

An overview of the City's Finances

Unless otherwise noted, information in this chapter is from the City's audited Annual Comprehensive Financial Report (ACFR). Other chapters use adopted budget information. The ACFR differs from the City's annual Adopted Operating Budget in the timing and treatment of some revenues and expenditures.

CITY FINANCES

UNDERSTANDING CITY FINANCES

Understanding the City's finances is important in order to measure whether the City can deliver the resources that residents expect based on the resources that residents provide, both now and in the future. A city that is financially healthy can provide sufficient services to residents today while preparing for future services that residents will require. Revenues and expenses, reserves, debt, and capital investments all provide different insights into the City's financial situation.

CITY REVENUES

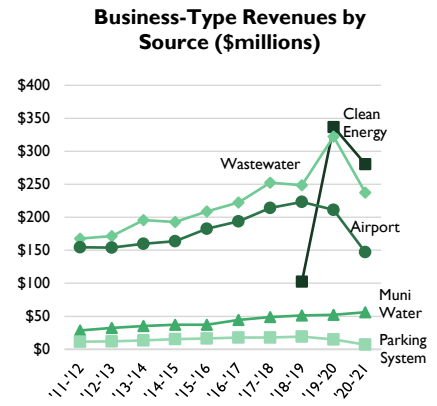
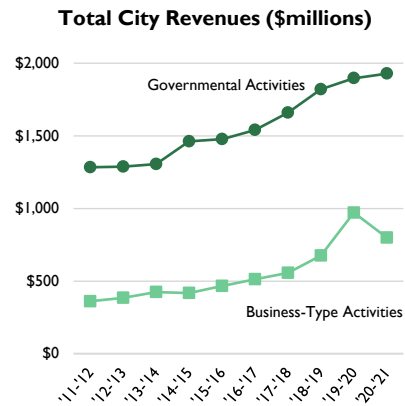
The City received \$2.73 billion in revenues in 2020-21. Governmental activity revenue totaled \$1.93 billion, a 2 percent increase from 2019-20. This was due in part to federal aid to support COVID-19 related expenditures. Business-type activities generated \$799 million, an 18 percent decrease from the prior year. Revenues at the Mineta San José International Airport were impacted by reduced travel due to COVID-19. Revenues declined at the Wastewater Treatment System, in part due to lower contributions from other agencies. See the San José Clean Energy chapter for information about its decrease in revenues.

The City relies on a number of funding sources to support its operations. Most California cities generate the majority of their revenue from taxes and fees. Grants made up a larger portion of the City's revenues than in previous years. Fines, fees, utilities, and user charges made up a smaller portion than a decade ago.

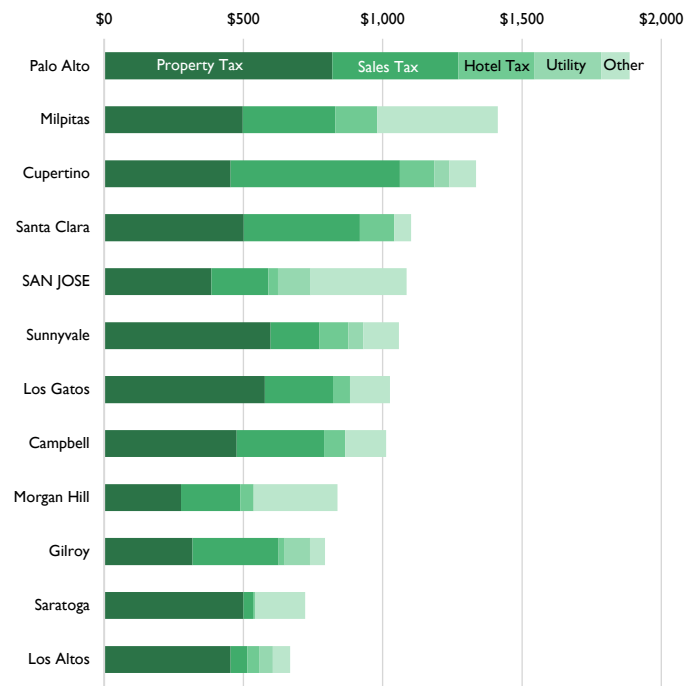
REVENUE PER CAPITA

In 2020-21, the City's governmental activity revenues per capita increased despite the impacts of COVID-19 on the City's operating budget. Governmental activity revenues per capita totaled \$1,872 in 2020-21.

San José received less tax revenue per capita than several of its neighboring cities. The City's tax revenues were \$1,086 per capita in 2019-20. Of that, sales tax was only \$205. In contrast, Palo Alto received \$1,887 in taxes per capita, of which \$452 was from sales taxes.



City Comparison of Tax Revenues Per Capita (2019-20)



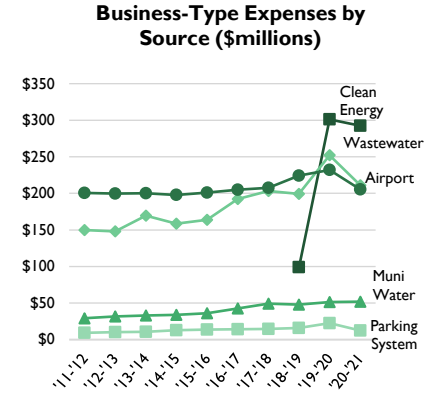
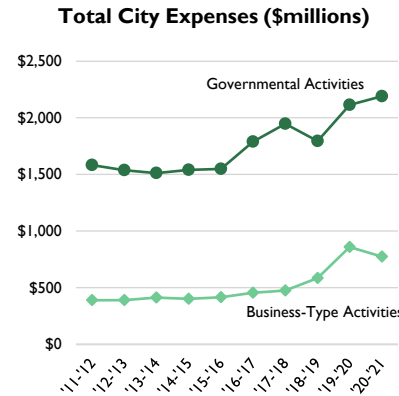
Source: 2019-20 State Controller's City Data and California Department of Finance population estimates.

CITY EXPENSES

The City’s total expenses decreased slightly in 2020-21 to \$2.96 billion. These expenses include non-cash expenses such as depreciation (see “City Capital Assets and Spending” later in this chapter). Revenue sources are often restricted in how they can be spent. As a result, reducing expenses for one service does not necessarily mean that expenses can be increased for another service, because the revenue may not be transferable.

In 2020-21, governmental activity expenditures per capita were \$2,128, which was higher than the prior year.

Governmental activity expenses, which make up the majority of City expenses, increased by 4 percent from the prior year. This was due in part to COVID-19 related activities, such as food distribution expenses. Business-type activities expenses decreased by 10 percent from last year. This was partly due to the prior year's change in accounting practices for reporting expenses for the Wastewater Treatment System, and cost savings at the Mineta San José International Airport.



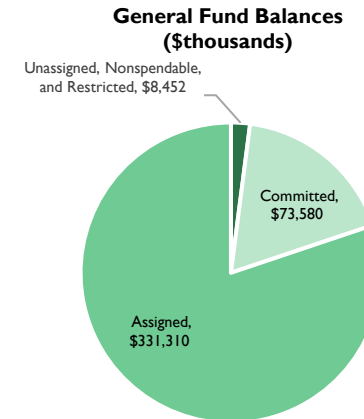
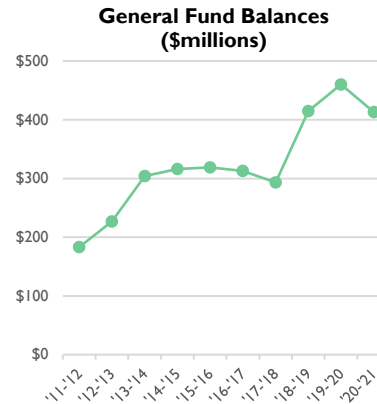
Note: In FY 2017-18, there were \$1 million of expenses from San José Clean Energy.

CITY RESERVES

The City has several different reserves set aside in General Fund balances. These fund balance categories are:

- **Nonspendable:** Amounts not in a spendable form, such as inventories, or that are legally or contractually required to be maintained intact or required to be retained in perpetuity.
- **Restricted:** Amounts with either external constraints (such as from creditors) or legal constraints on their usage.
- **Committed:** Amounts that have been limited to specific purposes in the City Charter or through a City ordinance.
- **Assigned:** Amounts intended to be used for a specific purpose, but which are not restricted or committed.
- **Unassigned:** Amounts that are not assigned to any other category, which can be used for any purpose.

In 2020-21, the overall General Fund balance decreased, including a 90 percent drop in the unassigned fund balance.



CITY FINANCES

CITY OBLIGATIONS AND DEBT

In total, the City had \$7.9 billion in obligations as of June 30, 2021. Of this, \$715 million was for short-term obligations and \$7.2 billion was for long-term obligations.

Short-term obligations are due within the next year. This includes things like accrued wages that City employees have earned, and accounts payable (money owed for supplies or for services rendered).

Long-term obligations are generally not due within the next year, but will need to be paid in the future. Long-term obligations include:

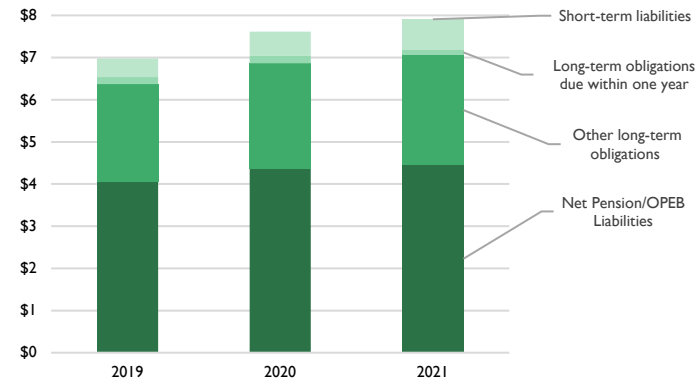
- The accrued vacation and sick leave that employees have earned but haven't taken.
- Bonds that the City has issued to finance the purchase, construction, and renovation of City-owned facilities. The payment of bond debt, called debt service, includes payment of principal and interest. *For more information, see the Finance Department chapter.*
- Pensions and other post-employment benefits (OPEB), which includes healthcare for retired City employees. *For more information, see the Retirement Services chapter.*

AMOUNT BORROWED PER CAPITA

The amount borrowed per capita increased in 2020-21, primarily resulting from the issuance of Lease Revenue Bonds to pay for City projects and to refund previous bonds. In July 2021, the City issued a second round of bonds relating to Measure T. San José residents passed Measure T in November 2018, authorizing the City to issue up to \$650 million of general obligation bonds for various public improvements.

The City's single largest source of long-term debt in the form of bonds was related to capital improvements at Mineta San José International Airport (\$1 billion total, to be repaid with Airport revenues). *For more information, see the Airport and Finance chapters.*

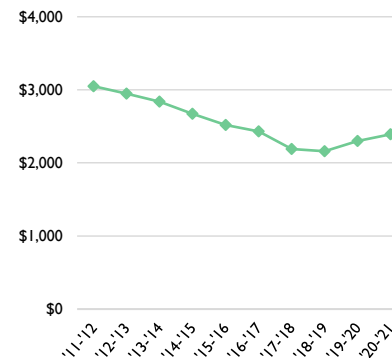
City Obligations by Type (\$billions)



Who has to pay the City's debt?

Separate entities within the broad City organization are legally responsible for different parts of the City's debt. On the one hand, the City is not legally obligated to use the City's general revenues to pay the business-type obligations. On the other hand, the City's business-type revenues are restricted and may not be used to pay other debt obligations.

Debt Burden per Capita



CAPITAL ASSETS AND SPENDING

The City owns a variety of capital assets—land, buildings, vehicles, equipment, infrastructure (e.g., roads, bridges, sewers), and other assets with a useful life beyond one year. Capital assets also include construction projects currently being built but not yet completed (referred to as construction in progress). Paying for and maintaining these assets play a critical role in the City’s financial condition.

At the end of 2020-21 the City owned \$7.5 billion of capital assets. This figure represents the historical purchase or constructed cost less normal wear and tear from regular use (referred to as *depreciation*).

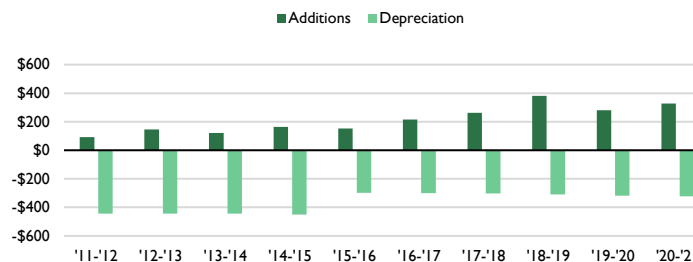
Capital assets used for governmental activities totaled \$5 billion and assets used in business-type activities such as the Airport, wastewater treatment, and other business-type activities totaled \$2.5 billion.

In 2020-21, the City added \$328 million in capital assets; however, these were offset by \$322 million in depreciation. Including transfers and deletions, the overall value of the City’s capital assets decreased slightly over the year (net decrease of \$0.2 million). Among the additions were capital projects at the Regional Wastewater Facility and the Airport.

INFRASTRUCTURE AND MAINTENANCE

On an annual basis, the City administration prepares a status report on the deferred maintenance and infrastructure backlog. In February 2021, staff reported that the City faced an estimated \$1.7 billion deferred maintenance and infrastructure backlog, with an estimated additional \$93 million needed annually in order to maintain the City’s infrastructure in a sustained functional condition. The transportation system (e.g., streets, street lighting) is most affected by the backlog.

Capital Asset Additions and Depreciation (\$millions)



Note: Capital additions do not include transfers.

Infrastructure Backlog (all funds as of February 2021) (\$millions)

	Current Backlog of Deferred Needs	Annual Ongoing Unfunded Needs
Airport	none	none
Building Facilities*	\$230.8	\$20.1
City Facilities Operated by Others	\$17.8	\$3.6
Sports Facilities	\$0.8	TBD
Convention Center/Cultural Facilities	\$67.5	TBD
Fleet	\$9.6	\$1.8
Parks, Pools, and Open Space	\$260.4	\$35.5
Sanitary Sewer	\$50.0	\$0.7
Service Yards	\$22.5	\$3.8
Storm Sewer	\$180.0	\$5.0
Technology**	\$37.4	\$8.0
Radio Communications	\$6.0	\$1.7
Transportation Infrastructure	\$845.5	\$12.7
Regional Wastewater Facility	none	none
Water Utility	none	none
Total	\$1,728	\$93

Source: [Status Report on Deferred Maintenance and Infrastructure Backlog, 2021](#)

* Annual ongoing is for Parks buildings only, remaining facilities to be determined (TBD).

** This estimate only includes deferred needs for technology infrastructure maintained by the Information Technology Department (ITD). Other departmental information technology needs are not included.

