

**CITY OF SAN JOSE**  
**2019-2020 ADOPTED OPERATING BUDGET**  
**GENERAL FUND REVENUE OVERVIEW**

For 2019-2020, General Fund revenue estimates (excluding fund balance) total \$1.18 billion, representing an 8.3% increase from the 2018-2019 Adopted Budget level. When Fund Balance-Carryover is included, General Fund resources total \$1.47 billion, which is 11.1% above the prior year.

Estimates for the 2019-2020 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2020-2024 Five-Year Forecast prepared in February 2019. These estimates have been reviewed continually since the Forecast document was released and have been revised, as appropriate, in the Adopted Budget based on more recent 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 2018-2019; and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for 2019-2020. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2019-2020 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2017-2018 Actuals	2 2018-2019 Adopted	3 2019-2020 Forecast	4 2019-2020 Adopted	2 to 4 % Change	% of Total
Property Tax	\$ 306,222,332	\$ 320,450,000	\$ 350,000,000	\$ 354,000,000	10.5%	24.1%
Sales Tax	226,336,942	233,500,000	258,300,000	258,300,000	10.6%	17.6%
Transient Occupancy Tax	19,530,772	19,700,000	22,500,000	22,500,000	14.2%	1.5%
Franchise Fees	51,179,782	50,474,798	48,354,000	48,641,000	(3.6%)	3.3%
Utility Taxes	99,753,107	102,400,000	99,645,000	99,645,000	(2.7%)	6.8%
Telephone Line Tax	20,480,699	20,000,000	20,000,000	20,000,000	0.0%	1.4%
Business Taxes	70,673,106	69,400,000	72,200,000	72,200,000	4.0%	4.9%
Licenses and Permits	60,505,037	60,893,631	60,053,943	62,009,468	1.8%	4.2%
Fines, Forfeitures and Penalties	14,353,995	14,983,000	15,513,000	16,213,000	8.2%	1.1%
Rev. from Money and Property	7,929,821	6,897,000	13,144,000	13,144,000	90.6%	0.9%
Rev. from Local Agencies	38,623,000	13,711,247	11,101,000	14,830,210	8.2%	1.0%
Rev. from State of California	15,824,581	12,692,057	12,435,000	12,960,805	2.1%	0.9%
Rev. from Federal Government	5,590,625	2,211,600	215,797	4,769,023	115.6%	0.3%
Fees, Rates, and Charges	51,080,652	53,860,013	54,609,404	58,951,740	9.5%	4.0%
Other Revenue	218,951,265	13,640,839	9,187,184	23,502,394	72.3%	1.6%
Transfers and Reimbursements	90,878,968	96,340,193	96,614,366	100,576,639	4.4%	6.8%
<b>Subtotal</b>	<b>\$ 1,297,914,684</b>	<b>\$ 1,091,154,378</b>	<b>\$ 1,143,872,694</b>	<b>\$ 1,182,243,279</b>	<b>8.3%</b>	<b>80.4%</b>
Fund Balance-Carryover (1)	241,172,873	233,635,080	64,989,037	289,425,284	23.9%	19.6%
<b>Total General Fund Sources</b>	<b>\$ 1,539,087,557</b>	<b>\$ 1,324,789,458</b>	<b>\$ 1,208,861,731</b>	<b>\$ 1,471,668,563</b>	<b>11.1%</b>	<b>100.0%</b>

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

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**Economic Performance**

The 2019-2020 revenue estimates were built on the assumption of slowing, but still positive growth, which will have a modest positive impact on the City's economic performance as described in the 2020-2024 Five-Year General Fund Forecast.

The following is a discussion of both the national and local economic outlooks used to develop the 2019-2020 revenue estimates. 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 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 2020-2024 Five-Year General Fund Forecast (<http://sanjoseca.gov/index.aspx?nid=6315>) developed in February 2019.

**National Outlook**

The United States economy has been steadily expanding over the last nine years. However, slow growth across most sectors of the economy appears likely for the next several years. The December 2018 UCLA Anderson Business School Forecast assumes fiscal stimulus that resulted from the large tax cuts passed last year are waning, interest rates will continue to rise, and trade policy changes will all negatively affect the economy, slowing down growth in 2019. Real U.S. Gross Domestic Product (GDP) increased at an annual rate of 2.6% in the fourth quarter of 2018<sup>1</sup>, however, growth is anticipated to decline to 2.1% in 2019 and 1% in 2020. In addition, the unemployment rate is anticipated to decrease further in 2019, and wage growth will continue, but at a milder pace.

A modest rate of inflation is a key driver for business and consumer demand and for future property and sales taxes. The Consumer Price Index (CPI) decreased 0.1% in December 2018 (seasonally adjusted), but increased 1.9% over the last 12 months (before seasonal adjustment).<sup>2</sup> However, higher wages, continued high housing costs, and increased tariffs are anticipated to result in the inflation rate rising slightly in 2019. The Federal Reserve will continue to monitor the inflation rate, as well as other economic factors, and increase interest rates accordingly to keep the economy in a mode of growth.

**City of San José Outlook**

The Silicon Valley continues to show positive economic performance, but some economic indicators are moderating from the extremely strong growth experienced in recent years.

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<sup>1</sup> U.S. Department of Commerce, Bureau of Economic Analysis, February 2019

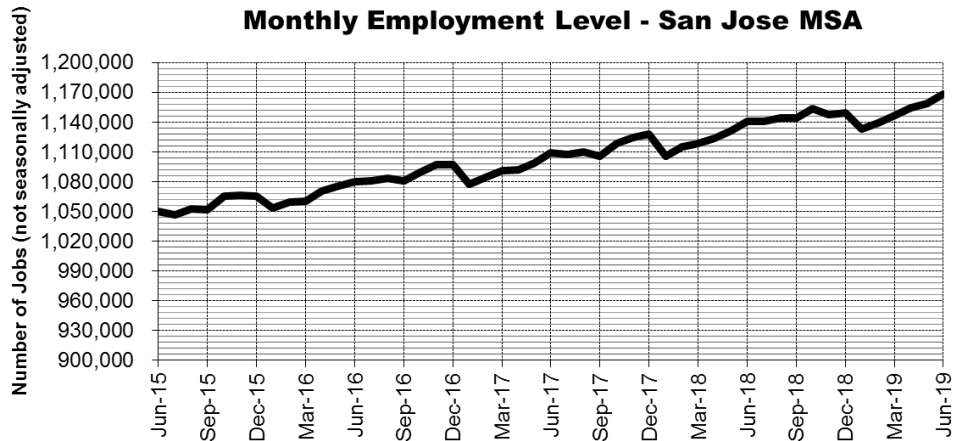
<sup>2</sup> U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index Detailed Report, December 2018

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**Economic Performance**

*City of San José Outlook*

The June 2019 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.17 million was 2.4% higher than the June 2018 level of 1.14 million, representing an increase of 27,500 jobs. This includes 9,000 jobs in the information sector, 7,200 manufacturing jobs (primarily computer and electronic product manufacturing), 2,800 government jobs, 2,700 jobs in professional and business services, and 2,500 private education and health services jobs.<sup>3</sup>



As noted in the June 2019 Beacon Employment Report, California’s job growth is solid, but the labor force has continued to decline. Robert Kleinhenz, Executive Director of Research at Beacon Economics and the UC Riverside School of Business Center for Economic Forecasting, stated “California led all states in job gains last month, and it has maintained a steady course through the first half of the year despite uncertainties at the national and international level. This bodes well for the rest of the year. While we are concerned about the lack of growth in the labor force, it is important to note that the faster growing regions of the state continue to attract workers.”<sup>4</sup>

<b>Unemployment Rate (Unadjusted)</b>			
	<b>June 2018</b>	<b>May 2019</b>	<b>June 2019**</b>
San Jose Metropolitan Statistical Area*	2.9%	2.2%	2.7%
State of California	4.4%	3.5%	4.1%
United States	4.2%	3.4%	3.8%

\* San Benito and Santa Clara Counties  
Source: California Employment Development Department.  
\*\* June 2019 estimates are preliminary and may be updated.

The unemployment rates at the local, state, and national levels have all slightly decreased from the prior year. In June 2019, the unemployment rate for the San José Metropolitan Statistical Area of 2.7% is slightly higher than the 2.2% unemployment rate experienced in May 2019; however, it is marginally lower than the levels experienced in June 2018. In this region, the June 2019 unemployment rate continues to be lower than the unadjusted unemployment rate for the State (4.1%) and the nation (3.8%).

<sup>3</sup> State of California Employment Development Department Labor Market Information Division Press Release, July 19, 2019

<sup>4</sup> Beacon Economics, Beacon Employment Report, July 19, 2019

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**Economic Performance**

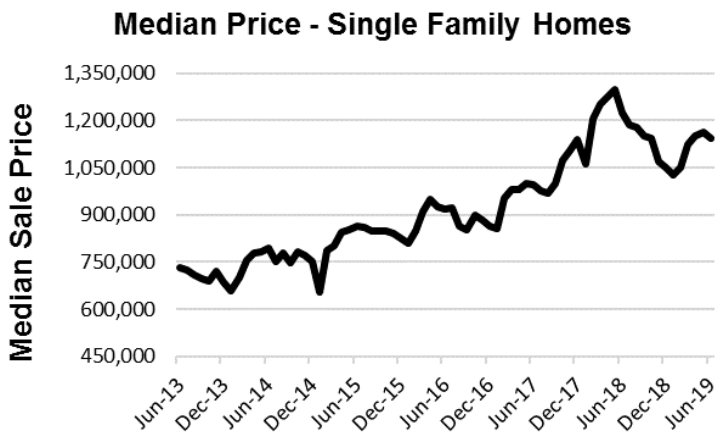
*City of San José Outlook*

Through June 2019, construction activity is up \$70.9 million, or 4.2%, from the high levels experienced during the same time period in 2017-2018. This increase in construction valuation is primarily attributed to higher new construction in the industrial category.

<b>Private Sector Construction Activity (Valuation in \$ Millions)</b>			
	<b>July 2017 - June 2018</b>	<b>July 2018 - June 2019</b>	<b>% Increase/ Decrease</b>
Residential	\$ 630.9	\$ 567.5	(10.0%)
Commercial	\$ 617.7	\$ 631.4	2.2%
Industrial	\$ 423.4	\$ 544.0	28.5%
<b>TOTAL</b>	<b>\$ 1,672.0</b>	<b>\$ 1,742.9</b>	<b>4.2%</b>

Through June 2019, overall residential permit valuation decreased 10.0% from prior year levels (\$567.5 million in 2018-2019 and \$630.9 million in 2017-2018). The number of new residential dwelling units permits issued through June 2019 totaled 2,985, which represents a 7.9% drop from the prior year level of 3,241 permits issued. While residential permit activity is declining, commercial and industrial permit activity is growing when compared to prior year levels. Through June 2019, commercial valuation of \$631.4 million is 2.2% higher than the 2017-2018 level of \$617.7 million. In addition, the industrial construction valuation totaled \$544.0 million through June 2019, which represents growth of 28.5% from the prior year level of \$423.4 million. Private construction activity is a driver for several development related taxes and fees and is an indicator of future activity for several other categories, such as storm and sanitary sewer system fees.

After seven years of year-over-year home price growth, the local real estate market is beginning to slow down. According to data from the Santa Clara County Association of Realtors, the single-family home price peaked at \$1.3 million in May 2018 (which represented a 30.0% increase from the May 2017 home price), but then began steadily decreasing. In addition, year-over-year median prices have steadily decreased each month since November 2018, with drops ranging from 3%-13% compared to the prior year level. In June 2019, the median single-family home price totaled \$1.1 million, which



represents a 6.5% decrease from the June 2018 price of \$1.2 million, but is approximately 15% above the June 2017 price of \$996,000. In addition to the median home prices dropping, the number of property transfers (sales) has also continued to steadily decline. The total number of property transfers that occurred year-to-date through June 2019 has dropped approximately 10% compared to the prior year. Lastly, while single-family and multi-family dwellings are continuing to sell

quickly, they are on the market longer than the prior year. The average days-on-market for single-family and multi-family dwellings in June 2019 totaled 30 days, which is twice as long than the extremely low 15 days experienced in June 2018.

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**Economic Performance**

***City of San José Outlook***

A moderate slowdown, but still positive, economic growth is anticipated in 2019-2020. Due to this outlook, the economically sensitive revenues, such as Sales Tax and Property Tax receipts, are expected to experience modest growth.

**Non-Economically Sensitive Revenue Drivers**

Economic conditions are the primary drivers for a number of the City's revenues, with the most significant impacts in the Sales Tax and Property Tax categories. However, performance in other areas is primarily driven by other factors. For example, the Utility Tax and Franchise Fees categories are more heavily impacted by utility rate changes, energy prices, and consumption levels. As a result, these General Fund revenues experience no significant net gain or loss in times of an economic expansion or slowdown. Because these revenue sources do not track directly with the performance of the economy, the growth in these areas, even in times of moderate growth, 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.

**Revised General Fund Forecast**

Between the issuance of the Five-Year Forecast in February 2019 and the adoption of the budget in June 2019, revenue collections for 2018-2019 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. The net result of these revisions is an upward adjustment of \$1.1 million to the General Fund Forecast, increasing the revenue estimate from \$1.208 billion to \$1.209 billion.

On the following page is a summary table of the changes incorporated into the Revised Forecast, which were used as the starting point in preparing the 2019-2020 Adopted Budget.

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**Revised General Fund Forecast**

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Property Tax	\$ 2,000,000	Net increase of \$2.0 million reflects updated information provided by Santa Clara County in March 2019. As a result, the Excess Education Revenue Augmentation Fund (ERAF) estimate increased by \$2.0 million (from \$13.8 million to \$15.8 million).
Revenue from the State	800,000	Net increase of \$800,000 reflects updated information from the State of California regarding Tobacco Settlement funds (increase of \$1.2 million; from \$9.4 million to \$10.6 million) and Abandoned Vehicle revenue (decrease of \$400,000; from \$800,000 to \$400,000).
Fines, Forfeitures and Penalties	600,000	Increase of \$600,000 to parking citation revenue (from \$11.1 million to \$11.7 million) reflects higher 2018-2019 collections that are anticipated to continue in 2019-2020.
Fees, Rates, and Charges	148,605	Net increase of \$148,605 aligns revenues with estimated base activity levels in departmental fee revenues.
Utility Tax	75,000	Increase of \$75,000 to Telephone Utility Tax revenue (from \$13.4 million to \$13.5 million) reflects higher 2018-2019 collections that are anticipated to continue in 2019-2020.
Other Revenue	1,411	Net increase of \$1,411 reflects higher 2018-2019 collection trends that are anticipated to continue in 2019-2020.
Franchise Fees	(1,200,000)	Decrease of \$1.2 million reflects updated information received in April 2019, which reduces the 2019-2020 estimates for Electric Franchise Fees by \$900,000 (from \$23.3 million to \$22.4 million) and Gas Franchise Fees by \$300,000 (from 5.3 million to \$5.0 million).
Transfers and Reimbursements	(667,278)	Net decrease of \$667,278 reflects updated overhead reimbursements from capital and operating funds based on the final 2019-2020 base budget and overhead rates (-\$805,639), partially offset by increased transfers and reimbursements to the General Fund (\$138,361).
Licenses and Permits	(395,990)	Net decrease of \$395,990 to Licenses and Permit aligns revenues with estimated base costs and activity levels for the Cannabis Regulation Program, multiple housing permits, animal care licensing, and various Police permits.
Beginning Fund Balance	(237,186)	Net decrease of \$237,186 reflects a net lower carryover amount of the Development Fee Program Reserves, which is necessary to bridge the gap between 2019-2020 base revenues and expenditures.
<b>Total</b>	<b>\$ 1,124,562</b>	

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**Changes from Forecast to Adopted Budget**

From the Revised Forecast of \$1.21 billion, a net increase of \$262.8 million to the General Fund revenue estimates are included in the Adopted Budget, bringing the 2019-2020 revenue estimate to \$1.47 billion. The components of this change include an increase to the estimate for 2018-2019 Ending Fund Balance/2019-2020 Beginning Fund Balance (\$224.4 million) and an increase to various revenue categories (\$38.4 million). The revenue changes are summarized in the table below, with a detailed description included in the corresponding revenue category write-up.

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Beginning Fund Balance	\$224,436,247	Net increase of \$224.4 million reflects: the rebudget of 2018-2019 funds for expenditure-related items and unexpended reserves (\$136.6 million) the liquidation of various reserves (\$55.0 million); fund balance from additional revenue and expenditure savings that is anticipated to be received in 2018-2019 and be available for use in 2019-2020 (\$25.0 million); and net sale proceeds realized from the sale of the Hayes Mansion (\$7.86 million).
Other Revenue	14,315,210	Increase of \$14.3 million primarily reflects the repayment of outstanding Supplemental Education Revenue Augmentation Fund (SERAF) loans that is anticipated to occur in 2019-2020 (\$10.2 million), Diridon Station Development and Planning grant funding (\$3.5 million), Unclaimed Property Escheatment (\$175,000), Debt Program Cost Reimbursements (\$160,000), and Sale of Surplus Properties (\$100,000).
Revenue from Federal Government	4,553,226	Increase of \$4.6 million to recognize grants and reimbursements anticipated to be received from the Federal Government, the largest of which include 2018 UASI – Office of Emergency Management (\$1.0 million), 2018 Violence Against Women Improving Response (\$797,833), Justice and Mental Health Collaboration (\$750,000), 2017-2018 Internet Crimes Against Children (\$356,727), and 2018 UASI – Police Department (\$315,246).
Fees, Rates, and Charges	4,342,336	Net increase of \$4.3 million reflects various fee changes, including: increased small cell utility permits revenue (\$1.6 million); an increase in the City-Wide Planning Fee (\$1.4 million) to implement the planned increase; an increase to Planning Fees (\$316,000) to bring ongoing revenues and expenditures into closer alignment; and other Department Charges category changes that align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels (\$1.1 million).

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**Changes from Forecast to Adopted Budget**

<b>Category</b>	<b>\$ Change</b>	<b>Description</b>
Property Tax	\$ 4,000,000	Increase of \$4.0 million reflects higher Excess Education Revenue Augmentation Fund (ERAF) funds anticipated to be received in 2019-2020. The 2019-2020 ERAF estimate included in the Forecast totaled \$15.8 million. However, updated information was provided by Santa Clara County in March 2019, which included a preliminary 2019-2020 ERAF estimate of \$19.8 million.
Transfers and Reimbursements	3,962,273	Net increase of \$4.0 million reflects the increase in overhead from the budget actions that change the staffing levels funded by special and capital funds (\$3.3 million), a transfer from the General Purpose Parking Fund (\$660,000), and a reimbursement from the Voluntary Employee Beneficiary Association Fund (\$117,622), partially offset by a lower transfer from the Integrated Waste Management Fund (\$160,000).
Revenue from Local Agencies	3,729,210	Increase of \$3.7 million primarily reflects receipts anticipated from Santa Clara County for the Senior Nutrition Program (\$1.7 million) and paramedic services (Annex B, Category B (\$1.2 million). In addition, grant funding is anticipated to support various programs (\$890,000), the largest of which include New Hope for Youth (\$299,000) and Viva CalleSJ and ¡Viva Parks! placemaking events (\$211,500).
Licenses and Permits	1,955,525	Net increase of \$2.0 million reflects various license and permit changes included in the 2019-2020 Adopted Budget, including: an increase in Building Permits (\$1.3 million) and Fire Permits (\$310,021) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Development Fee Program Reserves; the one-time elimination of block party/temporary street closing fees, as directed in the Mayor's June Budget Message for Fiscal Year 2019-2020, as approved by the City Council (-\$27,600); and other licenses and permits changes that align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels (\$373,104).
Fines, Forfeitures and Penalties	700,000	Increase of \$700,000 to reflect the service delivery change for Police false alarms (\$500,000) and increased Other Penalties (\$200,000) related to City's pursuing the backlog of delinquent accounts in 2019-2020.



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**Changes from Forecast to Adopted Budget**

<b>Category</b>	<b>\$ Change</b>	<b>Description</b>
Revenue from State of California	\$ 525,805	Increase of \$525,805 to reflect three grants and reimbursements from the State of California that were rebudgeted from 2018-2019 to 2019-2020. These rebudgets support several programs, including County Victim Services Program (\$272,562), Internet Crimes Against Children (\$248,550), and California Governor’s Office of Emergency Services – Innovative Response (\$4,693).
Franchise Fees	287,000	Increase of \$287,000 reflects an increase in the Commercial Solid Waste fees by 2.44% based on the change in the consumer price index.
<b>Total</b>	<b>\$262,806,832</b>	