget Overview
- Budget Balancing Strategy and Recommended Budget Actions
- Next Steps in the Budget Process
- Economic Outlook

# 2024-2025 PROPOSED OPERATING BUDGET GENERAL FUND OPERATING MARGIN



## 2025-2029 Revised General Fund Five-Year Forecast (\$ in millions)<sup>1</sup>

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Five-Year Surplus/ (Shortfall)
<b>Incremental Surplus/ (Shortfall)</b>	(\$4.5) <sup>2</sup>	(\$37.6)	(\$17.8)	(\$13.9)	(\$6.7)	(\$80.5)

<sup>1</sup> 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.

<sup>2</sup> This figure was revised from the \$3.6 million shortfall as presented in the February 2024 Forecast as a result of continued analysis of projected revenues and expenditures.

# 2024-2025 PROPOSED BUDGET OVERVIEW



- Balanced all funds (General Fund, Special and Capital Funds)
- General Fund projected shortfall of \$4.5 million fully resolved, with additional actions taken to reduce the \$37.6 million projected shortfall in 2025-2026 to \$17.6 million
- Investment Priorities:
  - Urgent Action on Homelessness
  - Improving Community Safety
  - Cleaning Up San José
  - Attracting Jobs and Investment

Other investment priorities included select areas of important and ongoing Core Service work within other community services, strategic support services, and deferred infrastructure areas

- Budgeted Positions (all funds) are down 0.8%, from 7,040 to 6,986

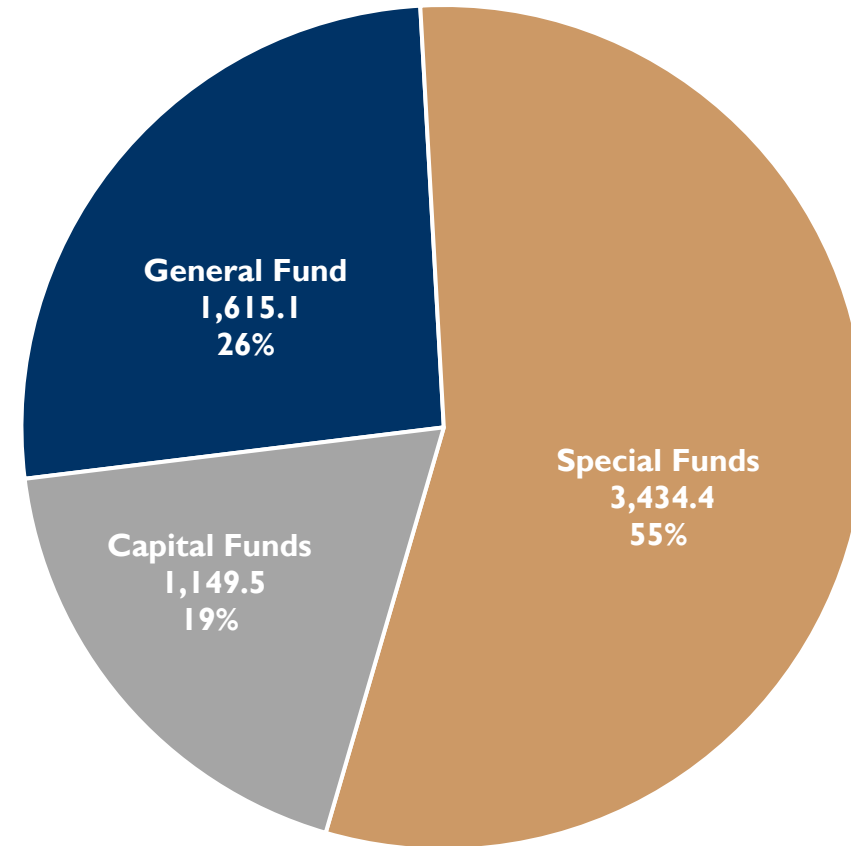
# CITY OF SAN JOSE PROPOSED OPERATING BUDGET OVERVIEW



**2023-2024 PROPOSED CITY BUDGET <sup>1</sup>: \$5.3 billion**

**TOTAL NUMBER OF FUNDS: 137**

**TOTAL NUMBER OF POSITIONS (FTE): 6,985**



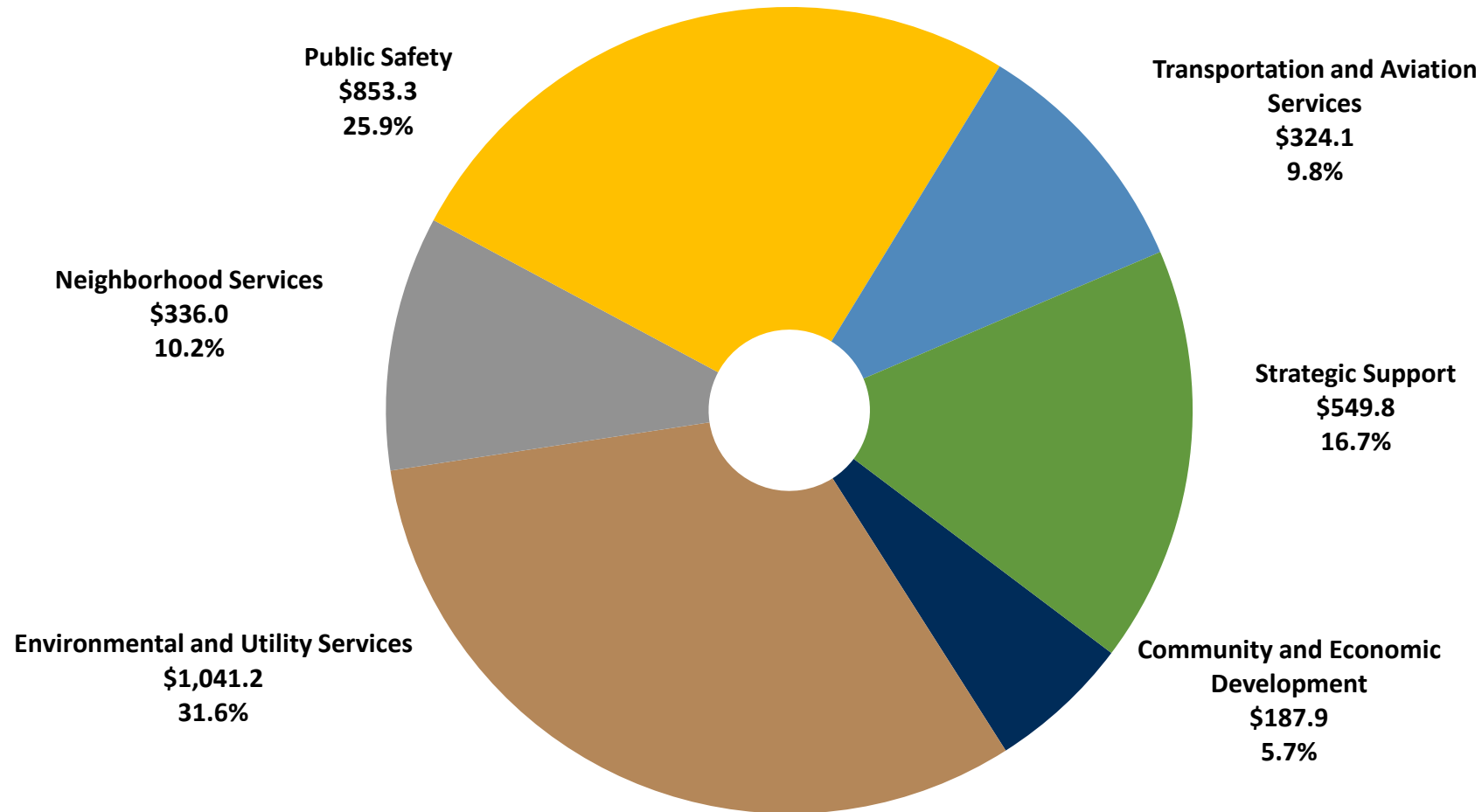
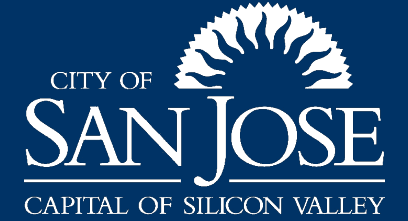
<sup>1</sup> An adjustment of \$864 million is necessary to arrive at the \$5.3 billion net 2024-2025 Proposed City Budget to avoid the double-counting of transfers, loans and contributions between City funds.

# 2024-2025 PROPOSED BUDGET OVERVIEW

## BUDGET BALANCING CONSIDERATIONS



# 2024-2025 PROPOSED OPERATING BUDGET USES BY CITY SERVICE AREA (ALL FUNDS; \$ IN MILLIONS)

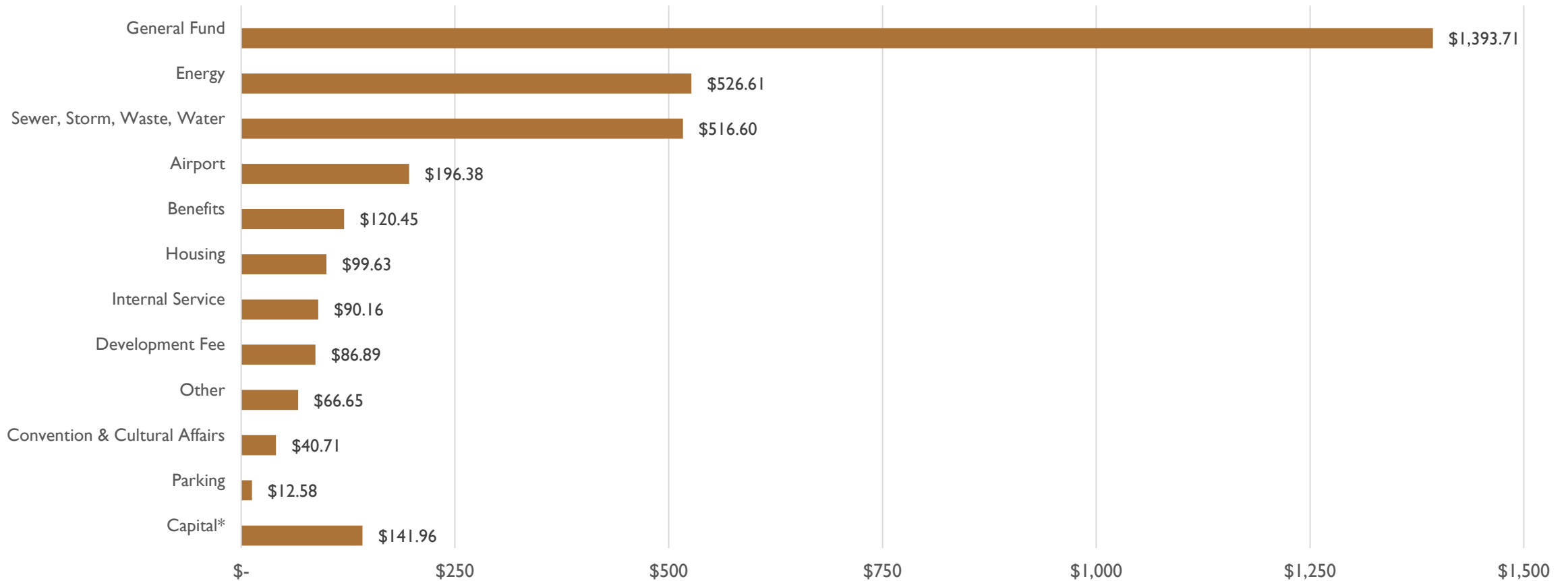


\* Excludes Fund Balance, Transfers, Reserves, and Capital Fund (project) expenditures.

# CITY OF SAN JOSE PROPOSED OPERATING BUDGET OVERVIEW – FUND CATEGORIES



2024-2025 Proposed Operating Budget by Fund Category (exc. Transfers, Reserves, and Fund Balance)



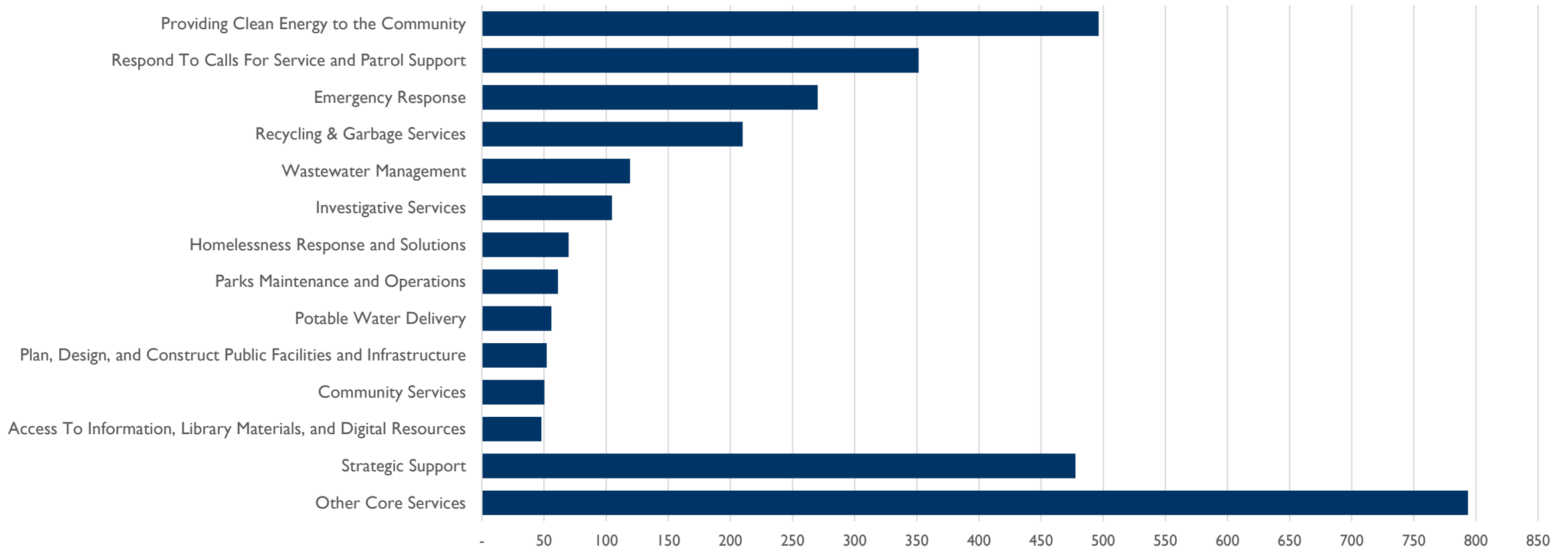
\* Capital Fund expenditures include only personal services and overhead reimbursements.



# CITY OF SAN JOSE PROPOSED OPERATING BUDGET OVERVIEW



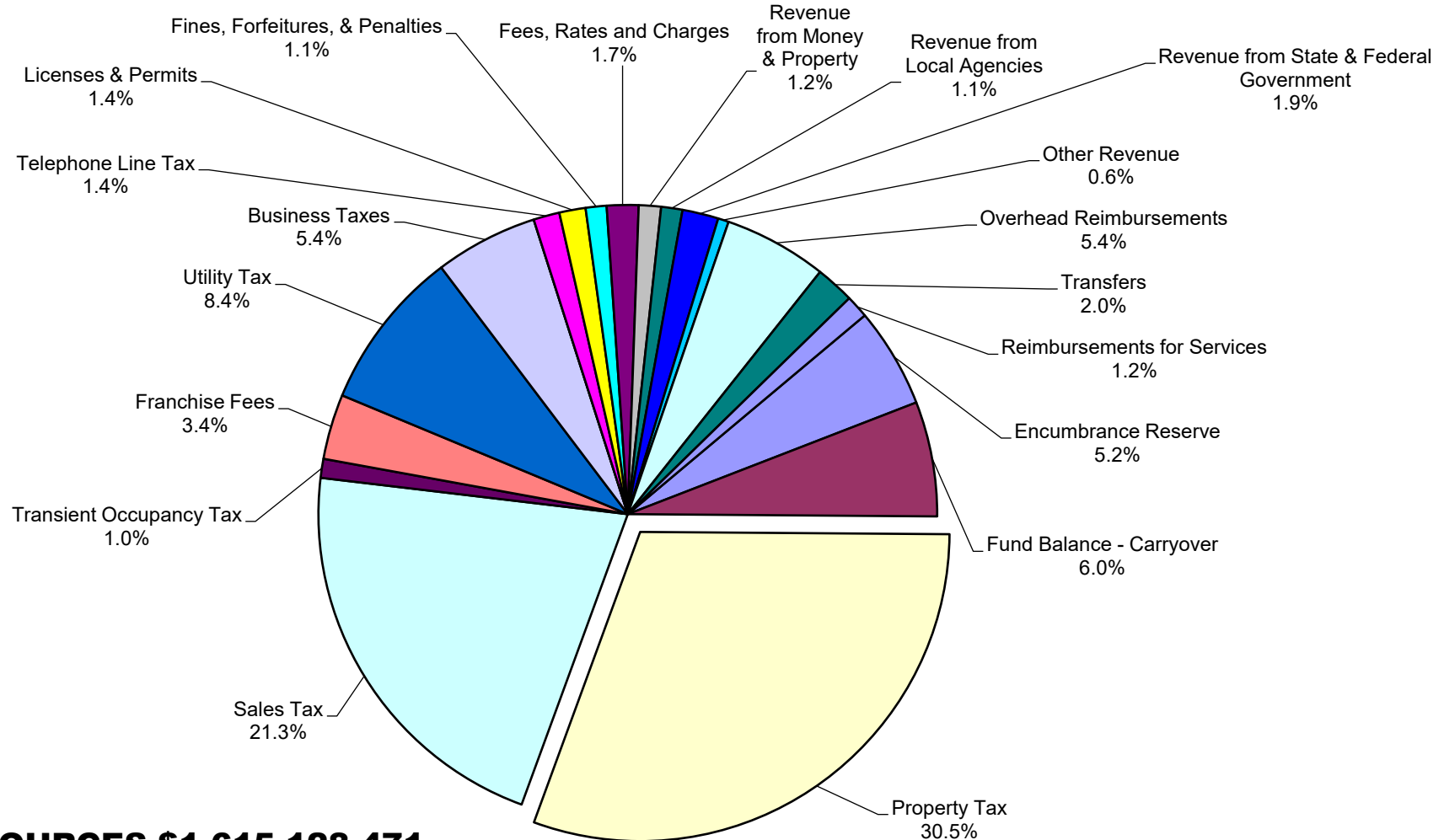
2024-2025 Proposed Budget by Core Service - All Funds (excl. Transfers, Reserves and Fund Balance)



\$ Millions

# 2024-2025 PROPOSED OPERATING BUDGET

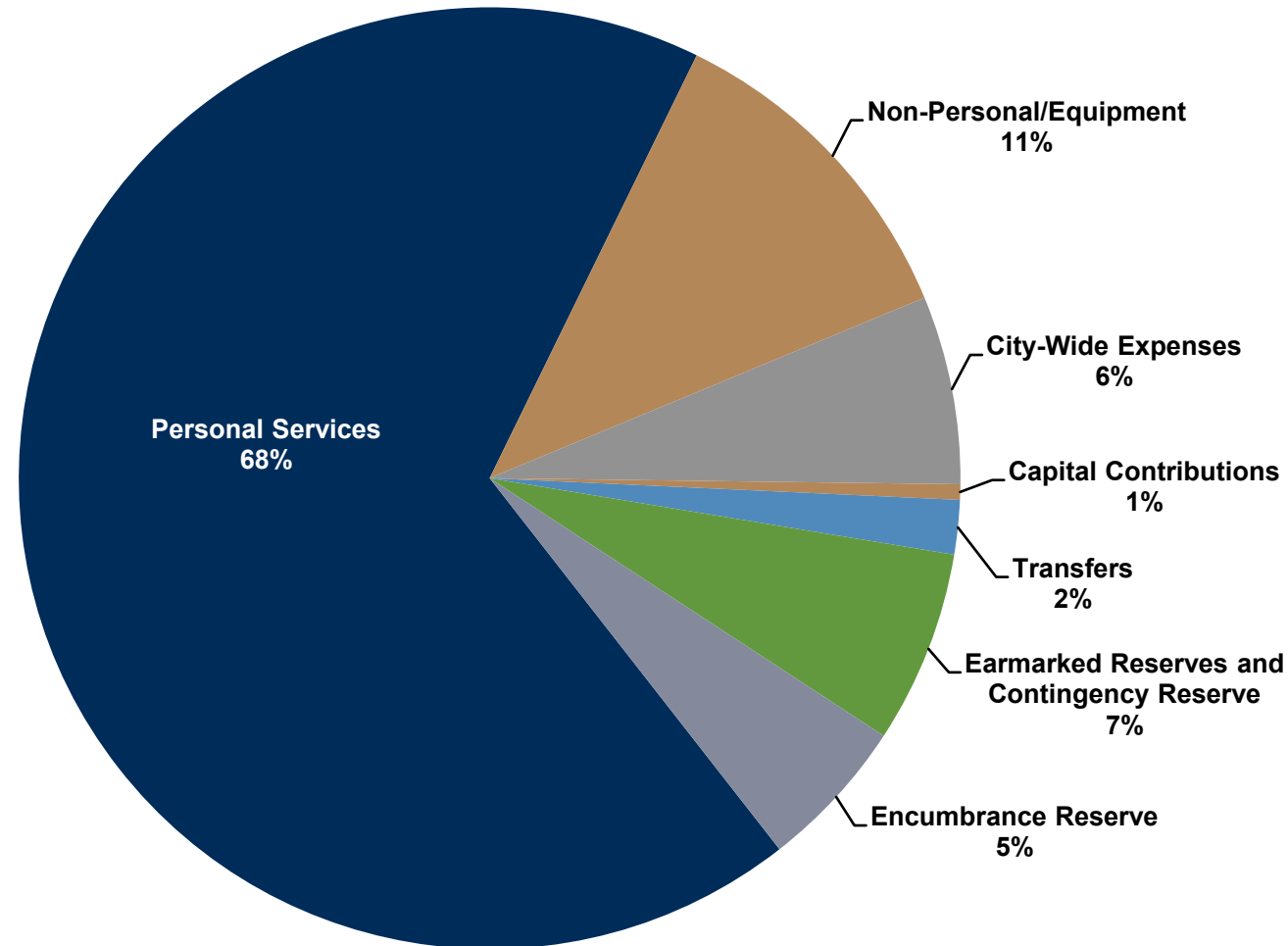
## GENERAL FUND SOURCES



**TOTAL GENERAL FUND SOURCES \$1,615,128,471**

# 2024-2025 PROPOSED OPERATING BUDGET

## GENERAL FUND USES BY CATEGORY



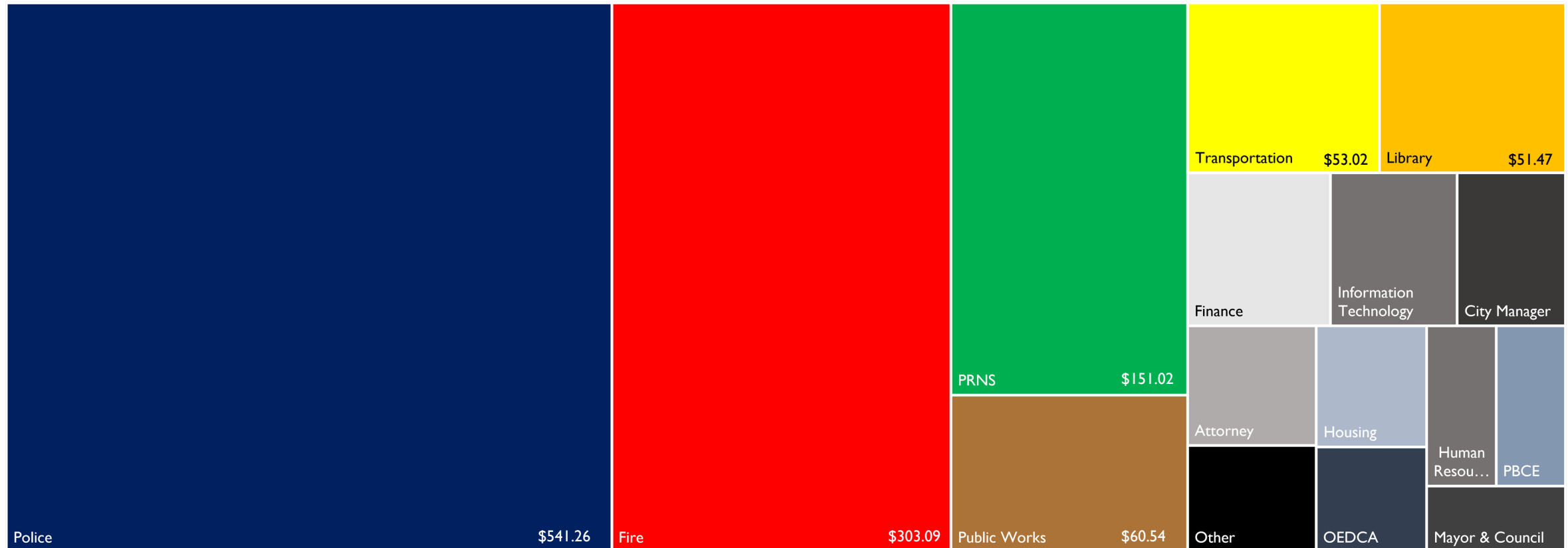
Total General Fund Uses: \$1,615,128,471

# 2024-2025 PROPOSED OPERATING BUDGET

## GENERAL FUND USES



### 2024-2025 General Fund Budget by Department (exc. Transfers and Reserves)



# 2024-2025 BUDGET BALANCING STRATEGY

## GENERAL FUND



	2024-2025	Ongoing
<b>Total General Fund Shortfall</b>	\$ (4.5)	\$ (4.5)
<b>Recommended Balancing Strategy</b>		
– Changes in Sources	\$ 29.1	\$ 4.0
– Changes in Uses	24.6	(0.5)
<b>Total Balancing Strategy</b>	\$ 4.5	\$ 4.5
<b>Amount Remaining</b>	\$ 0	\$ 0

# 2024-2025 PROPOSED BUDGET ACTIONS

## GENERAL FUND USES



Use of Fund	2024-2025 Adjustments	Ongoing Adjustments
2025-2026 Future Deficit Reserve	-	\$20.0 million
Other Important and Ongoing Core Service Work	\$12.6 million	\$3.6 million
Increasing Community Safety	\$11.7 million	\$3.0 million
Cleaning Up San José	\$10.8 million	\$8.8 million
Stormwater Permit Implementation	\$10.0 million	\$8.1 million
Attracting Investments in Jobs and Housing	\$3.6 million	-
Cost Reductions/Service Delivery Efficiencies/Funding Shifts	(\$12.1 million)	(\$18.1 million)
Interim Housing – Reallocation to Measure E	(\$8.0 million)	(\$22.5 million)
Transfer of Monterey/Bernal EIH to Santa Clara County	-	(\$2.5 million)
Use of Reserves (Committed Additions, Deferred Infrastructure, Fire and Police Equipment Sinking Fund)	(\$4.0 million)	(\$0.9 million)
<b>Total</b>	<b>\$24.6 million</b>	<b>(\$0.5 million)</b>

# 2024-2025 PROPOSED BUDGET

## NEW FUNDING FOR INTERIM & AFFORDABLE HOUSING



<b>New External Resources for Interim Housing and Affordable Housing (\$ Millions)</b>	
<b>New Interim Housing Funding</b>	
Federal Earmark - Rue Ferrari Expansion Project	\$1.0
Santa Clara County - State Housing and Homeless Incentive Program*	\$5.0
State of California Grant Funding*	\$11.0
Valley Water - Safe Sleeping Sites	TBD
<b>Total</b>	<b>\$17.0</b>
<b>New Affordable Housing Funding</b>	
Santa Clara County – California Health Facilities and Finance Authority (CHFFA)* (acquire and operate the Vermont House and Monterey/Bernal EIH)	\$8.0
<b>Total</b>	<b>\$8.0</b>
<b>Total New Resources in 2024-2025</b>	<b>\$25.0</b>

\*Not yet a specific commitment or terms need to be negotiated.

# 2024-2025 PROPOSED BUDGET MEASURE E FUNDING



## Recommended Reallocation of Measure E Resources (\$ Millions)

	Proposed Budget Include All New Revenues/Cost Reduction		Contingency Plan Does Not Include Additional State Grant Funds (\$11 M) or CHFFA (\$8 M)	
	2024-2025	2025-2026	2024-2025	2025-2026
	<b>Base Budget Affordable Housing Production Allocation* [A]</b>	<b>35.6</b>	<b>39.2</b>	<b>35.6</b>
<b>Interim Housing Construction and Operations</b>	<b>8.0</b>	<b>22.5</b>	<b>19.0</b>	<b>25.0</b>
<b>Stormwater Permit Implementation</b>	<b>15.0</b>	<b>10.6</b>	<b>15.0</b>	<b>10.6</b>
Safe or Alternative Sleeping Sites	10.0	5.0	10.0	5.0
Outreach, Sanitation and Other Support Services	3.6	3.9	3.6	3.9
Recreational Vehicle Pollution Prevention Program Expansion	1.4	1.7	1.4	1.7
<b>Lived-In Vehicle Safe Parking Site</b>	<b>1.0</b>	<b>-</b>	<b>1.0</b>	<b>-</b>
<b>City Outreach Team (Reactive)</b>	<b>0.6</b>	<b>-</b>	<b>0.6</b>	<b>-</b>
<b>Total [B]</b>	<b>24.6</b>	<b>33.1</b>	<b>35.6</b>	<b>35.6</b>
<b>Remaining Measure E for Affordable Housing [A] – [B] = [C]</b>	<b>11.0</b>	<b>6.1</b>	<b>0.0</b>	<b>3.6</b>

\*The estimate for Real Property Transfer Tax (Measure E) revenues in 2024-2025 and 2025-2026 is \$50.0 million and \$55.0 million, respectively. In accordance with City Council Policy 1-18, Section 22, 75% of revenues are set aside for affordable housing production after subtracting a 5% for program administration.



# 2024-2025 PROPOSED BUDGET AFFORDABLE HOUSING RESOURCES



## Available Resources for New Affordable Housing Commitments in 2024-2025 (\$ Millions)

	2024-2025 Proposed Budget	Contingency Plan
2024-2025 Measure E Funds	11.0	0.0
California Health Facilities Finance Authority (CHFFA)	8.0	0.0
Available Current and Prior Year Measure E Funds	4.0	4.0
Other Housing Funds	17.6	17.6
<b>Total Available Funding</b>	<b>40.6</b>	<b>21.6</b>

# 2024-2025 PROPOSED BUDGET STORMWATER PERMIT IMPLEMENTATION

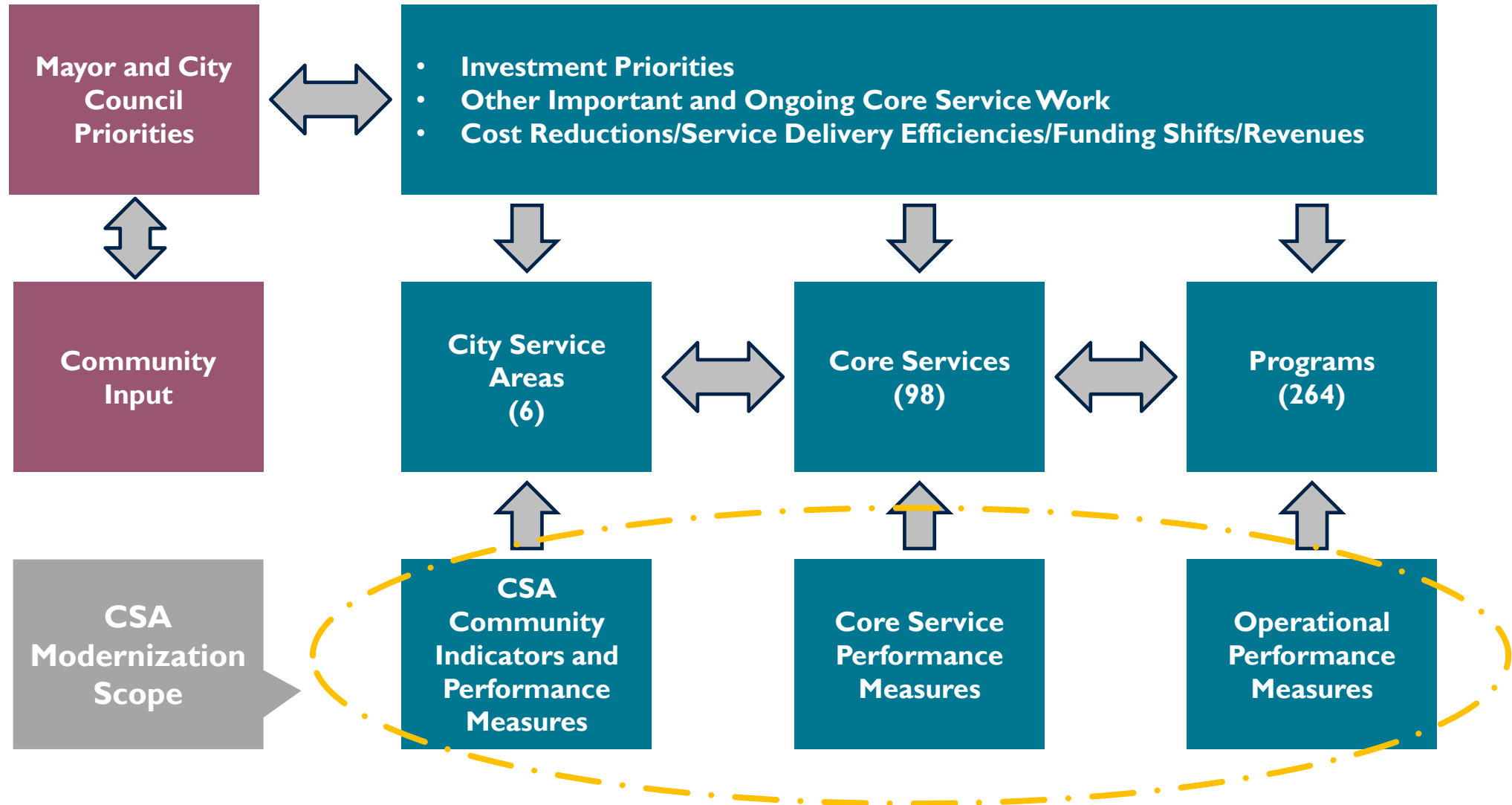


Stormwater Permit Implementation Strategies	FTE	2024-2025 Amount (\$ Millions)	Ongoing Amount (\$ Millions)	Funding Source
1. Safe or Alternative Sleeping Sites	-	10.0	5.0	Measure E
2. Outreach, Sanitation and Other Service Provision	-	3.6	3.5	Measure E
3. Encampment Management and Abatement	11.0	7.8	7.4	General Fund
4. Recreational Vehicle Pollution Prevention Program	3.0	1.4	1.7	Measure E
5. Police Presence and Security	-	1.2	0.5	General Fund
6. Other Required Activities	8.0	2.9	1.3	Multiple Funds

<b>Total</b>	<b>22.0</b>	<b>26.9</b>	<b>19.4</b>
Direct Discharge	14.0	24.1	18.0
Other Requirements	8.0	2.8	1.4
<b>By Funding Source</b>			
Measure E	3.0	15.0	10.1
General Fund	13.0	10.0	8.2
Other Special Funds	6.0	1.9	1.1

# CSA SERVICE DELIVERY FRAMEWORK

City of San José's Service Delivery Framework for Performance-Driven Government



# MODERNIZED EXAMPLE: NEIGHBORHOOD SERVICES

Specific example for the City's parks maintenance and operations programs within PRNS

CSA Mission	
Qualitative Characterization	Quantitative Measurement
Outcomes	Community Indicators 'what impact?' for CSA
Strategic Goals	CSA Performance Measures 'how well?' for CSA
Department Core Services	Core Service Performance Measures 'how well?' for Core Services
	Core Service Activity and Workload Highlights 'how much?'

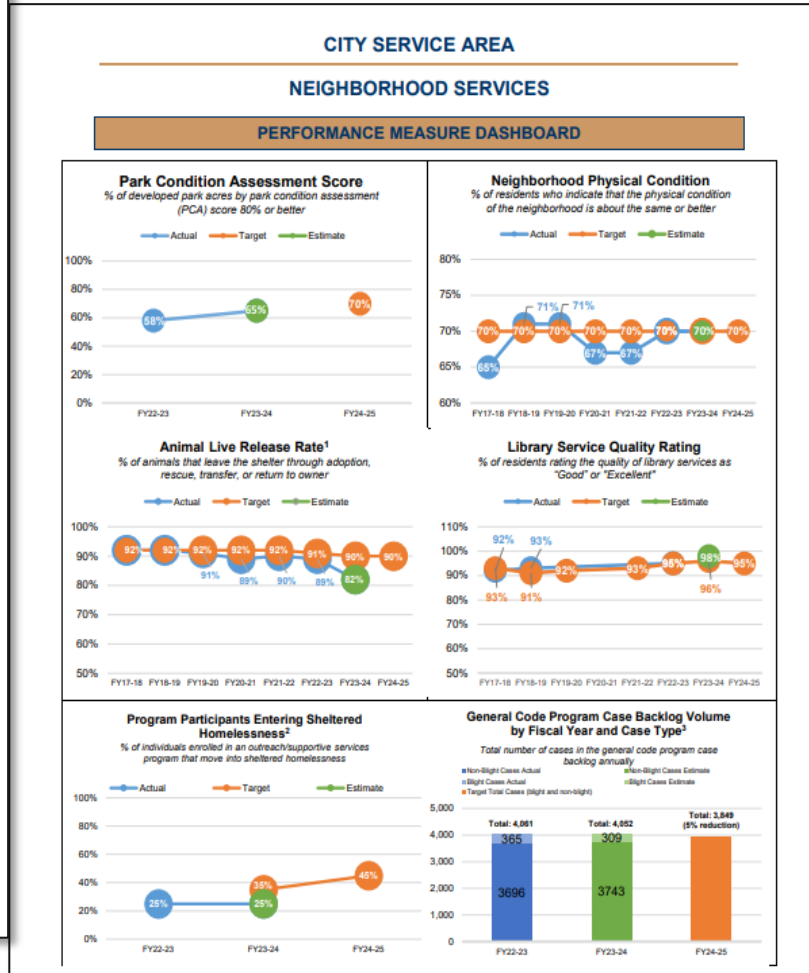
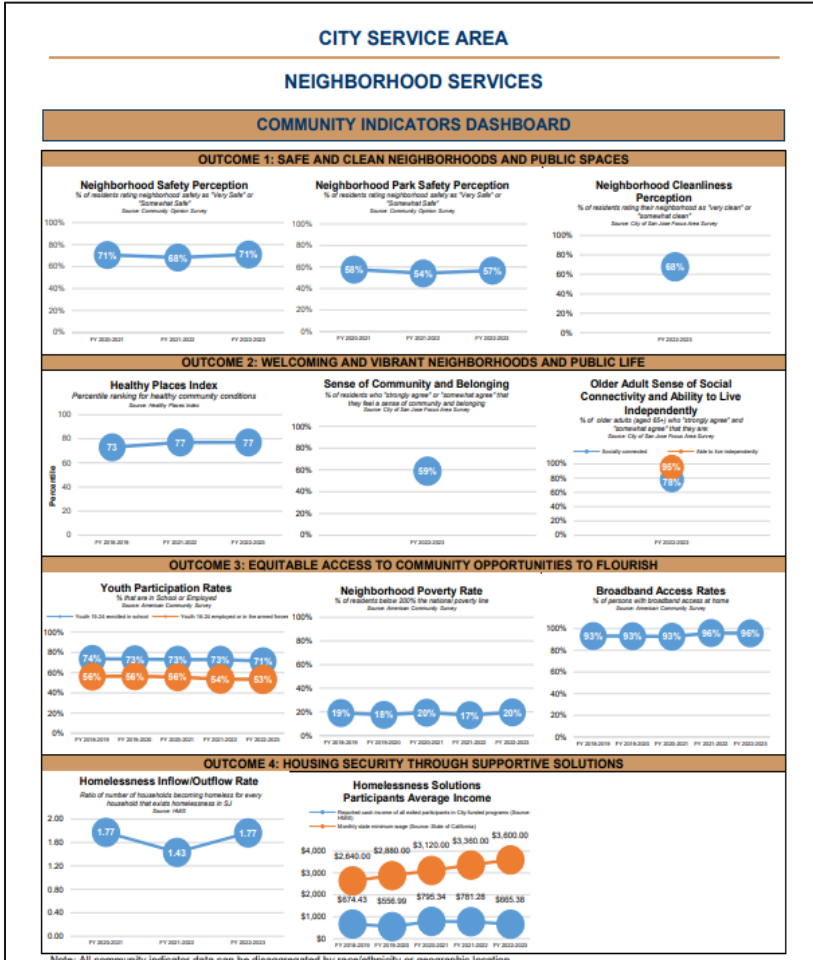
## Neighborhood Services CSA Mission:

To serve, foster, and strengthen the community by providing access to lifelong learning, opportunities to enjoy life, and preserving and stewarding healthy neighborhoods

- ▶ **California Healthy Place Index**  
% state ranking for the City's healthy community conditions
- ▶ **Park Condition Assessment Score**  
% of developed park acres by park condition assessment (PCA) score
- ▶ **Park Concerns Response Times**  
% of park concerns completed within time standards
- ▶ **Park Concerns**  
# of customer parks concerns received

# MODERNIZED EXAMPLE: NEIGHBORHOOD SERVICES

Sample reports from the proposed and adopted operating budget



### CITY SERVICE AREA

#### NEIGHBORHOOD SERVICES

##### OVERVIEW

**Budget Dollars at Work: Performance Goals**

**OUTCOME 1: SAFE AND CLEAN NEIGHBORHOODS AND PUBLIC SPACES**

Strategic Goals	CSA Performance Measures	2022-2023 Actual	2023-2024 Target	2023-2024 Estimate	2024-2025 Target	5-Year Goal
1.1 Clean and maintain the City's public spaces and community resources	PM 1.1.1 Park Condition Assessment Score. % of developed park acres by park condition assessment (PCA) score 80% or better (PRNS)	58%	NA	65%	70%	70%
	PM 1.1.2 BeautifySJ Response Times. % of graffiti removal, illegal dumping, and encampment trash services inquiries responded to within response time targets (PRNS)	81%	80%	81%	80%	85%
	PM 1.1.3 Neighborhood Physical Condition Perception. % of residents who indicate that the physical condition of the neighborhood is about the same or better (Code Enforcement)	70%	70%	70%	70%	80%
	PM 1.1.4 Library Facility Condition Rating. % of customers rating Library facility condition as "Good" or "Excellent" (Library)	90%	52%	89%	90%	93%
1.2 Promote and protect the health, safety, and welfare of residents, businesses, and animals through education and compliance services	PM 1.2.1 Animal Live Release Rate. % of animals that leave the shelter through adoption, rescue, transfer, or return to owner (ACS)	89%	90%	82%	90%	90%
	PM 1.2.2 Code Enforcement Case Resolution. % of Code Enforcement issues reported that were corrected with a rating of "Strongly Agree" or "Agree" (Code Enforcement)	NA <sup>2</sup>	45%	45%	50%	60%
	PM 1.2.3 Code Enforcement Case Backlog. % of Change in Code Enforcement Case Backlog: - General Code Program	+0.7%	0%	+0.3%	-5%	-30%
	PM 1.2.4 Library Facility Safety Rating. % of customers rating library facility safety as "Good" or "Excellent" (Library)	90%	N/A	89%	90%	92%

<sup>1</sup> As directed in the Mayor's March Budget Message for Fiscal Year 2024-2025, as approved by the City Council, \$200,000 is provided for the Code Enforcement reengineering project that will identify strategies to make more rapid progress on reducing the case backlog. At the end of the reengineering project, separate targets will be set for blight and non-blight cases.

# COMMUNITY AND ECONOMIC DEVELOPMENT CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Attracting Investments in Jobs and Housing

Storefront Activation Grant Program (\$650,000 million)/City-Wide Expenses

Rent Stabilization and Eviction Prevention Staffing (\$619,000)/Housing

Destination Marketing (\$500,000)/City-Wide Expenses and Airport

Supplemental Arts and Cultural Funding (\$500,000)/City-Wide Expenses

Downtown Street Beautification (\$400,000)/City-Wide Expenses

General Plan Update – Environmental Justice Mandatory Element Consultant Services (\$375,000)/Planning, Building and Code Enforcement

Neighborhood Economic Grants (\$200,000)/ Office of Economic Development and Cultural Affairs

AI Manufacturing Incentive (\$250,000)/City-Wide Expenses

East San José Small Business Corridor Support Manager (\$177,000)/Office of Economic Development and Cultural Affairs

Microbusiness Startup Grants (\$150,000)/ Office of Economic Development and Cultural Affairs

Office and Commercial Building Adaptive Re-Use Ordinance (\$100,000)/Planning, Building and Code Enforcement

### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Vacant Position Elimination (-\$3.2 million)/ Planning Building and Code Enforcement

Citywide Planning – Ordinance and Policy Staffing (-\$220,000)/Planning, Building and Code Enforcement

Vacant Position Elimination (-\$148,000)/Fire

Workforce Development Staffing Realignment (-\$96,000)/Office of Economic Development and Cultural Affairs

Non-Personal/Equipment Reduction (-\$50,000) /Office of Economic Development and Cultural Affairs

Joint Venture Silicon Valley Reduction (-\$26,000)/City-Wide Expenses

# ENVIRONMENTAL AND UTILITY SERVICES CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Cleaning Up San José

Trash Capture Devices Maintenance (\$1.3 million)/Transportation	Municipal Regional Stormwater Permit Inspection Programs (\$482,000)/Environmental Services
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### Other Important and Ongoing Core Service Work

Customer Program Staffing (\$5.4 million)/Energy	Sanitary Sewer Vehicle Replacement (\$1.0 million)/Transportation
Dewatered Biosolids Hauling Support (\$4.3 million)/Environmental Services	Regulatory Compliance and Purified Water Program (\$730,000)/Environmental Services
Regional Wastewater Facility Capital Plan Update (\$2.5 million)/Environmental Services	Solid Waste Contamination Reduction Staffing and Resources (\$564,000)/Environmental Services
South Bay Water Recycling System Improvements (\$1.9 million)/Environmental Services	City Energy Resiliency Study (\$400,000)/Energy
Sanitary Sewer Flow Study (\$1.5 million)/Environmental Services	Climate Smart San José (\$200,000)/Environmental Services

### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Vacant Position Elimination (-\$1.1 million)/Environmental Services	Vacant Position Elimination (-\$124,000)/Transportation
Vacant Position Elimination (-\$216,000)/Energy	Municipal Environmental Compliance Staffing (-\$109,000 in the General Fund)/Environmental Services

# NEIGHBORHOOD SERVICES CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Cleaning Up San José

Beautify San José Stormwater Permit Implementation (\$8.2 million)/Parks, Recreation and Neighborhood Services

Beautify San José Continuation and Expansion (\$7.5 million)/Parks, Recreation and Neighborhood Services

BeautifySJ Grant Program (\$150,000)/City-Wide Expenses

Creek Clean-up Partners (\$75,000)/Parks, Recreation and Neighborhood Services

Illegal Dumping and Graffiti Response (\$50,000)/Planning, Building and Code Enforcement

### Urgent Action on Homelessness

Outreach, Sanitation and Other Service Provision (\$3.6 million)/Attachment D

Emmanuel House Shelter Redevelopment (\$1.0 million)/Housing

Homelessness Prevention (\$1.0 million)/Housing

Rent Stabilization and Eviction Prevention Staffing (\$619,000)/Housing

Homeward Bound Pilot Program (\$200,000)/ Housing

### Other Important and Ongoing Core Service Work

Child and Youth Programming Staffing (\$544,000)/Parks, Recreation and Neighborhood Services

Gardner Community Center Staffing (\$364,000)/City-Wide Expenses

Animal Care and Services Medical Services Staffing (\$322,000)/Public Works

Integrated Library System Migration, Optimization, and Staffing (\$300,000)/Library

Animal Care and Services Technical Staffing (\$296,000)/Public Works

Starbird and Berryessa Youth Center Staffing (\$283,000)/Parks, Recreation and Neighborhood Services

Neighborhood Associations Engagement Model (\$280,000)/Parks, Recreation and Neighborhood Services

Code Enforcement Operational Assessment (\$200,000)/Planning, Building and Code Enforcement



# NEIGHBORHOOD SERVICES CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

State Grant Funding for Interim Housing  
(\$16.0 million)/General Fund Revenues

Rue Ferrari Emergency Interim Housing Site Expansion Federal  
Earmark Revenue (\$1.0 million)/General Fund Revenues

Placemaking Program (-\$465,000)/Parks, Recreation and  
Neighborhood Services

Partners in Reading, Adult & Family Literacy  
(-\$460,000)/Library

Community Center Fitness Centers (-\$397,000)/Parks, Recreation  
and Neighborhood Services

Nature Program Staffing (Almaden Lake and Alum Rock Park)  
(-\$391,000)/Parks, Recreation and Neighborhood Services

Vacant Position Elimination (-\$357,000)/Parks, Recreation and  
Neighborhood Services



# PUBLIC SAFETY CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Increasing Public Safety

Fire Stations 8 and 32 Furniture, Fixtures and Equipment (\$2.5 million)/General Fund Capital, Transfers, Reserves

Sworn and Non-Sworn Backgrounding and Recruiting (\$1.4 million) /Police Department

Police Department Helicopter Camera Replacement (\$575,000)/Police Department

Police Department Cadet Program (\$178,000)/Police Department

Real-Time Crime Center (RTCC) Equipment (\$200,000)/Police Department

Emergency Preparedness and Response: Communication and Community Recovery Professional Services (\$150,000)/City Manager's Office

Fire Station Network Switches Replacement (\$150,000)/Fire Department

Women Recruitment (\$100,000)/Fire

Police Women's Bootcamp (\$25,000)/Police

### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Ambulance Transport and User Fee Program (\$1.7 million)/General Fund Revenues

Police Department Sworn Staffing (-\$2.2 million) /Police Department

Police Staffing Addition Reserve (-\$1.9 million)/General Fund Capital, Transfers, Reserves

Community Service Officers Staffing (-\$1,283,000)/Police Department

Cannabis Regulation Program Staffing (-\$730,000)/Police Department

# TRANSPORTATION AND AVIATION SERVICES CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Increasing Community Safety

Automated Speed Enforcement Pilot (\$415,000)/ Transportation

Red Light Running Pilot (\$200,000)/Transportation

New Traffic Infrastructure Assets Operations and Maintenance (\$164,000)/Transportation

Safe Routes to School (\$106,000)/Transportation

### Cleaning Up Our Neighborhoods

Oversized Vehicle Regulation Reserve (\$1.5 million)/General Fund Capital, Transfers, Reserves

Vehicle Abatement Program (\$460,000)/Transportation

### Other Important and Ongoing Core Service Work

Aircraft Rescue and Firefighting Foam Disposal (\$270,000)/Airport

TSA Mandated Screening (\$225,000)/Airport

Airport Generator Transfer Switch Maintenance (\$200,000)/Airport

Local Project Delivery and Grants Management (\$180,000)/Transportation

Airport Planning and Development Division Staffing (\$177,000)/Airport

### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Parking Citation Fine Revenue (\$800,000) /General Fund Revenues

Vacant Position Elimination (-\$1.1 million)/ Transportation

Vacant Position Elimination (-\$530,000)/Airport

Front Desk Support (-\$106,000)/Transportation

# STRATEGIC SUPPORT CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Cleaning Up San José

San José 311 Program (\$603,000)/Information Technology

Stormwater Fee Study (\$300,000)/City-Wide Expenses

### Other Important and Ongoing Core Service Work

Executive Leadership/City Management – Customer Service Vision and Standards Implementation (\$3.0 million)/City-Wide Expenses

Disability Accessibility and Community Engagement Staffing (\$286,000)/City Manager’s Office

Essential Services Reserve (\$2.0 million)/General Fund Capital, Transfers, Reserves

Animal Care and Services – Various Improvements (\$250,000)/General Fund Capital, Transfers, Reserves

Capital Project Management System Program Support (\$469,000)/Public Works

Equity through Data Staffing (\$244,000)/ Information Technology

Hyperconverged Infrastructure (\$440,000)/ Information Technology

Cybersecurity Staffing (\$215,000)/Information Technology

Recruitment Staffing (\$412,000)/Human Resources

Classification and Compensation Staffing (\$158,000)/ Human Resources

Disaster Recovery and Grant Management Staffing (\$398,000)/Finance

Fleet Supervision Staffing (\$150,000)/Public Works

City Hall Audio Visual Program Management Staffing (\$292,000)/Public Works

# STRATEGIC SUPPORT CSA

## KEY BUDGET ACTIONS (PARTIAL LIST)



### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Accounts Receivable Amnesty Program (\$300,000)/General Fund Revenues

Public Works Department Staffing Plan – Capital Improvement Plan (-\$1.7 million)/Public Works

Vacant Position Elimination (-\$735,000)/Public Works

Janitorial Contract Services Savings (-\$630,000)/Public Works

Non-Personal/Equipment Savings (-\$415,000)/Information Technology

Legal Transactions Staffing (-\$359,000)/City Attorney's Office

Vacant Position Elimination (-\$262,000)/Information Technology

Personal Services Realignment (-\$216,000)/City Manager's Office

Debt Management Staffing (-\$209,000)/Finance

Transfer to the Vehicle Maintenance and Operations Fund (-\$200,000)/General Fund Capital, Transfers, Reserves

Fellowship Program (-\$177,000)/City-Wide Expenses

Revenue Management Staffing (-\$145,000)/Finance

# RECOMMENDED BUDGET ACTIONS

## FEEES AND CHARGES ADJUSTMENTS



- **Cannabis Program:**
  - Fee Program Restructured. Annual Operating Fee reduced to \$35k for first activity and \$20k for each additional activity (from \$139k). Overall revenue reduction of \$901k.
- **Utilities:**
  - Storm Sewer Service Fee: No fee increase
  - Sewer Service and Use Charge Fee: 9% overall revenue increase
  - Recycle Plus Rates: 4% increase for single-family and 2% for multi-family dwellings
  - Municipal Water System Rates: revenue increase of 5.2% increase (rates will vary by user)
- **Development Fee Programs:** fee increases of approximately 5.5% to 10% recommended

# NEXT STEPS



May 8 <sup>th</sup> through 16 <sup>th</sup>	City Council Budget Study Sessions
May 9 <sup>th</sup> thru 23 <sup>rd</sup>	Budget Town Halls
May 14 <sup>th</sup> /June 10 <sup>th</sup>	Public Budget Hearings
June 3 <sup>rd</sup>	Mayor's June Budget Message Released
June 11 <sup>th</sup>	Council Review/Approval of Mayor's June Budget Message, Proposed Budget, and Measure E Spending Allocations
June 18 <sup>th</sup>	Adoption of the 2024-2025 Budget and Fees and Charges

# 2024-2025 PROPOSED OPERATING BUDGET OVERVIEW

Jim Shannon  
*Budget Director*

Bonny Duong  
*Assistant Budget Director*

Claudia Chang  
*Deputy Budget Director*

Selena Ubando  
*Assistant to the City Manager*

Bryce Ball  
*Assistant to the City Manager*

William Yu  
*Assistant to the City Manager*





# FY24/25 Economic Outlook

May 8, 2024

**Nanci Klein,  
Director, Office of Economic Development and  
Cultural Affairs**

# Today's Presentation



**1 National, Regional and Local Economic Outlook**

**2 General Fund Revenue Sources**

**3 Fiscal Impacts of Land Use Decisions**

**4 Implications**

# National economy

# Positive, yet plenty of uncertainty

## ➤ National economy over the last 4 years

- COVID-19 Pandemic Impact

- Inflation Surge

- Fed's Response

- Recent Trends

## ➤ Where does the economy seem to be moving?

# Regional economy

# Indicators to Watch



## Unemployment Rate (3.8%)

March 2024

Still low, slight increase from March 2023 (3.5%)



## Inflation (up 3.1%)

March 2024

slightly higher than expected



## Interest Rates (steady 5.3%)

Steady rates since July 2023

## The regional economy is impacted by national trends

- Regional economy impacted by hiring and investment decisions of tech
  - Tech-dominant industries generate **62% of the GDP** in San Jose MSA
  - San Jose has the largest GDP per capita among major metropolitan areas in the US **>201K**
  - Higher interest rate environments, tech companies tend to rein in spending and implement layoffs: **36K layoffs through Feb 2024; 2% of total workforce; 7% of tech workforce**
  - Vibrant\_VC funding and startup pipeline: **42% of US share in 2024 Q1**

## High Intellectual Capital/Talent

- Highly educated talent pool in engineering and computer science
  - Global talent: Stanford, Berkeley, San Jose State act as anchors
  - **42% of highly educated tech workers** were from China and India combined in comparison to **30%** from within US in 2022.
- High talent level insulates Silicon Valley from major downturns to an extent and drive innovation in areas like Generative AI, autonomous driving, enterprise software, etc.



**How are regional dynamics  
impacting our local economy?**

# Impact on People

- **63% of our employed residents** work outside the boundaries of the City
- Since 2010, despite strong job growth, **the City added more employed residents (18%) than jobs (16%)**
  - Our jobs/employed residents ratio is declining: 0.79

➤ Income inequality remains pronounced

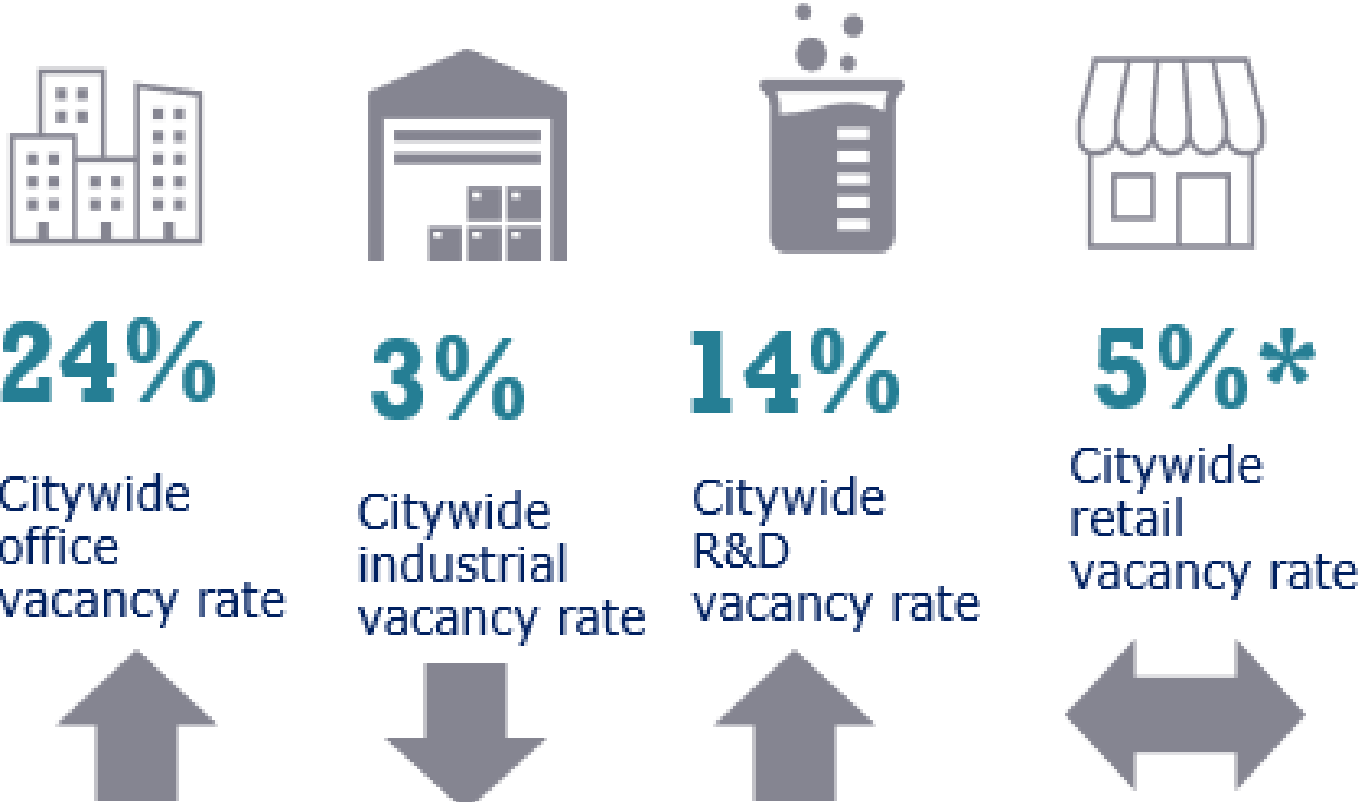
- Asian households earn **1.8 times (170K)**, and White households earn **1.4 times (137K) more than Hispanic/Latino households (97K)** in the City.
- Neighborhoods with lower income, education, and life expectancy, often Hispanic/Latino, need more city services

# Top Sales Tax Generators in San Jose: Diverse economic base



# Commercial real estate market: critical indicator of economic stability

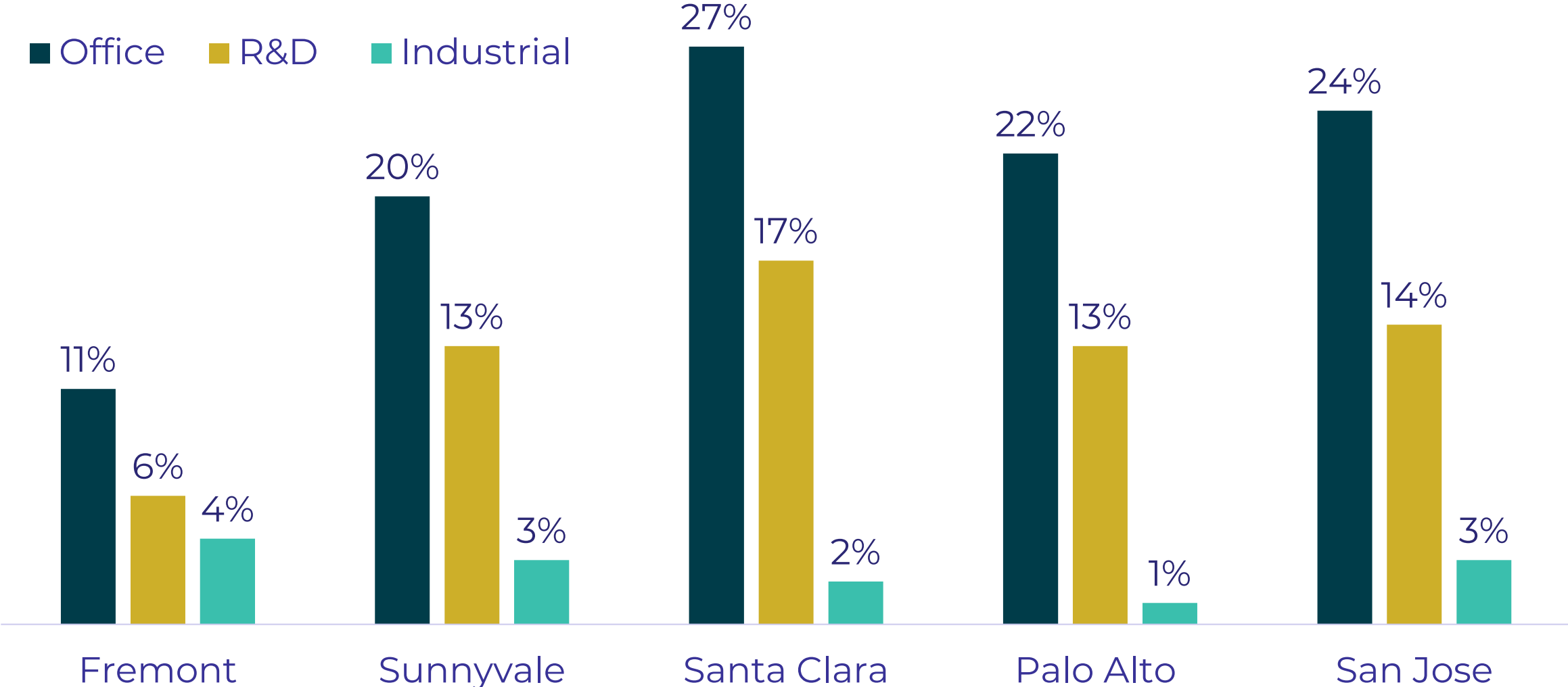
## Real Estate Indicators



**Downtown Office Vacancy Rate: 30.9%**

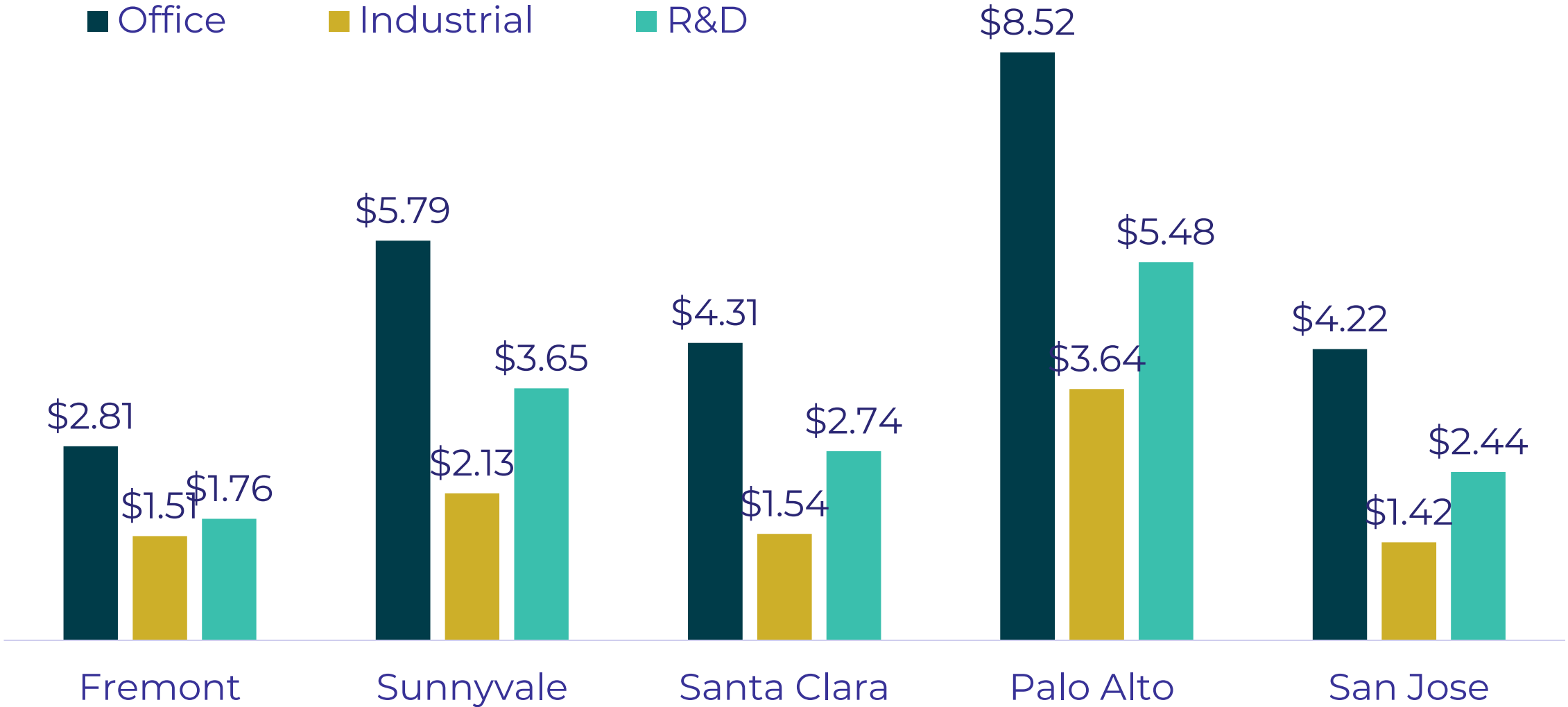
Source: Cushman and Wakefield, 2024 Q1

# Commercial real estate vacancies



Source: Cushman and Wakefield, 2024 Q1

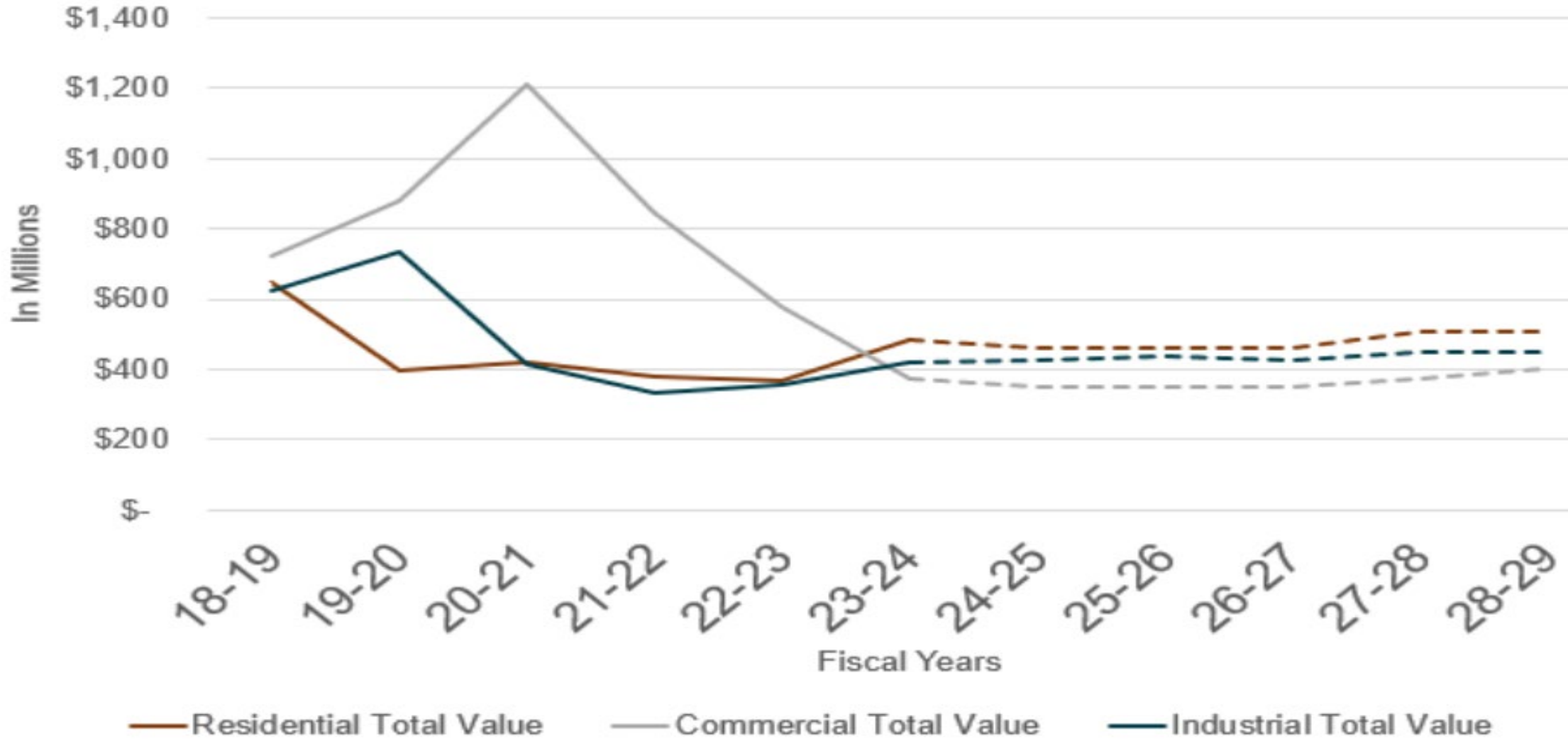
# Commercial real estate rents



Source: Cushman and Wakefield, 2024 Q1

# Significant leveling off predicted in development activity

## Construction Valuation

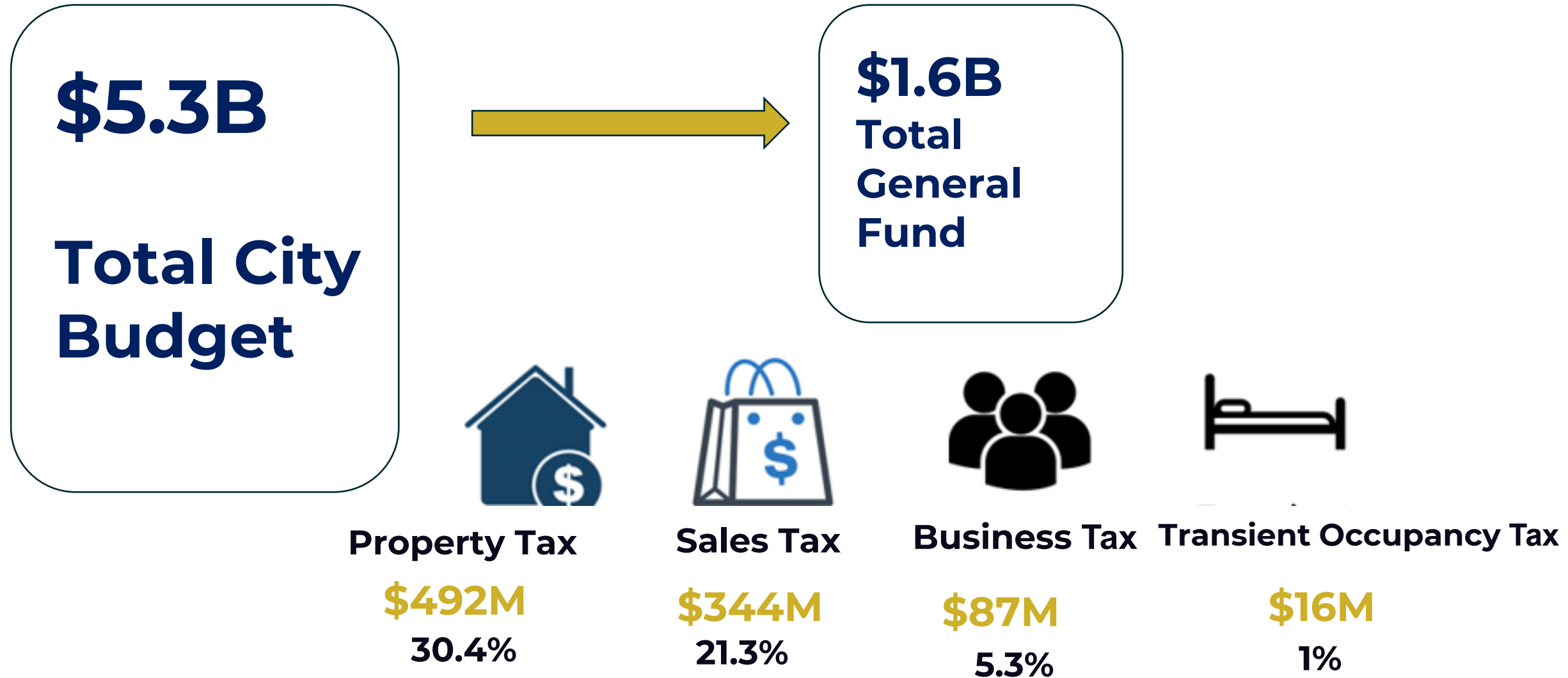




# General Fund Revenue Sources

# Economically Sensitive General Fund Revenue Sources

## Proposed 2024-2025 Operating Budget

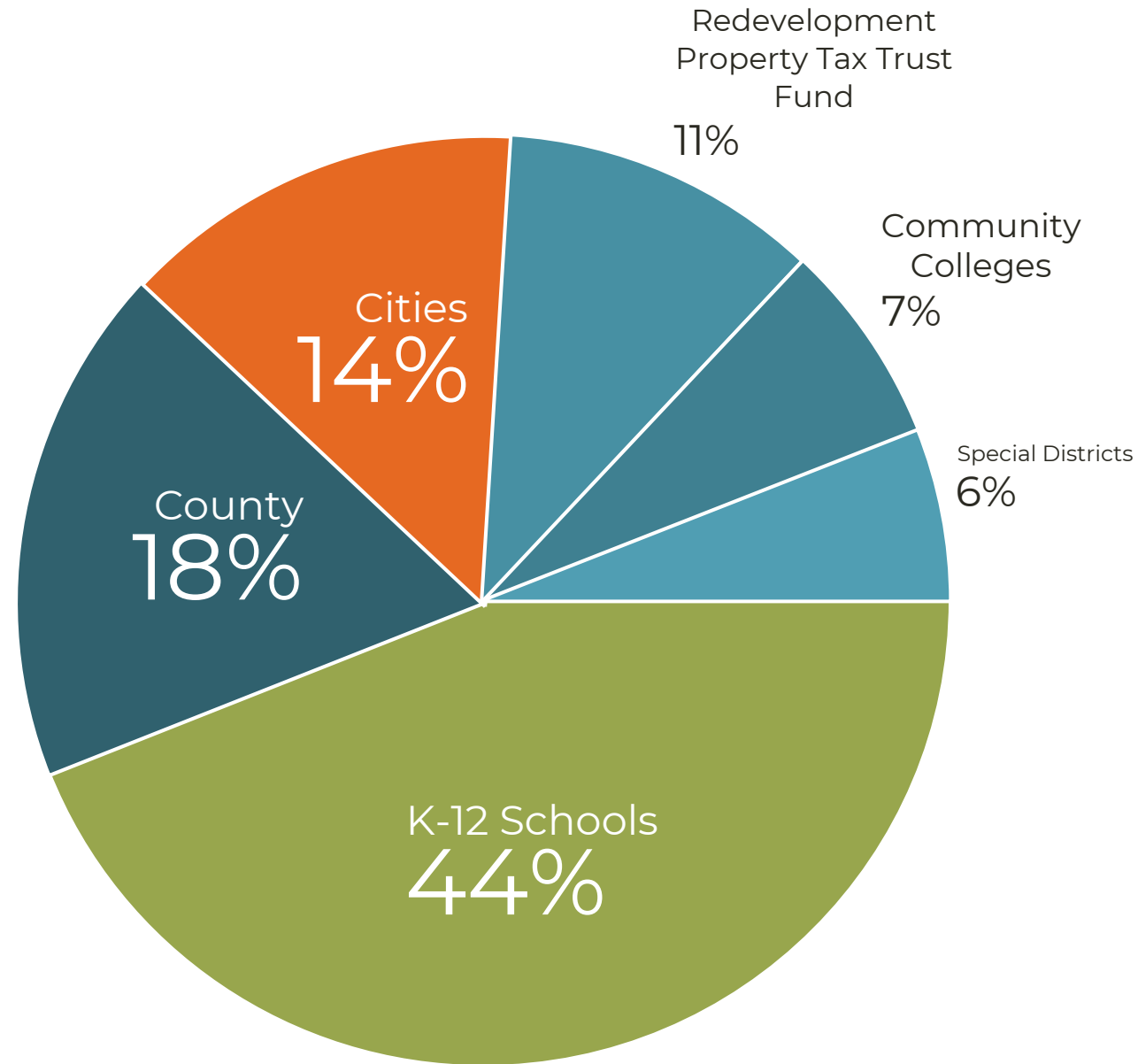


Total General Fund Balance include Beginning Fund Balance

\$492 million is 30.4% of the General Fund

## Property Tax

City of San Jose receives ~12-13% of the Countywide 1% Property Tax

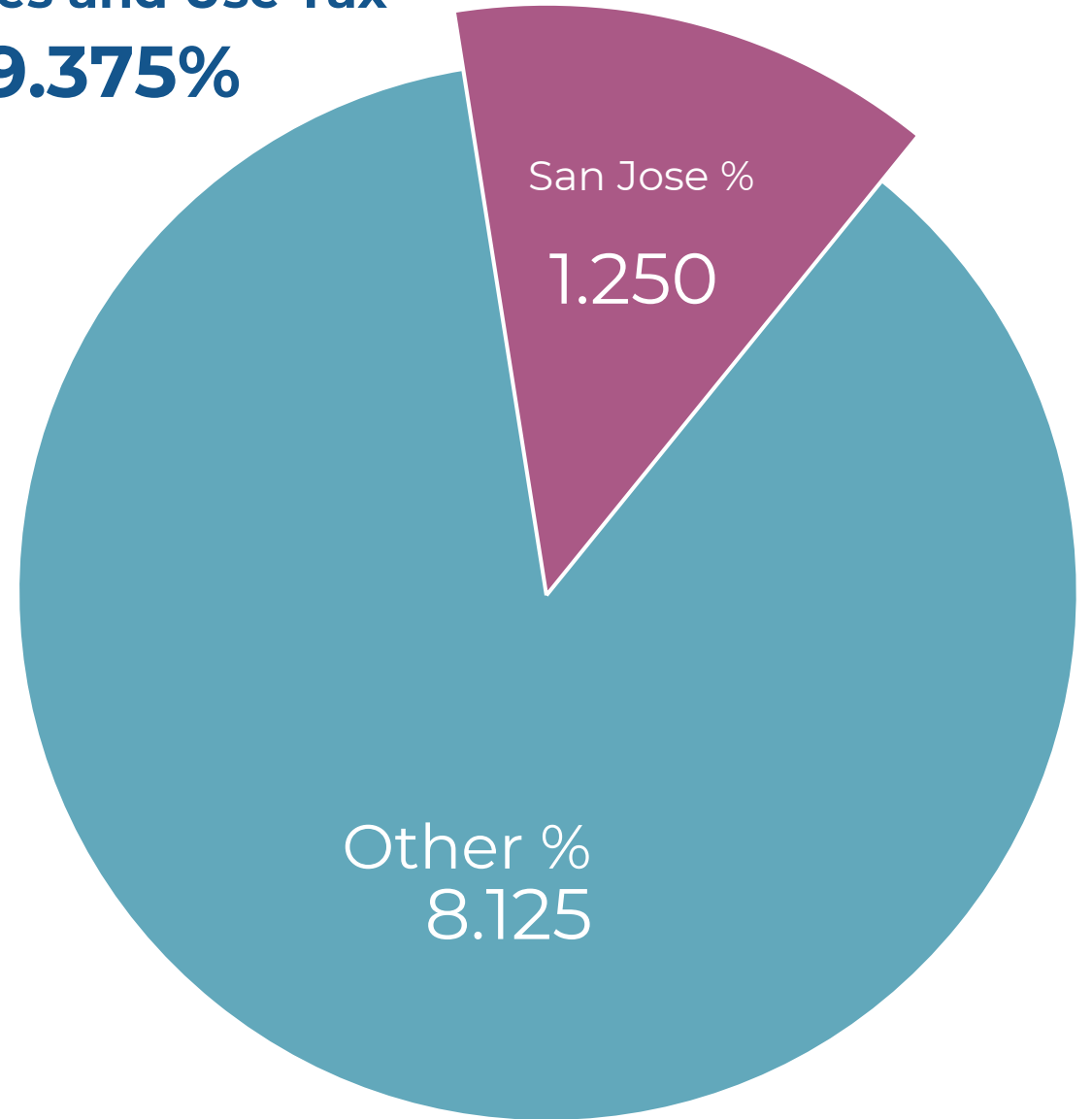


\$344 million is 21.3% of the General Fund

## Sales and Use Tax

City of San Jose receives 1.25% of the overall 9.375% statewide sales and use tax

Sales and Use Tax  
9.375%



# Fiscal Impacts of Land Use Decisions

# Key Economic Factors that Impact Local Revenue

## Property Tax

- Commercial Real Estate Market
- Residential Real Estate Market

## Sales Tax

- Employment Trends
- Consumer Spending Trends
- Industry Trends

## Business Tax

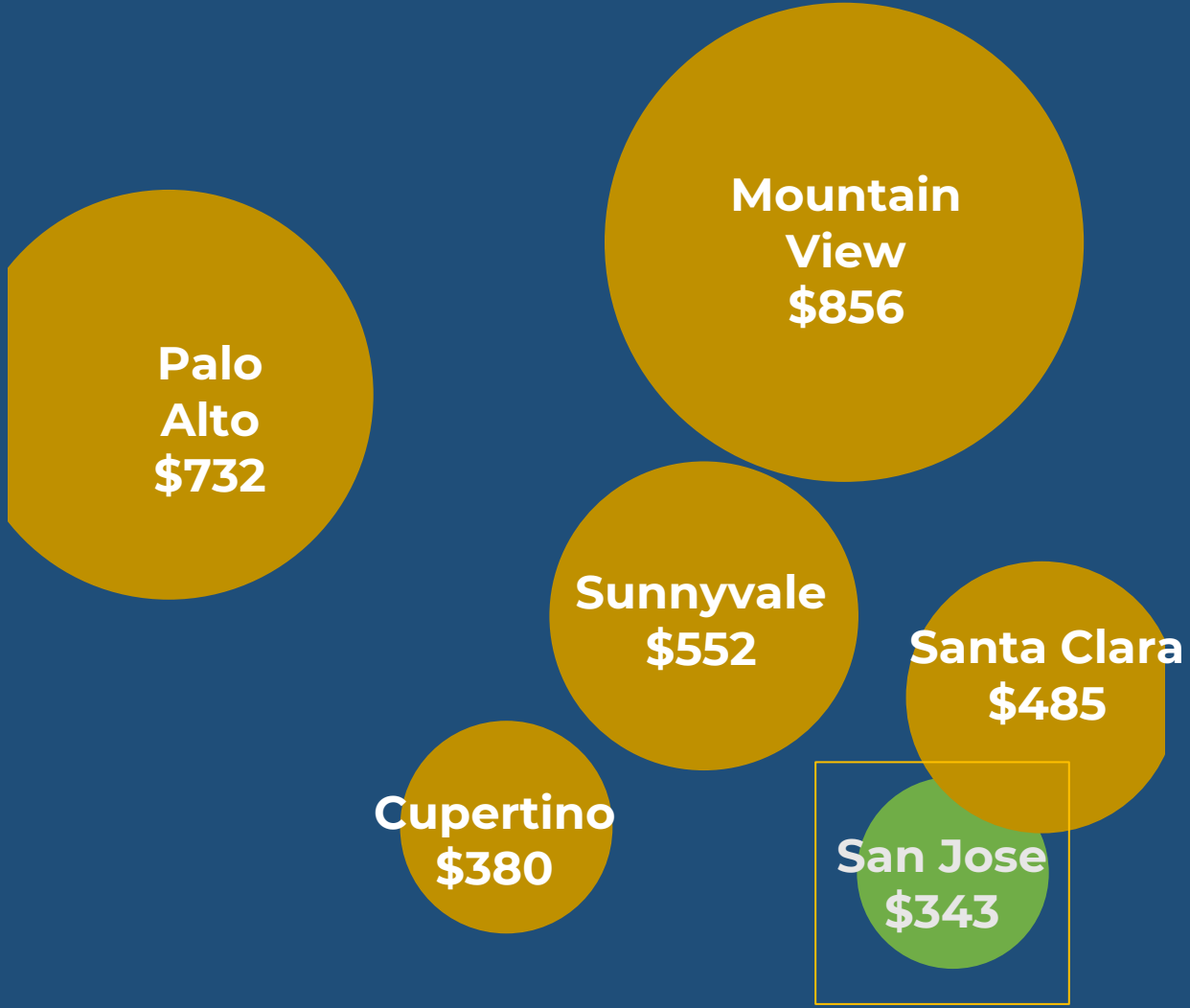
- New Business Development
  - Major and small employers

## Transient Occupancy Tax

- Hotel Occupancy
- Destination marketing, amenities, arts and culture

# San Jose has Lower Property and Sales Tax per Capita

## Property Tax



## Sales Tax



# Incorporated City Land Area

Employment

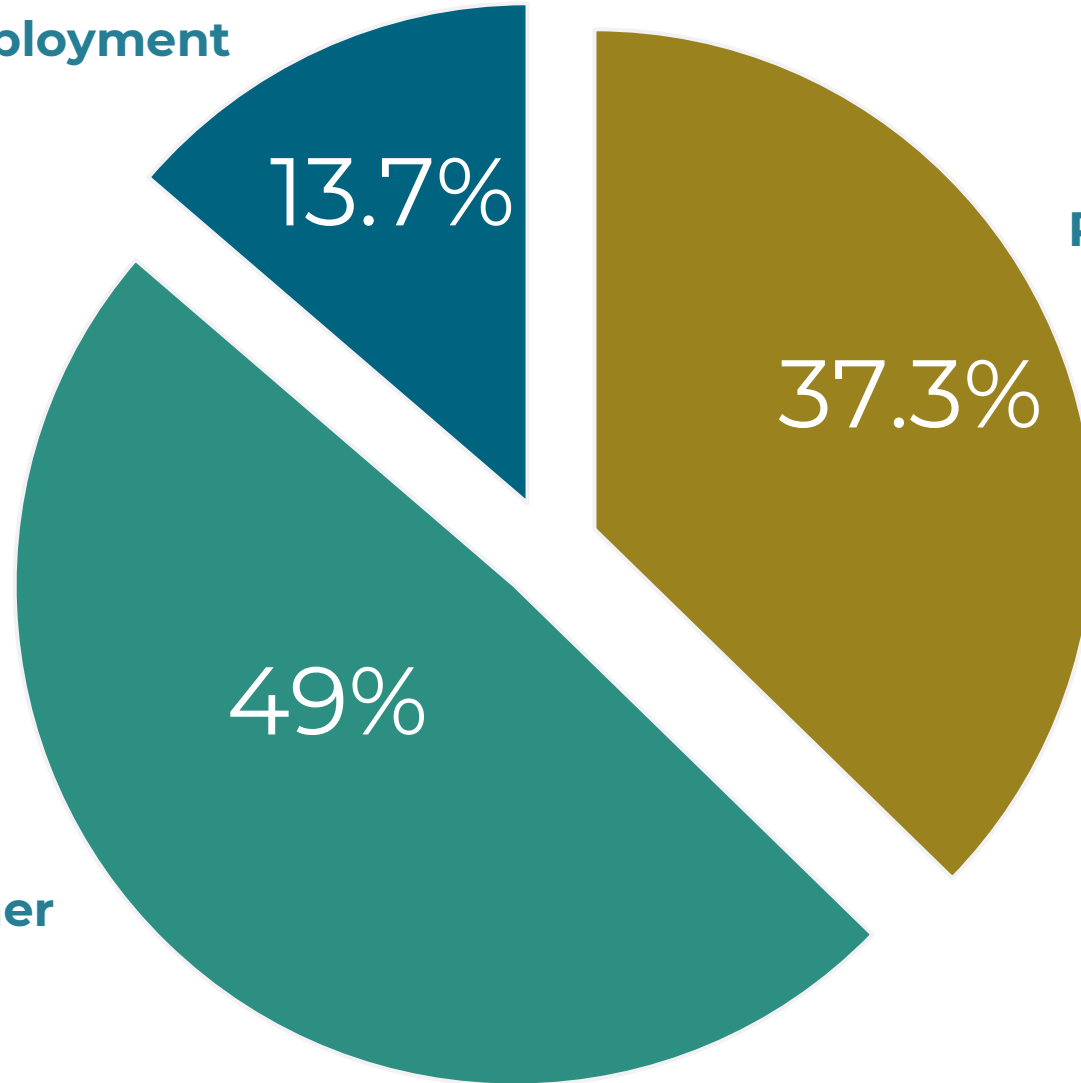
13.7%

Residential

37.3%

Public, Open Space, Other

49%





# Implications

# Implications

- Structural deficit
- Service costs are outstripping revenues
- Need to develop and add more jobs
- Importance of employment lands
- Density