

CITY OF SAN JOSE
2024-2025 ADOPTED OPERATING BUDGET
GENERAL FUND OVERVIEW

Introduction

For 2024-2025, General Fund revenue estimates (excluding Fund Balance) total \$1.5 billion, representing a 4.2% increase from the 2023-2024 Adopted Budget level. When the Fund Balance-Carryover is included, General Fund resources total \$2.0 billion, which is 0.3% above the prior year.

Estimates for the 2024-2025 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2025-2029 Five-Year Forecast that was released at the end of February 2024. These estimates have been reviewed continually since the Forecast document was released and have been revised, as appropriate, in the Adopted Budget based on updated information. Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2023-2024; and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for 2024-2025. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2024-2025 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

| Revenue Category | 1 2022-2023 Actuals | 2 2023-2024 Adopted | 3 2024-2025 Forecast | 4 2024-2025 Adopted | 2 to 4 % Change | % of Total |
|---------------------------------------|---------------------------|---------------------------|----------------------------|---------------------------|-----------------------|---------------|
| Property Tax | \$ 449,014,347 | \$ 460,400,000 | \$ 492,000,000 | \$ 495,000,000 | 7.5% | 24.2% |
| Sales Tax | 343,472,084 | 336,400,000 | 344,000,000 | 352,000,000 | 4.6% | 17.2% |
| Transient Occupancy Tax | 14,936,816 | 16,000,000 | 16,000,000 | 16,000,000 | 0.0% | 0.8% |
| Franchise Fees | 44,823,852 | 51,825,008 | 54,445,008 | 55,022,632 | 6.2% | 2.7% |
| Utility Taxes | 124,266,765 | 126,550,000 | 136,000,000 | 136,000,000 | 7.5% | 6.6% |
| Business Taxes | 89,626,955 | 87,500,000 | 87,000,000 | 87,000,000 | (0.6%) | 4.3% |
| Real Property Transfer Tax | 56,279,648 | 50,000,000 | 0 | 0 | N/A | 0.0% |
| Telephone Line Tax | 21,093,889 | 22,000,000 | 22,000,000 | 22,000,000 | 0.0% | 1.1% |
| Licenses and Permits | 17,756,820 | 22,005,622 | 21,314,491 | 21,818,390 | (0.9%) | 1.1% |
| Fees, Rates, and Charges | 23,595,906 | 22,372,680 | 25,806,133 | 27,808,860 | 24.3% | 1.4% |
| Fines, Forfeitures and Penalties | 17,352,624 | 15,080,000 | 16,804,797 | 17,604,797 | 16.7% | 0.9% |
| Rev. from Money and Property | 19,157,555 | 14,864,000 | 18,735,000 | 18,735,000 | 26.0% | 0.9% |
| Rev. from Local Agencies | 25,497,190 | 18,975,403 | 17,371,268 | 19,077,112 | 0.5% | 0.9% |
| Rev. from State of California | 19,912,631 | 22,110,719 | 13,100,000 | 36,803,135 | 66.4% | 1.8% |
| Rev. from Federal Government | 4,962,143 | 7,391,504 | 0 | 15,527,645 | 110.1% | 0.8% |
| Other Revenue | 291,249,120 | 10,257,667 | 8,738,257 | 9,560,067 | (6.8%) | 0.5% |
| Transfers and Reimbursements | 140,748,332 | 125,768,078 | 138,987,687 | 139,214,498 | 10.7% | 6.8% |
| Subtotal | \$ 1,703,746,677 | \$ 1,409,500,681 | \$ 1,412,302,641 | \$ 1,469,172,136 | 4.2% | 72.0% |
| Fund Balance-Carryover ⁽¹⁾ | 639,359,298 | 629,626,855 | 89,217,944 | 576,480,540 | (8.4%) | 28.0% |
| Total General Fund Sources | \$ 2,343,105,975 | \$ 2,039,127,536 | \$ 1,501,520,585 | \$ 2,045,652,676 | 0.3% | 100.0% |

⁽¹⁾ The Fund Balance figure does not include the Reserve for Encumbrances.

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Economic Performance

The following is a discussion of both the national and local economic outlooks used to develop the 2024-2025 revenue estimates. Various economic forecasts and models were reviewed in the development of the 2024-2025 revenue estimates. The City also uses an economic forecasting consultant and consultants that focus on particular revenue categories, such as Sales Tax and Transient Occupancy Tax, to assist in the development of the revenue estimates and provide information on the future outlook in these areas. A more detailed discussion on forecasted economic conditions can be found in the 2025-2029 Five-Year General Fund Forecast.

National Outlook

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.

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 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."¹

¹ The Conference Board, Consumer Confidence Survey, December 2023.

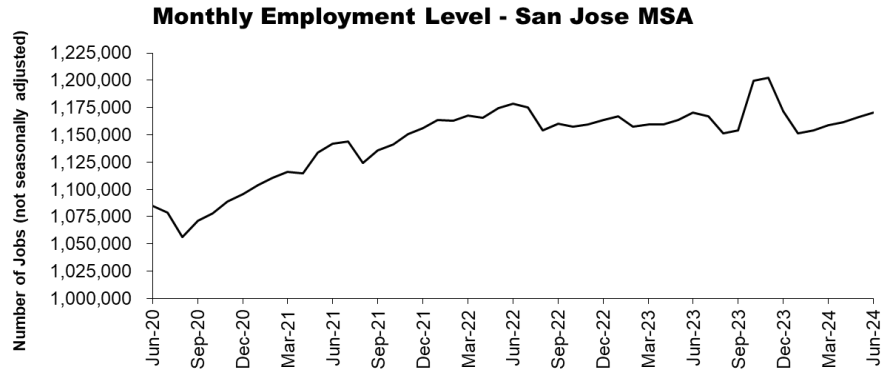
CITY OF SAN JOSE 2024-2025 ADOPTED OPERATING BUDGET GENERAL FUND OVERVIEW

Economic Performance

City of San José Outlook

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 June 2024 employment level of 1.17 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 3,000 jobs, or 0.3%, from the June 2023 level. This net increase includes private education and health services adding 10,100 jobs and professional and business services growing by 4,600 jobs. Contrarily, manufacturing decreased by 6,800 jobs and the information sector eliminated 6,800 jobs.²



| Unemployment Rate (Unadjusted) | | | |
|---|-----------|----------|-------------|
| | June 2023 | May 2024 | June 2024** |
| San José Metropolitan Statistical Area* | 3.7% | 3.5% | 4.1% |
| State of California | 4.7% | 4.6% | 5.3% |
| United States | 3.8% | 3.7% | 4.3% |
| * San Benito and Santa Clara Counties Source: California Employment Development Department. ** June 2024 estimates are preliminary and may be updated. | | | |

The local unemployment rate for June 2024 was 4.1%, which is higher than the May 2024 rate of 3.5% and the prior year unemployment rate of 3.7%. It is important to note, however, in this region, the June 2024 unemployment rate is lower than the unadjusted unemployment rate for the State (5.3%) and the nation (4.3%).

Overall construction activity through June 2024 increased 21.7% from prior-year levels, primarily due to activity for the residential and industrial land use category

experiencing a significant year-over-year increase. The increase would be more prominent if it were not for the significant decrease in commercial construction, which is showing a 9.3% decrease when compared to the prior year. Construction activity has slightly overperformed the activity projected by the Planning, Building and Code Enforcement Department in the 2025-2029 Five-Year Forecast, which was released in February 2024.

Through June 2024, residential permit valuation has increased 48.4% from prior year levels (\$547.8 million in 2023-2024 from \$369.2 million in 2022-2023). Overall valuation for the year was moderately higher for new construction at 70% than alterations at 30%. However, for May and

² State of California Employment Development: Labor Market Information Division Press Release, July 19, 2024.

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Economic Performance

City of San José Outlook

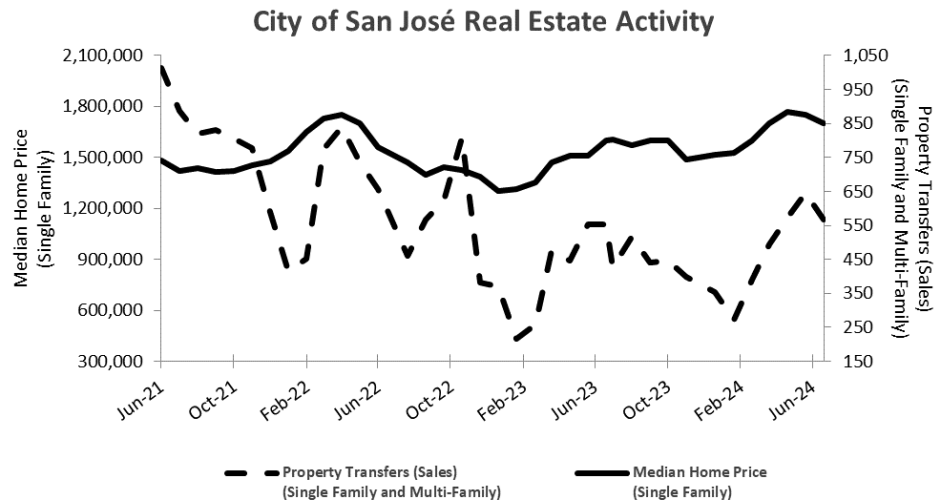
June, a large majority of permit activity was from new construction. Residential activity through June included 2,102 multi-family units and 573 units of single-family construction for a total of 2,675 units. A few notable projects for May and June include permits issued for 300 unit, five story affordable housing apartment project located on W. Julian Street, 194 unit, six story apartment project located on Alum Rock Avenue, 233 unit, six story apartment project located on Meridian Avenue, and 119 unit, six story apartment project located on Alum Rock Avenue.

| Private Sector Construction Activity (Valuation in \$ Millions) | | | |
|--|--------------------------|--------------------------|---------------------|
| | YTD June 2023 | YTD June 2024 | % Change |
| Residential | \$ 369.2 | \$ 547.8 | 48.4% |
| Commercial | \$ 577.6 | \$ 523.9 | (9.3%) |
| Industrial | \$ 357.1 | \$ 514.5 | 44.1% |
| | \$ 1,303.9 | \$ 1,586.2 | 21.7% |

Commercial valuation through June 2024 was 9.3% lower than the 2022-2023 level (\$523.9 million in 2023-2024 from \$577.6 million in 2022-2023). Most of the activity for the year was from additions/alterations at about 61.5% of the total, with approximately 38.5% for new construction. Alterations accounted for almost 56% (\$55.4 million) and new construction accounted for 44% (\$43.1 million) of the total commercial activity (\$98.5 million) for May and June. A notable project for May and June includes a permit issued for a new substation located on San Ignacio Avenue.

Industrial construction valuation through June 2024 was 44.1% higher than prior-year levels (\$514.5 million in 2023-2024 and \$357.1 million in 2022-2023). Activity for the year was split nearly evenly with additions/alterations at about 55.0% of the total and new construction at approximately 45.0%. Alterations accounted for all the activity for February through June.

According to data from the Santa Clara County Association of Realtors, in June 2024, the median single-family home price totaled \$1.7 million, which is 6.3% above the June 2023 price of \$1.6 million. In addition, these more expensive homes are selling at a quicker rate. The average days-on-market for 2023-2024



totaled 19 days, while the average days in 2022-2023 totaled 24 days. Property sales, however, struggled in the first half of the fiscal year; declining almost 20% from the prior year's level. The second half of the fiscal year rebounded significantly, resulting in the 2023-2024 property sales averaging 460 sales per month, which is 3.3% 2022-2023 sales of 476 per month.

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Revised General Fund Forecast

Between the issuance of the Five-Year Forecast in February 2024 and the adoption of the budget in June 2024, revenue collections for 2024-2025 continued to be reviewed and updated. Based on this analysis, several of the revenue estimates presented in the February Forecast were revised in this budget to reflect more recent information. These adjustments resulted in a net \$42.2 million reduction to the General Fund Forecast, decreasing the revenue estimate from \$1.54 billion to \$1.50 billion (including fund balance). Below is a summary table of the changes incorporated into the Revised Forecast, which were used as the starting point in preparing the 2024-2025 Adopted Budget.

| Category | \$ Change | Description |
|------------------------------|------------------------|---|
| Beginning Fund Balance | \$ 4,043,944 | Increase of \$4.0 million reflects savings from various Measure E appropriations that are not anticipated to be expended by the end of 2023-2024 and will be rebudgeted to 2024-2025 and then transferred to the Real Property Transfer Tax Fund. |
| Transfers and Reimbursements | 2,685,313 | Net increase of \$2.7 million reflects updated overhead reimbursements from capital and operating funds based on the final 2024-2025 base budget and overhead rates (\$1.9 million) and higher transfers and reimbursements to the General Fund (\$810,719). |
| Fees, Rates, and Charges | 1,265,218 | Increase of \$1.3 million aligns revenues with estimated base costs and activity levels for Miscellaneous fees (\$545,218), Parks, Recreation and Neighborhood Services Department fees (\$500,000), and Police Department fees (\$220,000). |
| Other Revenue | 110 | Increase of \$110 aligns revenues with the estimated base costs and activity levels for reimbursement revenue. |
| Real Property Transfer Tax | (50,000,000) | Decrease of \$50.0 million reflects the movement of the Real Property Transfer Tax revenue from the General Fund to the Real Property Transfer Tax Fund; the revenue estimate itself remains unchanged. The associated expenditures have also been transferred to the Real Property Transfer Tax Fund as part of the Revised General Fund Forecast. |
| Revenue from Local Agencies | (215,000) | Decrease of \$215,000 reflects a reduction of payments from other agencies for Animal Care Services as the Town of Los Gatos has opted to not renew their contract with the City of San José. |
| Total | (\$ 42,220,415) | |

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Changes from Revised Forecast to Adopted Budget

From the Revised Forecast of \$1.50 billion, a net increase of \$544.1 million to the General Fund revenue estimates is included in the Adopted Budget, bringing the 2024-2025 revenue estimate to \$2.05 billion (including fund balance). The components of this change include an increase to the estimate for the 2023-2024 Ending Fund Balance/2024-2025 Beginning Fund Balance (\$487.3 million) and an increase to various revenue categories (\$56.8 million). The revenue changes are summarized in the table below.

| <u>Category</u> | <u>\$ Change</u> | <u>Description</u> |
|--------------------------------------|------------------|--|
| Beginning Fund Balance | \$ 487,262,596 | Net increase of \$487.3 million reflects: the rebudget of 2023-2024 funds for expenditure-related items and unexpended reserves (\$480.3 million); fund balance from additional revenue and expenditure savings that is anticipated to be received in 2023-2024 and be available for use in 2024-2025 (\$5.0 million); the liquidation of carry-over encumbrances (\$1.3 million); and the liquidation of the Solid Waste Code Enforcement Reserve (\$680,000). |
| Revenue from the State of California | 23,703,135 | Increase of \$23.7 million primarily reflects State grants and reimbursements that were rebudgeted from 2023-2024 to 2024-2025 for various programs (\$15.4 million), the largest of which includes the CaliforniansForAll program (\$10.2 million) and the BSCC Retail Theft program (\$1.4 million). In addition, five new State grants and reimbursements are anticipated to be received in 2024-2025 (\$3.3 million), the largest of which includes the Housing and Homeless Incentive program (\$5.0 million) and CaliforniansForAll program (\$2.6 million). |
| Revenue from Federal Government | 15,527,645 | Increase of \$15.5 million primarily reflects federal grants and reimbursements that were rebudgeted from 2023-2024 to 2024-2025 for various programs (\$9.5 million), the largest of which includes the 280 Almaden Area Beautification Grant (\$2.1 million), National Sexual Assault Kit Initiative program (\$1.4 million), and the Urban Areas Security Initiative – Fire Department (\$1.1 million). In addition, ten new federal grants and reimbursements are anticipated to be received in 2024-2025 (\$4.7 million), the largest of which includes the BSCC Retail Theft program (\$2.8 million) and the Transportation, Housing and Urban Development funding for the Rue Ferrari Emergency Interim Housing Site Expansion (\$1.0 million). |
| Sales Tax | 8,000,000 | Increase of \$8.0 million due to higher than anticipated General Sales Tax collections being received in May 2024 and are anticipated to continue ongoing. |
| Property Tax | 3,000,000 | Increase of \$3.0 million reflects higher anticipated Educational Revenue Augmentation Fund (ERAF) as the result of the California Legislature rejecting the Governor’s budget proposal to make statutory changes that would impact ERAF calculations. |

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Changes from Revised Forecast to Adopted Budget

| Category | \$ Change | Description |
|-----------------------------------|-----------------------|--|
| Fees, Rates, and Charges | 2,002,727 | Net increase of \$2.0 million reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Miscellaneous fee revenue (\$1.0 million), Parks, Recreation, and Neighborhood Services Department fee revenue (\$940,083), Transportation Department fee revenue (\$80,273), Police Department fee revenue (\$15,963), and Library Department (-\$47,000). |
| Revenue from Local Agencies | 1,705,844 | Increase of \$1.7 million reflects five new local agency grants and reimbursements that are anticipated to be received in 2024-2025, the largest of which include ESUHSD Community WIFI-Network Maintenance program (\$725,463) and the Regulatory Compliance and Purified Water program (\$580,381). |
| Other Revenue | 821,810 | Increase of \$821,810 reflects revenue anticipated to be received from the Accounts Receivable Amnesty Program that will be conducted by the Finance Department (\$300,000), grant funding of \$260,000 from the Toyota Mobility Foundation \$260,000) and reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Transportation Department (\$11,810). In addition, a grant was rebudgeted from 2023-2024 to 2024-2025 for San Jose Public Library Foundation funding (\$250,000). |
| Fines, Forfeitures, and Penalties | 800,000 | Increase of \$800,000 reflects a revision to the parking fines program that will result in increased revenue generation. |
| Franchise Fees | 577,624 | Increase of \$577,624 reflects a Commercial Solid Waste fees increase of 4.1% based on cost changes including a Consumer Price Index adjustment. |
| Licenses and Permits | 503,899 | Net increase of \$503,899 reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Multi-Housing Permits (\$877,636), the Fire Department (\$469,700) and other licenses and permits (\$418,505). In addition, as approved by the City Council, Cannabis Program fee revenue has been decreased (\$1.3 million). |
| Transfers and Reimbursements | 226,811 | Net increase of \$226,811 reflects a transfer from the Construction Excise Tax Fund to the General Fund (\$300,000), a transfer from the General Purpose Parking Fund to the General Fund for Downtown Ice (\$200,000), and reduced overhead from budget actions that change the staffing levels funded by special and capital funds (-\$273,189). |
| Total | \$ 544,132,091 | |