

**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**  
**GENERAL FUND REVENUE OVERVIEW**

**Introduction**

For 2021-2022, General Fund revenue estimates (excluding Fund Balance) total \$1.22 billion, representing a 5.5% increase from the 2020-2021 Adopted Budget level. When the Fund Balance-Carryover is included, General Fund resources total \$1.54 billion, which is 2.6% above the prior year.

Estimates for the 2021-2022 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2022-2026 Five-Year Forecast that was released at the end of February 2021. 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 2020-2021; and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for 2021-2022. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2021-2022 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2019-2020 Actuals	2 2020-2021 Adopted	3 2021-2022 Forecast	4 2021-2022 Adopted	2 to 4 % Change	% of Total
Property Tax	\$ 369,506,527	\$ 370,500,000	\$ 395,500,000	\$ 395,500,000	6.7%	25.7%
Sales Tax	260,558,394	242,500,000	280,200,000	280,200,000	15.5%	18.2%
Transient Occupancy Tax	14,103,867	9,000,000	10,000,000	10,000,000	11.1%	0.6%
Franchise Fees	44,435,817	45,921,096	44,501,000	44,651,652	(2.8%)	2.9%
Utility Taxes	99,518,300	95,800,000	97,060,000	97,060,000	1.3%	6.3%
Business Taxes	70,822,027	70,900,000	74,500,000	74,500,000	5.1%	4.8%
Real Property Transfer Tax	0	30,000,000	40,000,000	40,000,000	33.3%	2.6%
Telephone Line Tax	20,694,877	20,000,000	20,000,000	20,000,000	0.0%	1.3%
Licenses and Permits	64,520,529	20,023,167	19,945,090	21,002,985	4.9%	1.4%
Fees, Rates, and Charges	48,568,307	25,575,702	14,701,048	14,832,684	(42.0%)	1.0%
Fines, Forfeitures and Penalties	14,383,145	15,730,100	8,676,000	8,676,000	(44.8%)	0.6%
Rev. from Money and Property	13,523,097	11,754,800	9,304,000	9,304,000	(20.8%)	0.6%
Rev. from Local Agencies	15,659,671	18,194,536	15,509,513	18,784,335	3.2%	1.2%
Rev. from State of California	22,511,983	14,319,906	12,130,000	13,247,111	(7.5%)	0.9%
Rev. from Federal Government	2,638,902	3,714,762	0	3,684,826	(0.8%)	0.2%
Other Revenue	34,504,998	48,511,658	8,542,718	9,242,806	(80.9%)	0.6%
Transfers and Reimbursements	108,778,615	112,352,425	111,242,823	157,956,656	40.6%	10.3%
<b>Subtotal</b>	<b>\$ 1,204,729,056</b>	<b>\$ 1,154,798,152</b>	<b>\$ 1,161,812,192</b>	<b>\$ 1,218,643,055</b>	<b>5.5%</b>	<b>79.2%</b>
Fund Balance-Carryover <sup>(1)</sup>	400,283,991	346,335,718	68,785,000	321,188,401	(7.3%)	20.8%
<b>Total General Fund Sources</b>	<b>\$ 1,605,013,047</b>	<b>\$ 1,501,133,870</b>	<b>\$ 1,230,597,192</b>	<b>\$ 1,539,831,456</b>	<b>2.6%</b>	<b>100.0%</b>

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

**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**

---

**GENERAL FUND REVENUE OVERVIEW**

**Economic Performance**

The following is a discussion of both the national and local economic outlooks used to develop the 2021-2022 revenue estimates. Various economic forecasts and models were reviewed in the development of the 2021-2022 revenue estimates. The City also uses economic forecasting consultants that focus on particular revenue categories, such as Sales Tax and Transient Occupancy Tax. However, given the unprecedented nature of this pandemic, uncertainty surrounding possible future case surges, timing regarding when the community will be fully vaccinated, and estimating the pandemic's economic impact for the remainder of 2020-2021 and into 2021-2022 is difficult. Therefore, the economic conditions resulting from the pandemic will continue to be closely monitored and any new developments will be reported back to the City Council as part of future budget processes, including the 2020-2021 Annual Report and Bi-Monthly Financial Reports. A more detailed discussion on forecasted economic conditions can be found in the 2022-2026 Five-Year General Fund Forecast developed in February 2021.

**National Outlook**

Prior to the pandemic that began in late February/early March 2020, the United States economy had been steadily expanding for almost a decade. The pandemic created not only a public health crisis, but an economic crisis as well. As a result of the pandemic, employment levels fell, the Gross Domestic Product (GDP) experienced its steepest quarterly drop on record, and several economic sectors such as entertainment, leisure, hospitality, travel, and recreation were decimated. However, after a difficult 2020, the outlook is cautiously optimistic for 2021, which is based on assumptions regarding several key economic indicators, including GDP, unemployment, inflation, and consumer confidence.

Following extremely high annualized GDP growth in the 3<sup>rd</sup> quarter of 2020, weaker growth was anticipated in the 4<sup>th</sup> quarter of 2020 and the 1<sup>st</sup> quarter of 2021. However, as the vaccinations become more widely available for the general public in 2021, robust GDP growth is anticipated in the 2<sup>nd</sup> quarter of 2021, followed by consistent positive growth into 2023.

Unemployment levels hit record highs in 2020 as the COVID-19 pandemic initially shut down large segments of the national economy. However, in 2021 the unemployment rate is anticipated to decline as the economy continues to improve and more people are able to re-enter the labor market. Additionally, as many schools transitioned to distant learning due to the pandemic, many women were forced to leave the labor market in order to homeschool or provide childcare for their children. As schools continue to re-open, these women will once again enter the labor market, which will drive unemployment figures down as well.

Inflation is anticipated to average 1.8% for 2020 and remain at levels near 2.1-2.2% through 2023. Low inflation is anticipated due to excess capacity in the economy absorbing the surge in consumer demand, without leading to an increase in prices.<sup>1</sup> This low inflation level means the Federal Reserve will likely leave the fed funds rate (which determines the course of all other interest rates) at very low levels through the end of 2023.

On a national level, consumer confidence has improved steadily in 2021, but continues to remain below pre-pandemic levels. According to Lynn Franco, Senior Director of Economic Indicators at

---

<sup>1</sup> UCLA Anderson Economic Forecast, December 2020

**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**  
**GENERAL FUND REVENUE OVERVIEW**

**Economic Performance**

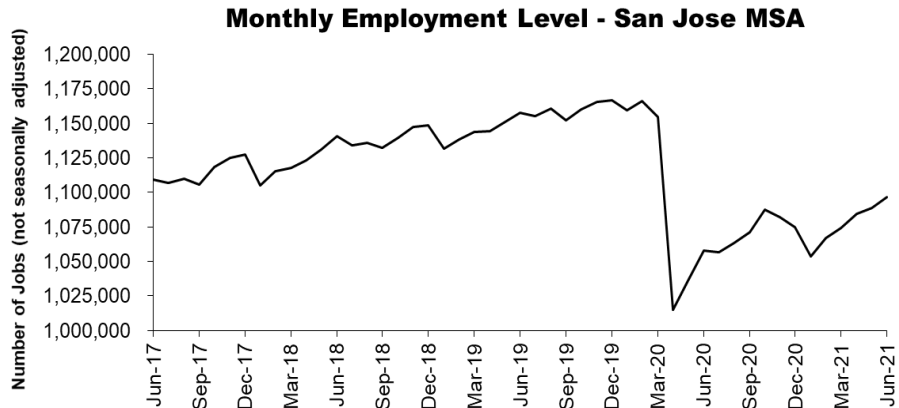
**National Outlook**

The Conference Board, “Consumer confidence increased in June and is currently at its highest level since the onset of the pandemic’s first surge in March 2020. Consumers’ assessment of current conditions improved again, suggesting economic growth has strengthened further in Q2. Consumers’ short-term optimism rebounded, buoyed by expectations that business conditions and their own financial prospects will continue improving in the months ahead.”<sup>2</sup>

**City of San José Outlook**

Economic conditions in the Silicon Valley significantly changed in Spring 2020 as a result of the pandemic. Due to uncertainty regarding the timing of when a vaccine will be widely distributed, a steep rise in COVID-19 cases during the fall and winter months, and ongoing social distancing requirements, economic conditions are anticipated to continue to be suppressed during the remainder of 2020-2021.

The June 2021 employment level of 1.10 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) rose by 38,700 jobs, or 3.7%, from the June 2020 level of 1.06 million. This increase includes leisure and hospitality jobs raising by 9,600 jobs; professional and business services



increasing by 8,400 jobs; other services growing by 6,300 jobs; and trade, transportation, and utilities expanding by 5,300 jobs.<sup>3</sup> However, as shown in the chart above, although employment levels have been steadily increasing in 2021, they remain significantly below pre-pandemic levels.

<b>Unemployment Rate (Unadjusted)</b>				
	<b>Feb. 2020</b>	<b>April 2020</b>	<b>June 2020</b>	<b>June 2021**</b>
San Jose Metropolitan Statistical Area*	2.6%	12.4%	10.4%	5.2%
State of California	4.3%	16.0%	14.1%	8.0%
United States	3.8%	14.4%	11.2%	6.1%
* San Benito and Santa Clara Counties Source: California Employment Development Department.				
** June 2021 estimates are preliminary and may be updated.				

After topping over 12% near the beginning of the pandemic in April 2020, the local unemployment rate has significantly dropped. In June 2021, the local unemployment rate was 5.2%, which is drastically lower than June 2020 (10.4%), however, still remains significantly above the February 2020 pre-pandemic level of

<sup>2</sup> The Conference Board, Consumer Confidence Survey, June 2021

<sup>3</sup> State of California Employment Development: Labor Market Information Division Press Release, July 16, 2021

**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**  


---

**GENERAL FUND REVENUE OVERVIEW**

**Economic Performance**

**City of San José Outlook**

2.6%%. While local unemployment figures have risen since the shelter-in-place mandate began, the unadjusted rates continue to be lower than the State and the national levels.

Overall construction activity through June 2021 decreased 23.8% from prior year levels. The decrease is primarily due to a large drop in industrial activity. The 2020-2021 Adopted Budget was developed with the expectation that private development activity would remain strong but would be significantly weaker than the historically high activity in 2019-2020.

Through June 2021, residential permit valuation has decreased 8.5% from prior year levels (\$390.1 million through June 2021; \$426.5 million through June 2020). Residential activity through June included 1,398 multi-family units and 577 units for single-family construction for a total of 1,975 units.

Commercial valuation through June experienced a decline of 4.3% from the prior year level (\$1,128.0 million through June 2021; \$1,178.5 million through June 2020). Extremely strong commercial activity in the first quarter of the fiscal year (\$741.8 million) was followed by more typical valuation in the second quarter (\$179.8 million). The permit for one large new commercial office building in downtown San José accounted for more than half the valuation in the first quarter (\$415 million). The third quarter was a more modest \$89.3 million, with additions/alterations (\$66.9 million) accounting for three quarters of the commercial activity. Fourth quarter activity improved to \$117.0 million but less than a third of the valuation (\$33.0 million) came from new construction.

Industrial construction valuation through June was 56.8% lower than prior year levels, with receipts totaling \$386.6 million through June 2021 and \$894.7 million through June 2020, which was an historically high figure. Like the same period last fiscal year, a spike in permit valuations in July drove the overall valuation level thru the fiscal year. From January 2021 thru June 2021, February was the only month to experience new construction activity. Industrial activity for the third quarter was roughly one third new construction and two thirds additions/alterations (new construction of \$24.0 million; alterations of \$47.6 million). Fourth quarter valuation was entirely addition/alterations (\$36.3 million).

<b>Private Sector Construction Activity (Valuation in \$ Millions)</b>			
	<b>YTD June 2020</b>	<b>YTD June 2021</b>	<b>% Increase</b>
Residential	\$ 426.5	\$ 390.1	(8.5%)
Commercial	\$1,178.5	\$ 1,128.0	(4.3%)
Industrial	\$ 894.7	\$ 386.6	(56.8%)
<b>TOTAL</b>	<b>\$ 2,499.7</b>	<b>\$ 1,904.7</b>	<b>(23.8%)</b>

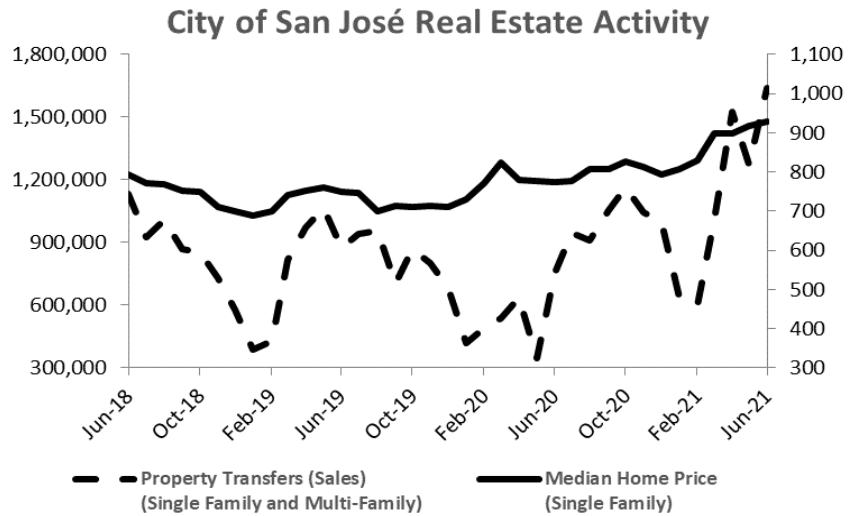
Real estate activity was anticipated to be sluggish in 2020-2021 due to higher unemployment rates coupled with lower consumer confidence. According to data from the Santa Clara County Association of Realtors, the number of property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranging from -10% to -54% between the beginning of the shelter-in-place through June 2020. However, beginning in September, the local

**CITY OF SAN JOSE  
2021-2022 ADOPTED OPERATING BUDGET  
GENERAL FUND REVENUE OVERVIEW**

**Economic Performance**

**City of San José Outlook**

real estate market once again began to experience year-over-year gains. Through June 2021 there were a total of 8,504 property transfers for all residences, which represents growth of approximately 41% from prior year levels. In addition, median single family home prices remain strong. As of June 2021, the median single family home price totaled \$1.48 million, which represents a 24.2% increase from the June 2020 price of \$1.19 million.



**Economically Sensitive and 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 Property Tax, Sales Tax, Business Taxes, Real Property Transfer Tax, and Transient Occupancy Tax revenue categories. Collectively, in 2021-2022 these revenue sources constitute almost 70% of total total General Fund revenue. As a result of the pandemic and the necessary response to protect community health and safety, economic activity at the global, national, and local levels were severely restricted. As anticipated, the immediate halting of large segments of daily economic activity had a significant negative impact to many of the economically sensitive revenue categories that are received in the General Fund. Compared to 2018-2019 pre-peandemic levels, 2020-2021 estimated receipts for several economically sensitive revenue categories have experienced steep declines, including Transient Occupancy Taxes (-73%), Business Taxes (-15%), and Sales Tax (excluding the Revenue Capture Agreement; -11%). Furthermore, due to the unprecedented nature of the pandemic, several categories that were not previously considered economically sensitive and were not impacted by prior recessions, experienced significant drops as a result of the pandemic shut down. For example, Parks, Recreation, and Neighborhood Services fee collections (Fees, Rates, and Charges revenue category) are estimated to drop 93% in 2020-2021 compared to pre-pandemic levels experienced in 2018-2019. In addition, the 2020-2021 Modified Budget estimate for Parking Fines (Fines, Forfeitures and Penalties revenue category) is over 50% below pre-pandemic levels experienced in 2018-2019. On a positive note, due to the strong real estate market, General Secured Property Taxes (which is the single largest revenue category in the General Fund) is expected to continue growing in 2021-2022.

Although there are several economically sensitive revenues captured in the General Fund, there are also many revenue categories that are considered non-economically sensitive and are typically driven by outside factors. For example, the Utility Tax and Franchise Fees categories have historically been more heavily impacted by utility rate changes, energy prices, and weather-based consumption levels. As a result, in the past these General Fund revenues have experienced no significant net gain or loss in times of an economic expansion or slowdown.

**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**  


---

**GENERAL FUND REVENUE OVERVIEW**

**Revised General Fund Forecast**

Between the issuance of the Five-Year Forecast in February 2021 and the adoption of the budget in June 2021, revenue collections for 2021-2022 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 \$10.0 million to the General Fund Forecast, increasing the revenue estimate from \$1.22 billion to \$1.23 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 2021-2022 Adopted Budget.

<b>Category</b>	<b>\$ Change</b>	<b>Description</b>
Property Tax	\$ 9,400,000	Increase of \$9.4 million as a result of a revised 2020-2021 revenue estimate being received from the State of California and Santa Clara County for Educational Revenue Augmentation Fund (ERAF) that will result in an ongoing revenue increase.
Licenses and Permits	402,447	Net increase of \$402,447 aligns revenues with estimated base costs and activity levels for Police Department permits (\$402,242), Planning Building and Code Enforcement permits (\$9,051), Transportation Department permits (\$4,272), Finance Department permits (-\$2,118), and Public Works Department permits (-\$11,000).
Other Revenue	122,394	Increase of \$122,394 aligns revenues with the estimated base costs and activity levels for Transportation Department revenues (\$84,590) and the reimbursement for the Investment Program (\$37,804).
Fees, Rates, and Charges	110,709	Net increase of \$110,709 aligns revenues with estimated base costs and activity levels for Police Department fees (\$174,226), Miscellaneous fees (\$32,793), and Transportation Department fees (-\$96,310).
Revenue from Local Agencies	19,490	Net increase of \$19,490 aligns revenues with the anticipated reimbursement from Santa Clara County for City costs associated with the Child Advocacy Center.
Transfers and Reimbursements	(91,900)	Net decrease of \$91,900 reflects updated overhead reimbursements from capital and operating funds based on the final 2021-2022 base budget and overhead rates (\$522,930), offset by lower transfers and reimbursements to the General Fund (-\$614,830).
<b>Total</b>	<b>\$ 9,963,140</b>	

**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**  


---

**GENERAL FUND REVENUE OVERVIEW**

**Changes from Revised Forecast to Adopted Budget**

From the Revised Forecast of \$1.23 billion, a net increase of \$309.2 million to the General Fund revenue estimates are included in the Adopted Budget, bringing the 2021-2022 revenue estimate to \$1.54 billion (including fund balance). The components of this change include an increase to the estimate for 2020-2021 Ending Fund Balance/2021-2022 Beginning Fund Balance (\$252.4 million) and an increase to various revenue categories (\$56.8 million). The revenue changes are summarized in the table below.

<b>Category</b>	<b>\$ Change</b>	<b>Description</b>
Beginning Fund Balance	\$252,403,401	Net increase of \$252.4 million reflects: the rebudget of 2020-2021 funds for expenditure-related items and unexpended reserves (\$233.2 million); the liquidation of various reserves (\$13.2 million), the largest of which include the 2021-2022 Future Deficit Reserve (\$11.1 million) and the Business Tax Billing System Replacement Reserve (\$1.3 million); and fund balance from additional revenue and expenditure savings that is anticipated to be received in 2020-2021 and be available for use in 2021-2022 (\$6.0 million).
Transfers and Reimbursements	46,713,833	Net increase of \$46.7 million primarily reflects the transfer of \$45.0 million from the American Rescue Plan Fund to partially reimburse the City for revenue losses resulting from the pandemic. In addition, the net increase reflects additional overhead from the budget actions that change the staffing levels funded by special and capital funds (\$1.85 million), higher transfers from the General Purpose Parking Fund (\$12,789) and Transient Occupancy Tax Fund (\$2,436), partially offset by a lower transfer from the Integrated Waste Management Fund (-\$150,000).
Revenue from Local Agencies	3,274,822	Increase of \$3.3 million primarily reflects receipts anticipated from Santa Clara County for the Senior Nutrition Program (\$2.0 million). In addition, new revenue is anticipated for various programs (\$505,786), the largest of which includes the Paramedic Program/EMS Trust Fund (\$152,561), Mattress Recycling (\$99,225), and VivaCalle San José 2022 (\$90,000). In addition, grant funding and reimbursements were rebudgeted from 2020-2021 to 2021-2022 for various programs (\$808,825), the largest of which includes the Paramedic Program/EMS Trust Fund (\$387,803), Valley Water District (\$130,000), and the County of Santa Clara Public Art Master Plan (\$130,000).

**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**  


---

**GENERAL FUND REVENUE OVERVIEW**

**Changes from Revised Forecast to Adopted Budget**

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Revenue from the State of California	\$ 1,117,111	Increase of \$1.1 million reflects new State grant funding and reimbursements (\$395,754) for three programs, including CalVIP Trauma to Triumph at Regional Medical Center (\$189,102), Internet Crimes Against Children 2020-2021 (\$115,800), and CalOES Trauma to Triumph at Santa Clara Valley Medical Center (\$90,852). In addition, State grant funding and reimbursements were rebudgeted from 2020-2021 to 2021-2022 for various programs (\$721,357), the largest of which includes Caltrans/North First Street (\$229,141), CalVIP Trauma to Triumph at Regional Medical Center (\$157,585), and First Five Family Friends Neighbors (\$98,000).
Licenses and Permits	1,057,895	Increase of \$1.1 million reflects various license and permit changes to the Fire Permits (\$454,291) and Other Licenses and Permits (\$603,604) categories to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels.
Revenue from Federal Government	3,684,826	Increase of \$3.7 million reflects new federal grant funding and reimbursements (\$780,348) for three programs, including Urban Areas Security Initiative (UASI) – Office of Emergency Management (\$603,395), Northern California Regional Intelligence Center (\$133,000), and Summer Youth Nutrition Program grant revenue (\$43,953). In addition, federal grant funding and reimbursements were rebudgeted from 2020-2021 to 2021-2022 for various programs (\$2.9 million), the largest of which includes Juvenile and Mental Health Collaboration (\$510,836), Coronavirus Emergency Supplemental Funding (\$408,708), UASI – Fire (\$331,286), State Homeland Security (\$320,488), UASI – Police (\$301,594), and Assistance to Firefighters – COVID-19 Supplemental 2020 (\$301,124).
Other Revenue	700,088	Increase of \$700,088 recognizes new grant revenue from the San Jose Public Library Foundation (\$250,000), grant revenue from Google for Diridon Station Development and Planning (\$225,000), additional revenue related to labor compliance minimum wage enforcement for other jurisdictions (\$150,000), rebudgeted grant revenue that is now anticipated to be received in 2021-2022 (\$53,780), new grant revenue related to placemaking and public space activation (\$19,774), and various Transportation Department fee changes to align revenues with estimated activity levels (\$1,534).



**CITY OF SAN JOSE**  
**2021-2022 ADOPTED OPERATING BUDGET**  


---

**GENERAL FUND REVENUE OVERVIEW**

**Changes from Revised Forecast to Adopted Budget**

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Franchise Fees	\$ 150,652	Increase of \$150,652 reflects an increase in the Commercial Solid Waste fees by 1.23% based on the change in the Consumer Price Index.
Fees, Rates, and Charges	131,636	Net increase of \$131,636 reflects various fee changes in 2021-2022 to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Transportation Department fee revenue (\$160,040), Police Department fee revenue (\$84,033), and miscellaneous fee revenue (\$79,563). These fee increases are partially offset by a reduction to the Parks, Recreation and Neighborhood Services Department fee revenue related to Family Camp not being operational in summer 2021 (-\$177,000) and free recreational swim being offered at all City-run pool facilities in summer 2021 (-\$15,000).
<b>Total</b>	<b>\$309,234,264</b>	