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**2022-2023**  
**City Manager's Budget Request**  
**&**  
**2023-2027**  
**Five-Year Forecast**  
**and**  
**Revenue Projections**

**For the**  
**General Fund and Capital Improvement Program**

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**Prepared by the Office of the City Manager**  
**February 2022**

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# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jennifer A. Maguire

**SUBJECT:** 2022-2023 CITY MANAGER'S  
BUDGET REQUEST AND  
2023-2027 FIVE-YEAR FORECAST

**DATE:** February 28, 2022

## INFORMATION

### EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2022-2023 City Manager's Budget Request (2022-2023 Budget Balancing Strategy Guidelines) and the 2023-2027 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program (CIP). Major highlights of this report follow.

As shown in the chart below, a modest General Fund surplus of \$27.7 million is projected for 2022-2023, which constitutes approximately 2% of the General Fund Base Budget. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved ongoing services in the General Fund as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. If the 2022-2023 surplus is fully allocated on an ongoing basis, the remaining four years of the Forecast show additional incremental surpluses ranging from \$22.7 million to \$28.9 million (1.6% - 2.0%), which are relatively narrow margins when put into context of the size of the General Fund Budget. Over the five-year period, a total net General Fund surplus of \$128.8 million translates to an average annual surplus of \$25.8 million, which equates to 2.0% of the projected average annual General Fund Base Budget. The incremental surpluses are larger than figures included in the 2022-2026 Five-Year Forecast due to higher-than-expected levels of economic activity and corresponding revenue growth, paired with decreasing retirement costs attributable the City's retirement systems' strong returns in 2020-2021.

### **2023-2027 General Fund Forecast Incremental Surplus**

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	Five-Year Surplus
Incremental Surplus <sup>1</sup>	\$27.7 M	\$26.0 M	\$23.5 M	\$22.7 M	\$28.9 M	<b>\$128.8 M</b>
% of Budget (Based on Expenditures)	2.1%	1.9%	1.7%	1.6%	2.0%	

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2021-2022; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

- This Forecast reflects the Administration’s best estimates on projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2021-2022, including resources to support the City’s community and economic recovery efforts; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.
- The 2021-2022 Modified Budget is unique in that it includes substantial levels of one-time funding for important community services, most significantly from the American Rescue Plan Fund and the General Fund. While these services are not funded on an ongoing basis in 2022-2023, their discontinuation would likely cause negative service impacts that no one would want for our City. Therefore, from a practical perspective, when including these one-time funded critical programs currently budgeted in the American Rescue Plan Fund and the General Fund as part of our ongoing service level needs – and, for planning purposes only, assuming the continuation of half of the programs and services currently budgeted in the American Rescue Plan Fund – the City faces a service level/structural shortfall in the General Fund, as illustrated below.

**Estimated Service Level/Structural Shortfall in 2022-2023 for Planning Purposes  
(\$ in Millions)**

	<b>2022-2023</b>
February 2022 Incremental Surplus/(Shortfall)	\$27.7 M
Community and Economic Recovery Workstreams in the American Rescue Plan Fund Continued at 50% of 2021-2022 Modified Budget Level	(\$52.5 M)
Programs Previously Funded on a One-Time Basis in the General Fund	(\$20.4 M)
<b>Estimated Service Level/Structural Shortfall for Planning Purposes</b>	<b>(\$45.2 M)</b>

- The Forecast is built on the assumption of the economy continuing to grow, but at a more moderate pace after the sharp rebound experienced in 2021. As with all forecasts, there is a level of uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. The City’s two largest General Fund revenues, Property Tax and Sales Tax, are sensitive to changes in the local economy and may fluctuate to a significant degree depending on future conditions. Various cost elements can also vary from year to year. While retirement contributions as a percentage of the General Fund have decreased from prior forecasts due to the strong market returns in 2020-2021, future contributions will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards.

- Two alternative forecasts have been developed to model the range of budgetary scenarios possible under varying economic conditions. Optimistic and Pessimistic Cases have been created to model economic scenarios considered possible, but less likely to occur than the “Base Case”. Over the five-year period, the Optimistic Case would generate a surplus of \$153.1 million, while the Pessimistic Case would result in a shortfall of \$79.5 million. It is important to note that due to the significant impact the pandemic has had on the local economy, it is challenging to forecast the economic recovery over the next five years.
- As this Forecast document was finalized, Russia invaded the sovereign nation of Ukraine. While the human toll of this conflict is already substantial, its economic impact to the City and the Five-Year Forecast is uncertain. Possible economic impacts associated with the invasion may include increased global energy prices, which may in turn prompt the Federal Reserve to take more immediate and significant action to counter inflation that would impede the currently forecasted economic growth. Negative impacts to financial markets may also result in lower than anticipated returns from the City’s retirement investments, which could cause an increase to the City’s contribution to the retirement systems beginning in 2023-2024. The Administration will closely monitor the conflict to assess its impact on the local economy. Any adjustments will be considered and brought forward in the 2022-2023 Proposed Budget process, as appropriate.
- The chart on page 4 compares the 2022-2023 General Fund Forecast to the 2021-2022 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund surplus of \$27.7 million. Of the \$38.3 million General Fund ongoing shortfall resolved by the City Council’s approval of the 2021-2022 Adopted Operating Budget, \$31.6 million was resolved on a one-time basis, which is then carried forward as a starting point for 2022-2023. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by \$141.9 million, driven primarily by increases in Sales Tax, Property Tax, Real Property Transfer Tax, Business Tax, Utility Taxes, Fees, Rates, and Charges (Parks, Recreation and Neighborhood Services Department Fee Activity), Transfers and Reimbursements, and the Fines, Forfeitures, and Penalties (Parking Fines) revenue estimates. When comparing expenditures (the third element), base costs are expected to increase by \$82.6 million from 2021-2022 ongoing budget levels, with the majority of the net cost increases associated with the allocation of revenues to corresponding reserves and employee compensation increases. Retirement contributions experience a net decrease from previously forecasted levels as a result of the strong market returns experienced in 2020-2021.

**2022-2023 General Fund Forecast  
Reconciliation from 2021-2022 Adopted Budget**

2022-2023 General Fund Forecast Components (Ongoing)	\$ in Millions
<b>Carry-Over from 2021-2022 Adopted Budget</b>	<b>(\$ 31.58)</b>
<b>Revenue Changes</b>	
- Sales Tax	39.80
- Property Tax	31.50
- Real Property Transfer Tax	25.00
- Business Tax	11.50
- Utility Taxes	10.40
- Fees, Rates, and Charges (PRNS Fee Activity)	9.10
- Transfers and Reimbursements	8.50
- Fines, Forfeitures, and Penalties (Parking Fines)	3.50
- Other Net Revenue Changes	2.60
<b>Total Revenue Changes (Increase)</b>	<b>\$ 141.90</b>
<b>Expenditure Changes</b>	
- Revenue Loss Reserve	\$ 30.00
- Employee Compensation	26.30
- Measure E Allocations – Housing and Homelessness Prevention	25.00
- Workers’ Compensation Claims	3.31
- Non-Personal/Equipment (Vehicle O&M, Electricity, Gas, and Police Fleet)	2.93
- Living Wage/Minimum Wage Program	2.47
- Health Insurance Plans	2.23
- Homeless Rapid Rehousing	2.00
- Non-Management Step and Management-Pay-for-Performance Program	1.98
- FirstNet: Police Department Service Costs & Mobile Device Management	1.00
- Contingency Reserve	1.00
- Committed Additions: Operations and Maintenance	0.99
- Janitorial Services	0.78
- Insurance Premiums	0.77
- Deferred Infrastructure and Maintenance Reserve	0.75
- Unanticipated/Emergency Maintenance	0.50
- Retirement Contributions	(14.40)
- Library Branch Hours and Operations	(0.90)
- Community Service Officer Staffing	(0.73)
- Other Net Expenditure Changes	(3.37)
<b>Total Expenditure Changes (Increase)</b>	<b>\$ 82.61</b>
<b>2022-2023 Projected General Fund Surplus</b>	<b>\$ 27.71</b>

- For the 2022-2023 General Fund Forecast, personal services costs continue to account for nearly three-quarters of the total cost in the General Fund. The personal services category is broken down into three major components: salaries and other compensation, retirement, and health and other fringe benefits. Of the \$970.8 million projected personal services total for 2022-2023, salary and other compensation costs total \$563.1 million (58.0% of projected personal services), retirement costs total \$340.4 million (35.1% of projected personal services), and health and

other fringe benefits costs total \$67.3 million (6.9% of projected personal services). In the out years of the forecast, annual personal services growth ranging from 1.1% to 2.0% is projected.

- Committed Additions, expenses that address previous City Council direction, are included and total \$1.0 million in 2022-2023, rising to \$20.0 million by the end of the forecast period. The largest expenses in this category are the operating and maintenance costs for Measure T bond projects, approved by voters in November 2018, such as Fire Stations 32 and 36, the Police Training Facility, and the full activation of South San José Police Substation.
- In approaching the 2022-2023 Proposed Budget, the Administration recommends the use of the budget balancing strategy guidelines outlined in this memorandum (2022-2023 City Manager's Budget Request). The *City of San José Budget Principles* and *Service Delivery Framework* (Appendix A) combined with City Council approval of the Mayor's March Budget Message will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2022-2023 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval scheduled for March 15, 2022.
- As discussed above, the anticipated surplus for 2022-2023 does not include a range of existing service gaps that impact our community. There are also unmet/deferred infrastructure and maintenance needs that will have a long-term impact on the City. Looking forward, the Administration's goal is to ensure multi-year fiscal stability while also addressing, to the extent possible, the continued impacts from the pandemic, the City's basic service delivery needs, and the backlog of unmet/deferred infrastructure and maintenance needs.
- The attached *City Budget Program Guide* sets an initial baseline for how General Fund resources are currently allocated by City Service Area, Core Service, and Budget Program in the 2022-2023 Base Budget. The City Budget Program Guide will be refined and expanded as part of the 2022-2023 Proposed Budget development process to include budgeted expenditures of all funds, as well as the budget development direction contained within the Mayor's March Budget Message. This guide will serve as one tool to aid in the discussion of budgetary resource alignment with key City service delivery outcomes and performance as part of the 2022-2023 Proposed Operating Budget and 2022-2023 Proposed Budget Study Sessions.
- Projections for the selected CIP revenues are also included in this document. These revenue estimates of \$413.9 million are 11.6% higher than the estimate used to develop the 2022-2026 Adopted CIP (\$370.9 million), as the real estate market has remained strong in spite of the pandemic's impacts in other areas of the economy. When comparing the revenue estimates in this forecast to the 2022-2026 Adopted CIP, Construction and Conveyance Tax projections increased by \$46.0 million or 25.0%, Building and Structure Construction revenue estimates decreased by \$1.0 million or 1.0%, and Construction Excise Tax revenue estimates decreased by \$2.0 million or 2.3%. These three revenue estimates have a combined total of \$366.0 million.
- Consistent with past practice, as part of the preparation for the 2022-2023 Proposed and Adopted Budgets, the Administration will bring forward revisions to both the revenue and expenditure estimates as new information becomes available.

## **BACKGROUND**

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the 2022-2023 City Manager's Budget Request and the 2023-2027 Five-Year Forecast and Revenue Projections for the General Fund and CIP. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and are critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year CIP.

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends for use in developing the 2022-2023 Proposed Budget. These guidelines are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated budgetary status for 2022-2023 is an integral part of the Administration's proposed approach to preparing the 2022-2023 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2022-2023, and the subsequent four years, is provided as part of this document.

## **ANALYSIS**

This section includes the following: a discussion of the 2022-2023 City Manager's Budget Request; an overview of the 2023-2027 Five-Year Forecast and Revenue Projections for the General Fund and CIP; and a description of the next steps in the 2022-2023 budget process.

### **2022-2023 CITY MANAGER'S BUDGET REQUEST**

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines recommended to be used in the development of the 2022-2023 Proposed Budget. These proposed guidelines were formulated in the context of General Fund projections that include incremental ongoing surplus that range from \$22.7 million to \$28.9 million (approximately 2% of the General Fund Base Budget expenditures), but are also mindful that the City needs to strategically allocate resources to address a service level/structural shortfall when considering community and economic recovery workstreams currently included in the American Rescue Plan Fund on a one-time basis and important community priorities currently funded in the General Fund on a one-time basis, as previously approved by the City Council.

The overarching goals of these guidelines are to align ongoing resources in the General Fund with the strategic allocation of limited resources to address the City Council's most important priorities. While approximately \$50 million of unallocated resources remains within the American Rescue Plan Fund and a sizeable amount of General Fund resources will be available on a one-time basis again in 2022-2023, it is critical to ensure that these resources are appropriately used to transition to a more sustainable service level that can be achieved on an ongoing basis without reliance on external resources.



In addition to City Council's approval of the Mayor's March Budget Message and priorities identified in prior City Council sessions, these budget balancing strategy guidelines will be used with the overall City Council-approved *City of San José Budget Principles and Service Delivery Framework* that are attached as Appendix A to this document.

In accordance with the City Charter, the City is required to adopt a balanced budget each year, allocating any projected surplus or addressing any projected shortfall. In 2022-2023, a General Fund surplus of \$27.7 million is projected, representing approximately 2% of the General Fund Base Budget of \$1.3 billion. In the out years of the Forecast, General Fund surpluses ranging from \$22.7 million to \$28.9 million are projected. It is important to reiterate that these surpluses do not take into account a number of other important needs and services. When evaluating the annual General Fund surpluses projected in this Forecast, it is important to keep in mind that these figures do not incorporate impacts associated with:

- The costs to continue the community and economic recovery workstreams' services funded on a one-time basis in 2021-2022 by resources allocated from the American Rescue Plan Fund that totaled over \$100 million. Major items' workstreams funded on a one-time basis include, but are not limited to, the following: BeautifySJ Consolidated Model, San José Bridge Program, Expanded Dumpster Days, Vehicle Abatement, Continued Child and Youth Services, Digital Equity, Emergency Housing Construction and Operation, Continued Food Services, Eviction Help Center, Homeless Services Outreach Assistance + Resources (SOAR), Downtown Homeless Mental Health Response and Support, Resilience Corps, San José Abierto, San José Al Fresco, Small Business Outreach and Assistance Activities, and Supplemental Arts and Cultural Grant Funding.
- The costs to continue services funded on a one-time basis in 2021-2022 in the General Fund that totaled over \$20 million. Major items funded on a one-time basis that need to be evaluated for continued funding include the following: Police Sworn Hire Ahead Program, Beautify San José Landscape Maintenance Program, Parks Rehabilitation Strike and Capital Infrastructure Team, Foot Patrol in Downtown and High Needs Neighborhoods, San José 311 Enhancements, Community Service Officers, Urban Areas Security Initiative Grant Staffing, Library Branch Hours and Operations for Lower Resourced Communities, Police Public Records Team Staffing, Project Hope, Traffic Safety and Illegal Sideshows, Learning and Development Roadmap, Climate Smart San José Plan Implementation, Neighborhood Center Partner Program, Police Activities League Facilities Support, Proactive Legal Enforcement of Blighted and Nuisance Properties, Our City Forest, Park Strip Tree Planting, Language Access Coordination, Affordable Housing Portfolio Management Staffing, Santee Neighborhood Injunction Support, Accessory Dwelling Unit Ally Staffing, Blight Busters, and Disability Community Engagement and Service Evaluation.
- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were updated and presented to the Transportation and Environment Committee on March 1, 2021 at \$19.0 million annually in the General Fund (\$92.8 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling \$128.4 million in the General Fund (\$1.6 billion all funds).

- One-time revenues that may become available or one-time expenditure needs. Because the Forecast compares ongoing revenues and expenditures, it does not factor in one-time funding elements that may be available or required in any given year.

Due to the above critical needs that are not captured in the \$27.7 million General Fund ongoing surplus projected for 2022-2023, the Administration considers that the General Fund is experiencing an ongoing service level/structural shortfall. To provide perspective on the relative size of the service level/structural shortfall for planning purposes, the \$27.7 million surplus is compared below with just 50% of the \$104.9 million allocated from the American Rescue Plan Fund in 2021-2022 and those services and programs funded on a one-time basis in the General Fund in 2021-2022.

**Estimated Service Level/Structural Shortfall in 2022-2023 for Planning Purposes  
(\$ in Millions)**

	<b>2022-2023</b>
February 2022 Incremental Surplus/(Shortfall)	\$27.7 M
Community and Economic Recovery Workstreams in the American Rescue Plan Fund Continued at 50% of 2021-2022 Modified Budget Level	(\$52.5 M)
Programs Previously Funded on a One-Time Basis in the General Fund	(\$20.4 M)
<b>Estimated Service Level/Structural Shortfall for Planning Purposes</b>	<b>(\$45.2 M)</b>

The Administration looks to City Council’s upcoming approval of the Mayor’s March Budget Message to identify the most critical priority areas to allocate limited resources. The 2022-2023 Proposed Budget will focus on addressing those priority areas within available funding levels. While the positive outlook in the later years of the forecast allows for the opportunity to transition a portion of one-time funded initiatives to ongoing funded initiatives over a two to three-year period, achieving a structurally balanced budget from an ongoing service level perspective as soon as possible is critical to ensuring that the City remains nimble in future years to adapt to any unforeseen changes in the forecast.

As in past years, the Administration also recommends that one-time funding identified in the budget process be strategically invested to address one-time needs, such as addressing a portion of the City’s unmet/deferred infrastructure and maintenance needs, providing for limited technology investments, and/or building reserves to cushion against future budget uncertainties.

***2022-2023 Budget Balancing Strategy Guidelines***

The 2022-2023 Budget Balancing Strategy Guidelines, as shown below, provide recommended direction on the general approaches to use in the development of the 2022-2023 Proposed Budget.

## 2022-2023 Budget Balancing Strategy Guidelines

1. As directed by the priorities identified in the City Council-approved Mayor's March Budget Message, develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. As the City remains committed to balancing ongoing expenditures with ongoing revenues over the long term to maintain the City's high standards of fiscal integrity and budget management, use a combination of ongoing and one-time solutions to achieve a structurally balanced budget over a two to three-year period that prioritizes the incorporation of items previously funded on a one-time basis in the General Fund in 2021-2022 and community and economic recovery workstreams currently budgeted within the American Rescue Plan Fund.
4. To the extent possible, maintain or increase General Fund reserve levels to help address any unanticipated budgetary shortfall in the following year as a stopgap measure.
5. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to improve service delivery, meet the objectives of the City Roadmap, generate new revenues, address truly significant community or organizational risks, fund services added on a one-time basis in 2021-2022, and/or respond to specific City Council direction. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in proposal development.
6. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
7. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively.
8. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
9. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
10. Explore expanding existing revenue sources and/or adding new revenue sources.
11. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
12. Focus any available one-time resources on investments that 1) continue high-priority programs funded on a one-time basis in 2021-2022 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) accelerate the pay down of existing debt obligations where applicable and appropriate; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
13. Engage employees in department and/or city-wide budget proposal idea development.
14. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
15. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

***City of San José Budget Principles, Service Delivery Framework, and Performance and Resource Alignment***

When considering changes to the budget, it is important to consider the overall City of San José Budget Principles (included in *Appendix A*) that were initially developed as part of the General Fund Structural Deficit Elimination Plan effort when the City struggled with significant, persistent deficits. These principles, which were approved as part of the City Council's approval of the Mayor's March Budget Message for Fiscal Year 2008-2009 and subsequently amended on September 9, 2008, provide a meaningful framework for maintaining the fiscal discipline crucial to a large organization like the City of San José.

As the City Council is aware, it is important that the City take a holistic approach when either adding or reducing resources and programs. The Service Delivery Framework (included in *Appendix A*) provides a multi-pronged approach to delivering direct services to the community that takes into consideration various factors, including adequate strategic support resources, adequate infrastructure, service delivery methods to ensure efficient and effective operations, service delivery goals and current performance status, service sustainability, and staffing resources.

At the 2022-2023 Preliminary General Fund Forecast and Budget City Council Study Session held on January 14, 2022, the City Council expressed the desire to use the 2022-2023 budget development process to discuss how recommended resource allocations impact key City performance outcomes, measures, and programs. While the Proposed and Adopted Operating Budget documents contain an array of data related to City Service Area and Core Service performance and activity, there is certainly an opportunity to have a more direct discussion about how the allocation of existing and new resources may impact service delivery and outcomes for key priorities of the City Council and community. The 2022-2023 Proposed Operating Budget and 2022-2023 Proposed Budget Study Sessions will include this more direct focus. The City Budget Program Guide (included in *Appendix D*) will help set a baseline for how General Fund resources are allocated by City Service Area, Core Service, and Budget Program in the 2022-2023 Base Budget. The City Budget Program Guide will be expanded as part of the 2022-2023 Proposed Budget development process to also incorporate allocations for all funds rather than just the General Fund, and will include budget proposals and direction contained within the City Council-approved Mayor's March Budget Message.

The 2021-2022 City Council-approved City Roadmap identifies the most important programs, strategies, and policies to enact significant organizational change and drive service delivery improvement. The Administration recommends that development of the 2022-2023 City Roadmap be guided by City Council's approval of the Mayor's March Budget Message for Fiscal Year 2022-2023, to enable close alignment with policy direction, budget priorities, service delivery objectives, and available budgetary resources. A more detailed discussion on the process to adopt the 2022-2023 City Roadmap will be provided in a subsequent information memorandum.

### ***2022-2023 Budget Process***

As noted above, in addition to the forthcoming direction in the Mayor's March Budget Message, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2022-2023 City Manager's Budget Request combined with the overall City of San José Budget Principles and Service Delivery Framework to approach the 2022-2023 budget development process.

In December 2021, the Administration directed City departments to develop budget proposals using a draft version of the 2022-2023 Budget Balancing Strategy Guidelines. At that time, the Administration anticipated that the City's General Fund revenues and expenses would appear balanced in 2022-2023, but would experience an ongoing service level/structural shortfall. As a result, departments were directed to submit proposals to evaluate and recommend the continuation, where appropriate, of community and economic recovery workstreams and other high-priority programs currently funded on a one-time basis in the American Rescue Plan Fund and the General Fund.

In addition, departments were directed to evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to reduce costs, close service delivery gaps and/or adjust to shifting community priorities and needs. Budget proposals requesting a net addition of General Fund resources in addition to the initiatives previously funded on a one-time basis in 2021-2022 were to be limited to those that address truly significant community or organizational risks and/or respond to specific City Council direction. Departments overseeing special and capital funds were directed to develop proposals that balance within the total resources of the fund, identify the impact on fees or rates and, to the extent possible, minimize fee and rate increases. For those programs that have historically allocated resources equally city-wide, direction was given to work on enhancing or further developing a practice of place-based and equity-focused strategies to allocate these resources. The long-term goal is to fully align ongoing expenditures to ongoing revenues, prioritizing organizational stability as we build back capacity to address our significant service delivery and infrastructure needs.

The Mayor is currently anticipated to issue a proposed March Budget Message on March 7, 2022, which will then be discussed, amended if necessary, and adopted by the City Council on March 15, 2022. The contents of that Message will set forth key budget priorities for the preparation of the City Manager's 2022-2023 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 27, 2022 and May 2, 2022, respectively. As part of the 2022-2023 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2022-2023 Budget Balancing Strategy Guidelines, with any desired revisions. As required by City Charter, those Proposed Budgets will contain allocations that address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Budget Study Sessions and Public Hearings to discuss the budget and associated impacts on performance and service delivery. The Study Sessions will also include a focused discussion on key performance measures and on the development of the 2022-2023 City Roadmap. The Administration will also work with the Mayor and City Council to provide informational community meetings on the Proposed Budget. Additional input by the City Council and community will be incorporated into the budget through

these Proposed Budget Study Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2022.

## **2023-2027 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS**

The 2023-2027 Five-Year Forecast and Revenue Projections portion of this document is divided into five sections.

- I. **Elements of the General Fund Forecast** – This section begins with a description of the overall economic outlook and the expected performance of the economy over the five-year period, followed by detailed descriptions of the assumptions made concerning each of the General Fund revenue and expenditure categories. The Elements of the General Fund Forecast section ends with information regarding the projected General Fund operating margin for each of the five years included in the forecast period.
- II. **Base General Fund Forecast** – The forecast model is presented in this section. It includes projections for each of the General Fund revenue and expenditure categories. The expenditure summary is divided into two sections:
  - *Base Case without Committed Additions* – This section describes projections associated with existing expenditures only.
  - *Base Case with Committed Additions* – This section describes the existing expenditures (Base Case) along with those expenditures to which the City is committed by previous City Council direction and has less discretion, such as maintenance and operating costs for capital projects scheduled to come on-line during the next five years.

The Five-Year Forecast discussion is based on the Base Case with Committed Additions scenario, which is considered the most likely scenario for the upcoming year.
- III. **Committed Additions to the Base General Fund Forecast** – This section describes the committed additions per previous City Council direction considered in the Forecast, including the financial impact in each year of the Five-Year Forecast. This section also includes a discussion of Budget Principle #8, which pertains to capital projects with General Fund operating and maintenance costs in excess of \$100,000.
- IV. **Alternative Forecast Scenarios** – Because all forecasts are burdened with a large degree of uncertainty, two plausible alternative forecast scenarios are presented – an Optimistic Case and a Pessimistic Case – that modify revenue assumptions. These cases are compared with the Base Case, with committed additions, to show the range of growth rates for revenues and the associated operating margins.
- V. **Capital Revenue Forecast** – This section describes the estimates for construction and real estate related revenues that are major sources of funding for the City's Five-Year CIP.

- VI. **Appendices** – Four appendices are also included in this document. *Appendix A* includes the following: City Council-approved City of San José Budget Principles and the Service Delivery Framework. *Appendix B* provides descriptions of the City’s major General Fund revenue categories. *Appendix C*, prepared by the Planning, Building and Code Enforcement Department, documents the basis for that department’s five-year projections for construction activity. *Appendix D* consists of the City Budget Program Guide, that contains General Fund Base Budget expenditures and position allocations by City Service Area, Core Service, and Budget Program for each department.

**2023-2027 General Fund Forecast**

The following table displays the projected General Fund revenues and expenditures over the next five years and the total cumulative surplus. In addition to the cumulative surplus, the incremental surpluses (assuming each preceding surplus is expended completely with ongoing uses in the year it appears) for each year of the forecast is included. Because it is the City’s goal to remain in balance on an ongoing basis, the incremental figure is useful in that it shows the additional surplus attributed to a particular fiscal year. To the extent that a surplus is not expended on an ongoing basis, it is important to understand that the remaining budget surplus will carry over to the following year.

**2023-2027 General Fund Five-Year Forecast**  
(\$ in Millions)

	<b>2022-2023</b>	<b>2023-2024</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>
<b>Projected Revenues</b>	\$1,375.1	\$1,423.2	\$1,472.3	\$1,523.5	\$1,574.3
<b>Projected Expenditures</b>	\$1,347.4	\$1,369.5	\$1,395.0	\$1,423.6	\$1,445.5
<b>Total Cumulative Surplus</b>	\$27.7	\$53.7	\$77.3	\$99.9	\$128.8
<b>Total Incremental Surplus</b>	<b>\$27.7</b>	<b>\$26.0</b>	<b>\$23.5</b>	<b>\$22.7</b>	<b>\$28.9</b>
<b>% of Budget (Based on Expenditures)</b>	<b>2.1%</b>	<b>1.9%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>2.0%</b>

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2021-2022; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

In the 2023-2027 Forecast, a modest General Fund surplus of \$27.7 million is anticipated for 2022-2023, followed by incremental surpluses ranging from \$22.7 million to \$28.9 million over the next four years. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from 1.6% to 2.1% of the projected annual budget (based on expenditures), which ranges from \$1.3 billion to \$1.4 billion. However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast, including programs funded on a one-time basis in 2021-2022, including funding to continue the City’s community and economic and recovery efforts, unmet/deferred infrastructure and maintenance needs, and one-time revenue sources or expenditure needs.

Given the decreasing level of precision to be expected in the later years of a multi-year forecast, the significance of the projections in the out years is not so much in terms of their absolute amounts, but rather in the relative size of the increase from the prior year. This information should be used

to provide a multi-year perspective to budgetary decision-making, rather than as a precise prediction of what will occur.

When reconciling next year's Forecast to the 2021-2022 Adopted Budget, the projected surplus of \$27.7 million for 2022-2023 is the result of carrying forward the \$31.6 million shortfall resolved in 2021-2022 on a one-time basis, improved revenues of \$141.9 million, and increased costs of \$82.6 million. General Fund revenues are estimated to improve by a net of \$141.9 million when compared to the ongoing revenue performance assumed in the 2021-2022 Adopted Budget. The largest increases include: Sales Tax (\$39.8 million), due to strong economic activity and relatively high levels of inflation; Property Tax (\$31.5 million), which is based off the most recent information provided by the County of Santa Clara; Real Property Transfer Tax (\$25.0 million), resulting from the continuation of a strong real estate market; Business Tax (\$11.5 million), due to the full resumption of cardroom operations and higher activity levels for Cannabis Business Tax; Utility Taxes (\$10.4 million), based on rate increases and usage projections; Fees, Rates, and Charges (\$9.1 million) due to a more normal level of fee activity from Parks, Recreation and Neighborhood Services Department operations; Transfers and Reimbursements (\$8.5 million), associated with various adjustments related to transfers from other City funds and overhead reimbursements; and Fines, Forfeitures, and Penalties (\$3.5 million), as parking fine revenues recover from pandemic lows. A description of major General Fund revenue categories is included as *Appendix B*.

On the expenditure side, a number of upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of \$82.6 million in 2022-2023. The largest expenditure changes include: the continuation of the Revenue Loss Reserve, established as part of the 2021-2022 Mid-Year Budget Review, to set aside disputed revenues to address the potential negative impact to the General Fund in the event there is a final adverse determination regarding the ongoing allocation of tax revenues to the City (\$30.0 million); employee compensation increases (\$26.3 million) in accordance with existing labor agreements and estimation of future salary costs; increases for the allocation of Real Property Transfer Tax (Measure E) revenues toward affordable housing and homelessness prevention reserves and program administration (\$25.0 million); workers' compensation claims (\$3.3 million); city-wide vehicle operations and maintenance, electricity, gas, and police fleet replacements (\$2.9 million); compensation related to living and minimum wage adjustments (\$2.5 million); health insurance plans cost increases (\$2.2 million); non-management step and management pay-for-performance program (\$2.0 million); FirstNet service costs for the Police Department and mobile device management platform for FirstNet devices (\$1.0 million); operations and maintenance costs associated with capital projects anticipated to come online during the forecast period (\$1.0 million); contractual increases for city-wide janitorial services as previously approved by the City Council (\$783,000); an increase to the deferred infrastructure and maintenance reserve to be used as a funding source in the Proposed Budget to replace backlogged technology infrastructure and other public assets (\$750,000); an increase to address unanticipated and emergency maintenance and repair needs (\$500,000); a reduction to retirement contributions in accordance with calculated pensionable payroll and actuarial assumptions approved by the City's Retirement Boards (-\$14.4 million); the reinstatement of the reduction of Branch Library hours that was restored on a one-time basis in 2021-2022 (-\$900,000); and the expiration of five limit-dated Community Service Officer positions that were restored for a two-year period beginning in 2020-2021 (-\$730,000).



Further detailed information regarding the General Fund revenues and expenditures and the assumptions used in the development of the Forecast can be found in *Section I – Elements of the General Fund Forecast* of this document.

***General Fund Committed Additions***

Cost estimates for specific Committed Additions that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2022-2026 Adopted CIP, or for projects approved by the City Council during 2021-2022. The costs of the additions total \$1.0 million in 2022-2023 and increase to \$20.0 million by the end of the forecast period. Maintenance and operating costs in the first two years are largely due to the Fire Training Center and the Emergency Operations Center and Office of Emergency Management facilities that are scheduled to be completed and ready for use during the second half of 2022-2023. Starting in 2024-2025, costs are expected to increase significantly due to a number of additional Measure T bond funded projects, including new Fire Station 32, Fire Station 8 Relocation, Police Training Facility, and the 911 Call Center Expansion. Two additional fire station projects, new Fire Station 36 and Fire Station 23 Relocation, are scheduled to be completed in 2025-2026, further increasing the overall maintenance and operating costs.

**2023-2027 General Fund Committed Additions  
Maintenance and Operations Costs**

	<b>2022-2023</b>	<b>2023-2024</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>
New Parks and Recreation Facilities	\$248,000	\$512,000	\$1,486,000	\$1,666,000	\$1,785,000
New Traffic Infrastructure Assets	43,000	125,000	205,000	258,000	289,000
New Public Safety Facilities	204,000	513,000	932,000	2,668,000	2,767,000
Measure T Bond-funded Facilities	497,000	1,913,000	8,886,000	14,675,000	15,116,000
<b>Total</b>	<b>\$992,000</b>	<b>\$3,063,000</b>	<b>\$11,509,000</b>	<b>\$19,267,000</b>	<b>\$19,957,000</b>

A detailed listing of all committed additions with operating and maintenance costs are included in this 2023-2027 General Fund Forecast and can be found in *Section III - Committed Additions to the Base General Fund Forecast* of this document.

***General Fund Capital Operating and Maintenance Costs/Budget Principle #8***

General Fund Capital Operating and Maintenance Costs/Budget Principle #8 requires City Council certification that funding will be made available in the General Fund for capital projects with an estimated operating budget impact greater than \$100,000 at the time of taking beneficial use of the facility or project, and that this operations and maintenance funding will not require a decrease in existing basic neighborhood services. Capital projects with operating and maintenance costs over \$100,000 that have been previously certified by the City Council, or are recommended for

certification in the future, are shown in Chart A in *Section III - Committed Additions to the Base General Fund Forecast*.

***Alternative Forecast Scenarios***

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the Base Case. Optimistic and Pessimistic cases model economic scenarios considered possible, but less likely to occur than the Base Case. These alternatives are presented in *Section IV – Alternative Forecast Scenarios* of the report to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2022-2023 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

**General Fund Operating Margins  
(Base, Optimistic, and Pessimistic Cases)**

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	Five-Year Surplus
<b>Base Case</b>	<b>\$27.7 M</b>	<b>\$26.0 M</b>	<b>\$23.5 M</b>	<b>\$22.7 M</b>	<b>\$ 28.9 M</b>	<b>\$128.8 M</b>
Optimistic Case	\$51.7 M	\$28.8 M	\$5.4 M	\$29.3 M	\$38.0 M	\$153.1 M
Pessimistic Case	(\$1.0 M)	\$18.5 M	\$19.9 M	\$15.7 M	\$25.4 M	\$79.5 M

- *Base Case* – The Base Case Forecast is built on the assumption of the economy continuing to grow. The local region is anticipated to continue benefitting from a high level of venture capital investment in the technology industry, employment growth, moderating levels of inflation, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to continue growing, but to a lesser extent than was experienced in 2021. Additionally, with the exception of the Transient Occupancy Tax, all economically sensitive City revenues are above pre-pandemic levels. Year-over-year growth for economically sensitive General Fund revenues such as Property Tax, Sales Tax, and Transient Occupancy Tax receipts will remain strong to moderate throughout the forecast period.
- *Optimistic Case* – The Optimistic Case Forecast assumes that the downward push on inflation from interest rate hikes occurs much later than anticipated in the Base Case. Venture capital investments, the key driver of the technology sector of the economy, are higher in each year of the forecast period in the Optimistic Case. As a result, the largest local technology employers are doing much better than in the Base Case. Local employment continues to expand at a high rate and, because of the solid employment growth, housing prices remain at higher levels through the entire forecast period. Higher inflation for a longer period of time is also expected in the Optimistic Case. This growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.

- Pessimistic Case* – The Pessimistic Case Forecast assumes the adverse factor of rapidly increasing interest rates and lower inflation rates occurring much earlier than the Base Case. Slower growth is assumed for several of the key determinants of the City’s revenues; including, home prices and the number of property sales. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, economically sensitive revenues, particularly Property Tax and Sales Tax, are impacted by an economic slowdown.

***Capital Revenue Forecast***

*Section V – Capital Revenue Forecast* of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2022-2023 Capital Budget and the 2023-2027 CIP. As in past years, the construction-related revenue estimates included in this report are derived from construction activity projections provided by the Planning, Building and Code Enforcement (PBCE) Department and an analysis of actual collection patterns. The projections and their basis are described in a report prepared by the PBCE Department, which is included as *Appendix C* of this document (Development Activity Highlights and Five-Year Forecast [2023-2027]). This activity forecast includes a review of specific projects that are in progress as well as a general prediction of expected levels of new construction.

The following table compares the estimates for the economically sensitive capital revenue categories included in this Five-Year Forecast with those included in the 2022-2026 Adopted CIP. As shown below, revenues are anticipated to increase by 12% compared to the Adopted CIP, from \$370.9 million to \$413.9 million.

**Capital Revenue  
Forecast Comparison Summary  
(\$ in thousands)**

	<b>2022-2026 Adopted</b>	<b>2023-2027 Forecast</b>	<b>Difference</b>	<b>% Change</b>
<b>Construction and Conveyance Tax</b>	\$184,000	\$230,000	\$46,000	25%
<b>Building and Structure Construction Tax</b>	96,000	95,000	(1,000)	(1%)
<b>Construction Excise Tax</b>	86,000	84,000	(2,000)	(2%)
<b>Municipal Water System Fees</b>	375	375	0	0%
<b>Residential Construction Tax</b>	1,000	1,000	0	0%
<b>Sanitary Sewer Connection Fee</b>	2,500	2,500	0	0%
<b>Storm Drainage Connection Fee</b>	1,000	1,000	0	0%
<b>TOTAL</b>	<b>\$370,875</b>	<b>\$413,875</b>	<b>\$43,000</b>	<b>12%</b>

Real estate activity (primarily housing sales) determines the collection level of the Construction and Conveyance Tax. After reaching a record setting high at the time of \$49.0 million in 2005-2006, tax collections continuously fell following the real estate slowdown and financial market crisis, dropping to as low as \$20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and have been steadily increasing, hitting a new all-time high of \$53.1 million in 2020-2021. Collections in 2021-2022 are projected to end the year at \$60.0 million. This estimated collection level is 13% above the actual receipts received in 2020-2021, which is reflective of the strong housing market despite the pandemic. Collections in this extremely volatile revenue category are conservatively forecasted to drop to \$50.0 million in 2022-2023 and then drop to \$45.0 million for the remainder of the forecast period.

Construction activity valuation is anticipated to be lower than the prior year with \$1.1 billion in 2021-2022, a 41% decrease compared to \$1.9 billion in 2020-2021. Construction valuation is projected to increase in the first four years of the forecast period, going from \$1.2 billion in 2022-2023 to \$1.4 billion in 2025-2026 and staying at the same level in 2026-2027. These valuations are based on slow but steady increases in new construction activities in the residential and commercial categories. While the pandemic led to some interruptions in the local construction sector, the market showed resilience last year and this year as projects already in progress re-started after the shutdown and other permits were pulled for the first time. Though these estimates may be conservative, they are reflective of the uncertain development environment in the future and an acknowledgement that the extremely high activity experienced over the last several years will likely not continue at the same level.

The five-year projection for the Building and Structure Construction Tax collections total \$95.0 million, \$1.0 million below the estimate included in the 2022-2026 Adopted CIP. It is projected that collection estimates will remain at \$19 million for the forecast period as projects are completed and activity levels remain steady. Construction Excise Tax collections are projected to total \$84.0 million over the forecast period, \$2.0 million below the estimate included in the 2022-2026 Adopted CIP. It is projected that collections will increase from the 2021-2022 estimate of \$15.0 million to \$16.0 million in 2022-2023 and to \$17.0 million for the remainder of the forecast period as projects are completed and activity levels increase.

#### **NEXT STEPS IN THE 2022-2023 BUDGET PROCESS**

The next major steps in the budget development process include the following:

##### ***March 2022***

- 2022-2023 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

##### ***April 2022***

- 2022-2023 Proposed Capital Budget and 2023-2027 Proposed CIP Released

### ***May 2022***

- 2022-2023 Proposed Operating Budget and 2022-2023 Proposed Fees and Charges Released
- 2022-2023 Community Budget Meetings
- City Council Study Sessions and Initial Public Hearing on 2022-2023 Proposed Operating Budget, 2022-2023 Proposed Capital Budget and 2023-2027 Proposed CIP, and 2022-2023 Proposed Fees and Charges

### ***June 2022***

- 2022-2023 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2022-2023 Operating Budget, 2022-2023 Capital Budget and 2023-2027 CIP, and 2022-2023 Fees and Charges Adopted by City Council

## **CONCLUSION**

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's CIP. A modest General Fund surplus of \$27.7 million, approximately 2% of the General Fund budget, is projected in 2022-2023, followed by surpluses ranging from \$22.7 million to \$28.9 million. These margins are narrow when considering the size of the General Fund budget that totals \$1.3 billion to \$1.4 billion annually over the forecast period (1.6% - 2.0% of the budget).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document, especially as the recovery from the pandemic may continue to vary from economic projections, and as the world is impacted by Russia's invasion of the sovereign nation of Ukraine. It is also important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2021-2022, including the substantial resources to support the City's community and economic recovery efforts funded in the American Rescue Plan Fund; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

The revenue and expenditure projections for 2022-2023 will continue to be refined over the next several months as additional information becomes available. This includes additional Property Tax roll growth data that is updated each month, or any new economic data that would substantially alter assumed revenue growth across economically sensitive categories. Based on this additional data, any necessary adjustments will be incorporated into the 2022-2023 Proposed and Adopted Operating Budgets, as appropriate.

HONORABLE MAYOR AND CITY COUNCIL

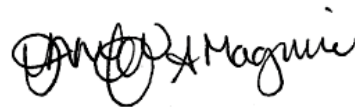
February 28, 2022

**Subject: 2022-2023 City Manager's Budget Request and 2023-2027 Five-Year Forecast**

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This document also provides the recommended 2022-2023 City Manager's Budget Request (Budget Balancing Strategy Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. The over-arching goals of these guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner.

Over the past many years, the Mayor and City Council have remained committed to ensuring the fiscal health of the City while delivering essential services in the most cost-effective manner. Continued commitment to these strategies will help ensure a responsible approach to budgeting to ensure that the City can sustain critical community services into the future.

A handwritten signature in black ink, appearing to read "Jennifer A. Maguire". The signature is stylized and cursive.

Jennifer A. Maguire  
City Manager

# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### Overview

This document provides three Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2022-2023 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast, however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment that affect the City's revenue collections.

As this Forecast document is being finalized, Russia has invaded Ukraine. Due to the opacity of international conflict and a variety of uncertain economic outcomes, it is very difficult to determine how the consequences of the current situation will impact the Five-Year Forecast. Possible economic impacts associated with the invasion may be increased global energy prices, which would affect both natural gas and oil. These higher energy prices may prompt the Federal Reserve to take immediate and more significant action to counter inflation. This would result in interest rates rising faster and higher than would likely occur without the invasion, and could impede the currently forecasted economic growth. Negative impacts to financial markets may also result in lower than anticipated returns from the City's retirement investments, which could cause an increase to the City's contribution to the retirement systems beginning in 2023-2024. The Administration will closely monitor the Russian and Ukraine war to assess its impact on the local economy. Any adjustments will be considered and brought forward in the 2022-2023 Proposed Budget process, as appropriate.

- ❑ **Base Case** – The Base Case Forecast is built on the assumption of the economy continuing to grow. The local region is anticipated to continue benefitting from a high level of venture capital investment in the technology industry, employment growth, moderating levels of inflation, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to continue growing, but to a lesser extent than was experienced in 2021. Additionally, with the exception of the Transient Occupancy Tax, all economically sensitive City revenues are above pre-pandemic levels. Year-over-year growth for economically sensitive General Fund revenues such as Property Tax, Sales Tax, and Transient Occupancy Tax receipts will remain strong to moderate throughout the forecast period.
- ❑ **Optimistic Case** – The Optimistic Case Forecast assumes that the downward push on inflation from interest rate hikes occurs much later than anticipated in the Base Case. Venture capital investments, the key driver of the technology sector of the economy, are higher in each year of the forecast period in the Optimistic Case. As a result, the largest local technology employers are doing much better than in the Base Case. Local employment continues to expand at a high rate and, because of the solid employment growth, housing prices remain at higher levels through the entire forecast period. Higher inflation for a longer period of time is also expected in the Optimistic Case. This growth results in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.

# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### **Base Case Forecast**

- ❑ **Pessimistic Case** – The Pessimistic Case Forecast assumes the adverse factor of rapidly increasing interest rates and lower inflation rates occurring much earlier than the Base Case. Slower growth is assumed for several of the key determinants of the City’s revenues; including, home prices and the number of property sales. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, economically sensitive revenues, particularly Property Tax and Sales Tax, are negatively impacted by an economic slowdown.

As with all forecasts, this General Fund Forecast is based on a series of assumptions regarding the overall economic environment, both now and in the future. These assumptions were reached after reviewing the projections included in a number of economic forecasts. The economic conditions and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the 2022-2023 Proposed Operating Budget, scheduled for release on May 2, 2022.

The following is a discussion of both the national and local economic outlooks used to develop the revenue estimates for the Base Case Forecast. 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 to assist in the development of this Forecast, particularly the modeling of the growth in the out-years of the Forecast. In addition, consultants that focus on particular revenue categories such as Sales Tax and Transient Occupancy Tax were asked to weigh in on the current projections and future outlooks in these areas.

### **Current National Economic Conditions**

Prior to the pandemic, the United States was experiencing the longest economic expansion in United States history. However, in spring 2020, as a result of the pandemic, the United States economy suddenly plunged into a recession. Fortunately, the 2020 recession, sometimes referred to as “The Great Lockdown”, was the shortest recession recorded in the United States. After a very difficult 2020, the economy quickly rebounded in 2021 and growth is anticipated to continue in 2022. Several crucial United States economic sectors are performing well, which is bolstering the economy, including housing and technology sectors. Inflation, however, is running at a decades high rate of over 7%, as measured by the Consumer Price Index. Therefore, in order to combat the extremely high inflation rate, the Federal Reserve will likely adopt economically restrictive policies, mostly centered on raising interest rates.

Housing, one of the most critical sectors in the United States economy is continuing to expand. Housing statistics are currently strong in all regions of the country. The suppressed inventory of existing homes available in the real estate market coupled with the low number of newly constructed homes and high demand suggest the housing sector should continue to remain strong. However, as mentioned, it is assumed the Federal Reserve will begin aggressively raising interest rates very soon to combat soaring inflation rates, which may impact the housing sector if mortgage rates climb too high.



# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### Base Case Forecast

The technology sector is another very rapidly growing area of the economy. Both existing technology businesses and newly minted IPOs are driving the technology sector's rapid expansion. E-commerce and associated web experiences and related businesses are thriving. In addition, the emergence of the electric cars industry will further elevate this sector in the near-term future, as electric cars are heavily technology dependent mostly in the form of software. Other areas of technology that are also becoming increasingly important include artificial intelligence, biotech, and environmental technologies, which are all growing rapidly.

Venture capital (VC), the driving force of the technology sector, produced another record-setting year in 2021 with investments doubling the previous record that was set in 2020. This was a remarkable feat given the ongoing economic impacts associated with the pandemic, economy-wide supply chain disruptions, and labor shortages. In 2021, venture capital firms set a record for technology, healthcare, fintech, and biotech sector deals. Additionally, exit values, which are venture-capital backed companies going public or being acquired, set a new record. Bobby Franklin, President and Chief Executive Officer of the National Venture Capital Association, stated "The overwhelming majority of exit dollars, some \$681.5 billion, was realized through public listings, a testament not only to the favorable conditions presented by robust public markets and strong valuations, but also to the availability of SPACs (special purpose acquisition company) as an acceptable and popular alternative to IPOs. That VC-backed companies were able to generate such enormous exit value in 2021 during a time characterized by great uncertainty and extraordinary circumstances highlights the continued importance of VC-backed companies to US public markets."<sup>1</sup> Looking towards 2022, the venture capital market momentum is anticipated to continue; however, the public markets response to the pandemic, inflation, and the Russia-Ukraine War remains to be seen.

Another key driver to the U.S. economy is energy production. The energy sector is one of the backbones of the United States economy, with petroleum accounting for approximately one-third of the nation's energy production. Beginning in 2018, the United States became the top crude oil producer in the world, accounting for 15% of the world's crude oil production in 2020. The second largest producer is Russia, who produces 13% of the world's crude oil.<sup>2</sup> As Russia's war on Ukraine continues, there is an abundance of uncertainty regarding its impact on crude oil.

In 2019, the Brent crude oil prices totaled an average \$64 per barrel, then dropped to an average of \$42 per barrel in 2020 due to the weakened demand as a result of the pandemic. In 2021, the Brent crude oil price was initially forecasted at \$52-\$56 per barrel; however, as pandemic-related restrictions loosened and the economy grew, global crude oil demand outpaced supply. As a result, the average Brent crude oil price totaled \$71 per barrel in 2021, the highest since 2018. In early February 2022, the United States Energy Information Administration forecasted that oil prices could average of \$90 per barrel during periods of 2022.<sup>3</sup> Given the recent development of the Russian invasion of Ukraine, oil prices could be driven even higher than initially anticipated.

<sup>1</sup> National Venture Capital Association and PitchBook, Venture Monitor, 4<sup>th</sup> Quarter 2021

<sup>2</sup> U.S. Energy Information Administration, International Energy Statistics, Updated April 1, 2021

<sup>3</sup> U.S. Energy Information Administration, Short-Term Energy Outlook, February 2022

# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### Base Case Forecast

#### National Economic 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 and the Gross Domestic Product (GDP) experienced its steepest quarterly drop on record. The crisis ended quickly, with the economy swiftly rebounding in 2021, as could be seen with several key economic indicators: GDP rose, unemployment dropped, and consumer confidence rose. Looking towards 2022, the economy is anticipated to remain strong, though, there is a concern regarding soaring inflation, and there is uncertainty of the economy's reaction to the Russian invasion of Ukraine.

The United States economy ended 2021 on a high note, with the GDP reaching 7.0% in the 4<sup>th</sup> quarter of 2021. This growth was higher than anticipated, which reflected strong consumer spending despite supply chain issues and new COVID variants emerging. Economic expansion in the United States is anticipated to continue in 2022 and 2023, but at a lower rate as more aggressive anti-inflationary policies from the Federal Reserve is expected to slow economic growth.

Unemployment levels hit record highs in 2020 as the COVID-19 pandemic severely restricted the national economy. Throughout 2021, with the emergence of highly effective vaccines and corresponding easing of health order restrictions, the unemployment steadily declined and the economy rebounded. Per the U.S. Bureau of Labor Statistics, as of February 2022 the national unemployment rate was 4.0%, which is significantly below the high of over 14% experienced during 2020.

On a national level, consumer confidence dropped in both January and February 2022 as concerns about inflation have grown. According to Lynn Franco, Senior Director of Economic Indicators at The Conference Board, "Expectations about short-term growth prospects weakened further, pointing to a likely moderation in growth over the first half of 2022. Meanwhile, the proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all fell. Concerns about inflation rose again in February, after posting back-to-back declines. Despite this reversal, consumers remain relatively confident about short-term growth prospects. While they do not expect the economy to pick up steam in the near future, they also do not foresee conditions worsening. Nevertheless, confidence and consumer spending will continue to face headwinds from rising prices in the coming months."<sup>4</sup>

Inflation is running at a decades high rate of over 7%, as measured by the Consumer Price Index. The extremely high inflation rate has likely occurred as a result of labor shortages, a breakdown in the global supply chain, surging energy prices, and expansive Federal Reserve monetary policies that were designed to prevent overly severe negative economic impacts related to the pandemic.

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<sup>4</sup> The Conference Board, Consumer Confidence Survey, February 2022

# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### Base Case Forecast

Federal Reserve is expected to raise interest rates several times in 2022, the first of which will likely occur in March 2022. By raising interest rates, borrowing money becomes more expensive, which should reduce spending and curb inflation.

### Current City of San José Economic Conditions

The City of San José has steadily rebounded since the initial onset of the pandemic; growth that accelerated with the arrival and widespread use of effective vaccines. In spite of this growth, the broader economic environment is still recovering and, in many areas, are not yet back to pre-pandemic levels.

The December 2021 employment level of 1.13 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 64,000 jobs, or 6.0%, from the December 2020 level of 1.07 million. This increase includes leisure and hospitality adding 24,300 jobs; professional and business services increasing 12,700 jobs; and the private educational and health services growing by 9,700 jobs.<sup>5</sup>



Unemployment Rate (Unadjusted)				
	Feb. 2020	April 2020	Dec 2020	Dec. 2021**
San Jose Metropolitan Statistical Area*	2.6%	12.4%	6.0%	3.0%
State of California	4.3%	16.0%	9.1%	5.0%
United States	3.8%	14.4%	6.5%	3.7%
* San Benito and Santa Clara Counties Source: California Employment Development Department.				
** December 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 December 2021, the local unemployment rate was 3.0%, which is significantly lower than the December 2020 rate (6.0%). However, the unemployment rates remain slightly above the February 2020 pre-pandemic level of 2.6%. It is important to note though that although local

unemployment figures have risen, they continue to be lower than the State and the national levels.

<sup>5</sup> State of California Employment Development: Labor Market Information Division Press Release, January 21, 2022

# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### Base Case Forecast

Overall construction activity through December 2021 decreased 61.0% from prior year levels due to activity for all land use categories (residential, commercial, and industrial) experiencing significant year-over-year declines from the prior year, especially for commercial activity. The 2021-2022 Adopted Budget was developed with the expectation that development activity would decrease from the high levels experienced in 2020-2021 but would remain relatively strong. When considering the construction valuations discussed below, it is important to note that the beginning of 2020-2021 saw historically high levels of new construction early in the fiscal year – construction valuation through August 2020 was \$944.9 million, which was two-thirds of the valuation through December and half of the total valuation for all of 2020-2021. With this context, the year-over-year comparisons through December appear more significant than they are likely to be by June. However, development activity has been on a downward trend since 2019-2020 and will continue to be closely monitored.

Through December 2021, residential permit valuations decreased 26.7% from the prior year (\$149.2 million through December 2021; \$203.6 million through December 2020). Valuation for alterations was moderately higher than new construction for November and December. Residential activity through December included 292 multi-family units and 278 units for single-family construction for a total of 570 units. Major projects for November and December include permits for two nine-unit condominium buildings.

Private Sector Construction Activity (Valuation in \$ Millions)			
	YTD December 2020	YTD December 2021	% Increase
Residential	\$ 203.6	\$ 149.2	(26.7%)
Commercial	\$ 921.7	\$ 235.8	(74.4%)
Industrial	\$ 278.6	\$ 163.1	(41.5%)
<b>TOTAL</b>	<b>\$ 1,403.9</b>	<b>\$ 548.1</b>	<b>(61.0%)</b>

Commercial valuation through December experienced a decrease of 74.4% from the prior year level (\$235.8 million through December 2021; \$921.7 million through December 2020). Most of the activity for November and December was from additions/alterations at about 77% of the total, with approximately 23% for new construction. A major project for November and December included a permit for a four story, 127-room hotel.

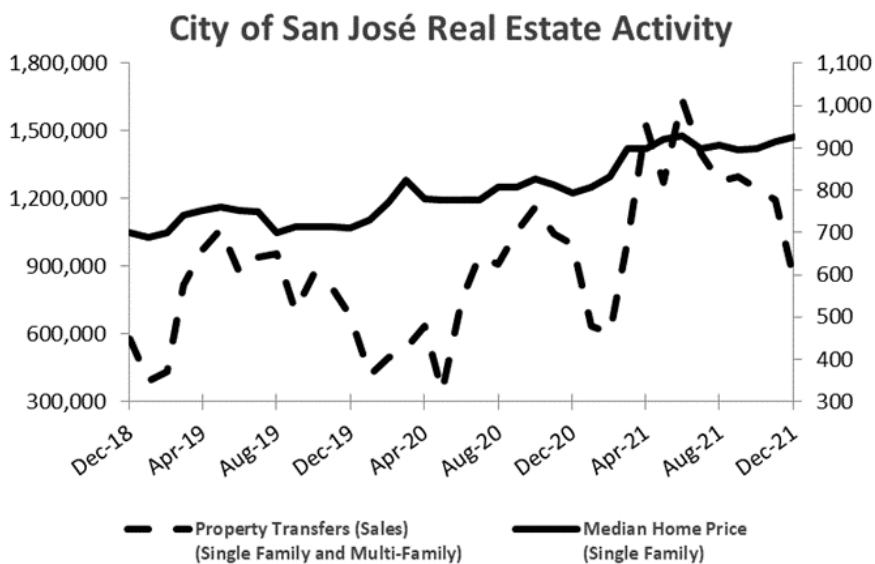
Industrial construction valuation through December was 41.5% lower than the prior year levels (\$163.1 million through December 2021; \$278.6 million through December 2020). Valuation for November and December was split evenly between new construction and alterations. A notable project for November included a permit for a three-story, 150,000 square foot self-storage facility. Alterations accounted for all the activity in December.

# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### Base Case Forecast

Real estate activity was significantly curtailed at the start of the pandemic. 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 in March 2020 through



June 2020. However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains, which has continued through fall 2021. Year-to-date through December 2021, there were a total of 4,711 property transfers for all residences, which represents growth of almost 15% from prior year levels. In addition, median single-family home prices remain strong. As of December 2021, the median single-family home price totaled \$1.48 million, which represents a 20.4% increase from the December 2020 price of \$1.22 million. Finally, it is taking significantly less time to sell these more expensive homes. The average days-on-market through December 2021 totaled 16 days, which is significantly below the average of 26 days experienced year-to-date through December 2020.

### City of San José Economic Outlook

Similar to the outlook regarding the national economy, the local economy is anticipated to experience continued growth in 2022, which will continue over the five-year forecast. Unemployment rates are dropping and remain below national levels. Additionally, venture capital investment, a key determinant of employment levels in Silicon Valley, has continued to grow at unprecedented levels, which is forecasted to continue, but at more moderate levels. Similarly, the local real estate market is anticipated to remain strong over the course of the forecast, including home prices and property sales, but is not expected to see the same level of year-over-year gains as experienced in 2021.

Many policies and decisions made at the national level significantly influence the local economy. In order to combat extremely high inflation rates, the Federal Reserve will likely raise interest rates, which may impact the local real estate market. However, based on the limited supply of homes, the impact is not anticipated to be significant. Nonresidential construction is anticipated to continue being a major driver of the local economy, with several large projects being in various development and construction phases. Additionally, foreign investment, primarily in technology and real estate, are vital to the local economy, which is anticipated to remain strong during the forecast period.

# Elements of the General Fund Forecast

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## Assumptions Regarding the Economic Environment

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### **Base Case Forecast**

Taken together, the City of San José is anticipated to continue moderately growing over the five-year forecast period among economically sensitive revenues such as Property Tax, Sales Tax, Business Tax, and Transient Occupancy Tax receipts.

### **Optimistic Case Forecast**

The Optimistic Case Forecast assumes that the downward push on inflation from interest rate hikes occurs much later in the Forecast than anticipated in the Base Case. The Federal Reserve has a slight incentive to not overreact to inflation by raising interest rates rapidly because growing the rates too high, too fast could result in the economy entering a recession. With this slight incentive, inflation will remain elevated for a prolonged period as interest rates slowly increase. As a result, almost all tax revenues will increase to a greater extent, except for the Gas Tax and Property Tax.

With Congress' substantial infrastructure bill and the country being close to full employment, the Optimistic Case assumes there will be additional spending, putting significantly more upward pressure on prices than the Base Case. Additionally, the rising yearly number of retirees causes a greater demand for goods and services with less workers to supply those demands.

Sales Tax revenues benefit greatly from higher inflation; even with the growing interest rates, higher prices at the retail level translates directly into higher tax collections. Revenue from the Transient Occupancy Tax rise the fastest in the Optimistic Case compared to any other City revenues. The higher inflation assumption promotes increases in room rates while the increased levels of economic activity in this case increases occupancy rates. Rising room prices and occupancies lead directly to higher revenues for hotels, resulting in higher tax collections. The number of hotel rooms coming online during the forecast period also causes this revenue to rise even faster. In addition, Utility Tax and Franchise Fees rise moderately above the Base Case. These increases arise from the higher rate of inflation, which causes utility rates to rise, and the increasing levels of economic activity which increase usage. Most affected are the electricity related revenues that rise faster than natural gas and water. The Gas Tax revenue is lower in the Optimistic Case due to rising inflation increasing gasoline prices, which lowers gasoline consumption. Since the Gas Tax is a per gallon tax, lower consumption results in less tax revenues. The Gas Tax is the only City revenue to decline in the Optimistic Case.

### **Pessimistic Case Forecast**

The Pessimistic Case Forecast assumes rapidly increasing interest rates that lowers inflation earlier than in the Base Case Forecast. The Federal Reserve's rapid increase of interest rates causes an earlier and greater slowdown in the interest rate sensitive sectors of the economy. Among those sensitive sectors are venture capital investments and the housing market, which are both anticipated to decline. For the housing market sector, impacts will show in the drop of new and existing home prices and sales activity. Venture capital investments rapidly decline in the Pessimistic Case as inflation lowers earlier than anticipated but will bounce back and delay economic growth. These slowing economic activities will have a compounding effect on other revenues in the Pessimistic Case.

# Elements of the General Fund Forecast

## Assumptions Regarding the Economic Environment

### Pessimistic Case Forecast

Revenue from Sales Tax are much lower than the Base Case with 2022-2023 having a negative growth rate but slowly rebounds in the proceeding years of the forecast. Property Tax revenue is also lower in the Pessimistic Case due to higher interest rates. Median home prices and the number of property transfers are lower in the Pessimistic Case. One aspect of the Property Tax, which sets it apart from other revenues, is that it is much slower to recover from declines as there is a long lead time from when real estate conditions improve to when these improvements are translated to higher assessments and then show up as property tax collections.

In the Pessimistic Case, the Transient Occupancy Tax revenues shows reduced growth in 2022-2023 and recovers slower than it does in the Base Case. This relatively slow recovery is due to overall slowing economic activity, decreasing inflation which lowers room rates, and a slightly lower number of new hotel rooms coming online than the Base Case. Utility Tax and Franchise Fees are also lower than the Base Case. These taxes, particularly for electricity, decline with the lower levels of economic activity expected in this scenario. Like many other revenues, utility related taxes begin a long climb back to normal levels after 2022-2023 but in this scenario, they never recover to the levels of the Base Case. Gas Tax revenues are higher in the Pessimistic Case scenario due to the decline of oil prices. Lower oil prices reduce gas prices, which leads people to consume greater quantities of gasoline in this scenario. The Gas Tax is collected on a per gallon basis, so more gallons sold translates to higher tax collections.

### Impact of Forecasted Economic Conditions on Revenue Collections

The economic conditions discussed above are the primary drivers for the economically sensitive revenues, with the most significant impacts in the Property Tax and Sales Tax categories. Performance in other major revenue categories, however, is primarily driven by other factors. For example, the Franchise Fee and Utility Tax categories, while certainly influenced by the economy, are more heavily impacted by utility rate changes and energy prices. Collections from local, State, and federal agencies are primarily driven by the grant and reimbursement funding available from these agencies. As a result, these General Fund revenues experience no significant net gain or loss in times of an economic expansion or slowdown, respectively. Because these revenue sources do not track directly with the performance of the economy, the growth in these areas, even in times of economic strength, 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.

An in-depth analysis of the General Fund revenue categories was completed to develop 2022-2023 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2021-2022 and build upon those projections to develop the 2022-2023 revenue estimates. These estimates are based on the Base Case Forecast economic scenario described in this section. These revenue estimates will be closely examined and updated again during the preparation of the 2022-2023 Proposed Operating Budget scheduled to be released on May 2, 2022.

# Elements of the General Fund Forecast

## Revenue Forecast

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown from \$1.3 billion in 2022-2023 to \$1.50 billion in 2026-2027.

### General Fund 2023-2027 Forecast Revenue Summary

General Fund Revenue Category	Modified Budget	Forecast				
	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
<b>General Revenues</b>						
Property Tax	406,500,000	427,000,000	451,339,000	476,975,000	502,922,000	528,924,000
Sales Tax	300,200,000	320,000,000	332,736,000	343,517,000	354,269,000	363,976,000
Transient Occupancy Tax	9,000,000	11,000,000	13,000,000	14,000,000	15,000,000	16,000,000
Real Property Transfer Tax	90,000,000	65,000,000	65,000,000	65,000,000	65,000,000	65,000,000
Franchise Fees	44,651,652	47,985,652	48,446,000	49,173,000	50,304,000	51,768,000
Utility Tax	97,060,000	107,450,000	110,878,000	114,781,000	119,475,000	124,744,000
Telephone Line Tax	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Business Tax	82,500,000	86,000,000	87,385,000	88,783,000	90,203,000	91,628,000
Licenses and Permits	20,452,045	21,619,831	22,154,000	22,653,000	23,204,000	23,770,000
Fees, Rates, and Charges	18,972,684	24,007,180	24,600,000	25,154,000	25,766,000	26,395,000
Fines, Forfeitures and Penalties	8,676,000	12,132,000	12,279,000	12,497,000	12,660,000	12,710,000
Revenue from Money and Property	9,304,000	8,688,000	8,949,000	9,172,000	9,356,000	9,543,000
Revenue from Local Agencies	22,325,814	16,277,711	16,818,000	17,385,000	17,959,000	18,535,000
Revenue from the State	24,004,770	12,100,000	12,100,000	12,100,000	12,100,000	12,100,000
Revenue from Federal	8,525,953	0	0	0	0	0
Other Revenue	322,829,265	8,332,611	8,349,000	8,374,000	8,413,000	8,464,000
Gas Tax	16,000,000	15,500,000	15,709,000	15,758,000	15,566,000	15,082,000
<b>Total General Revenues</b>	<b>1,501,002,183</b>	<b>1,203,092,985</b>	<b>1,249,742,000</b>	<b>1,295,322,000</b>	<b>1,342,197,000</b>	<b>1,388,639,000</b>
<b>Transfers &amp; Reimbursements</b>						
Overhead Reimbursements	69,542,276	76,562,780	78,454,000	80,220,000	82,172,000	84,179,000
Transfers	84,321,090	28,435,007	28,246,000	28,286,000	28,495,000	28,686,000
Reimbursements for Services	791,968	796,377	816,000	834,000	855,000	876,000
<b>Total Transfers &amp; Reimbursements</b>	<b>154,655,334</b>	<b>105,794,164</b>	<b>107,516,000</b>	<b>109,340,000</b>	<b>111,522,000</b>	<b>113,741,000</b>
<b>Total General Fund Revenues</b>	<b>1,655,657,517</b>	<b>1,308,887,149</b>	<b>1,357,258,000</b>	<b>1,404,662,000</b>	<b>1,453,719,000</b>	<b>1,502,380,000</b>
Beginning Fund Balance	369,180,430	66,250,000	65,947,000	67,627,000	69,746,000	71,919,000
<b>Grand Total Sources</b>	<b>2,024,837,947</b>	<b>1,375,137,149</b>	<b>1,423,205,000</b>	<b>1,472,289,000</b>	<b>1,523,465,000</b>	<b>1,574,299,000</b>

Understanding the basis for the revenue estimates included in this Forecast requires a discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2023-2027 General Fund Forecast.



# Elements of the General Fund Forecast

## Revenue Forecast

### Property Tax

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. In 2021-2022 Property Tax receipts of \$406.5 million are projected, which is consistent with the modified budget estimate, and is \$15.6 million (4.0%) above the 2020-2021 actual collection level of \$390.9 million. In 2022-2023, Property Tax receipts are anticipated to total \$427.0 million, which reflects overall growth of 5.0% from estimated 2021-2022 levels. Additional information about each of the Property Tax sub-categories is provided below.

**Secured Property Taxes** account for over 90% of the revenues in this category. The Secured Property Tax category includes general Secured Property Tax, Educational Revenue Augmentation Fund (ERAF) revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax. In 2021-2022, Secured Property Tax receipts are anticipated to total \$384.3 million, including \$330.5 million in general Secured Property Taxes, \$35.2 million in ERAF revenue, and \$18.6 million from SARA Residual Property Tax receipts. In 2022-2023, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2022, are expected to increase by approximately 5.5% to \$404.6 million.

The general Secured Property Tax receipts are estimated at \$330.5 million in 2021-2022, which is 4.7% above the 2020-2021 collection level. This growth reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 1%, and increased valuation due to changes in ownership or new construction. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. On a County-wide basis, the 2021-2022 roll growth was driven primarily by changes in ownership (55.2%) and new construction (26.4%).

In 2022-2023, the general Secured Property Tax receipts are estimated to grow by 6.0%, reflecting a 2.0% CCPI and 4.0% increased valuation. The CCPI adjustment for the 2022-2023 tax roll is 2%, which is higher than the 2021-2022 tax roll growth of 1%, which was impacted by the pandemic. In addition, it is anticipated that the high property sales prices will continue to be a positive factor driving growth in this category. In calendar year 2021 the median single-family home price in the City of San José totaled \$1.4 million, which is almost 16% above the calendar year 2020 median single-family home price of \$1.2 million. Further, the number of single-family and multi-family sales transactions grew 37% in calendar year 2021, up by 2,480 sales from 2020's level of 6,636 sales. While such rapid growth of the local real estate market is not expected to continue at the same pace as seen in calendar year 2021, real estate is likely to remain a strong sector of the local economy in future years.

In addition to the changes in assessed value, Secured Property Tax collections are impacted by excess ERAF revenue. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### Property Tax

However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. In 2021-2022 and 2022-2023, ERAF receipts are estimated at approximately \$35 million, which is above the 2020-2021 collection level of \$33 million. After the City receives an official ERAF estimate from the County later in March, these figures may be revised with the release of the 2022-2023 Proposed Operating Budget. It is important to note that due to litigation from school districts disputing the calculation methodology used by the counties to allocate ERAF distributions, approximately 30% (\$10.5 million) is considered at risk for not being distributed; however, a decision for the litigation is likely to occur after the current fiscal year.

The final component of the Secured Property Tax category is the SARA Residual Property Tax receipts. As a result of the SARA bond refunding that occurred in December 2017, the City receives a residual property tax distribution. In 2021-2022, SARA Residual Property Tax receipts are estimated to total \$18.6 million, which is \$5.0 million above the 2020-2021 receipts, which were negatively impacted by a State of California Appellate Court decision that revised the distribution formula related to all California residual property tax revenue from former Redevelopment Agencies. This decision resulted in a one-time reduction to revenues in 2020-2021 for the payback of prior years and an ongoing reduction. In 2022-2023, SARA Residual Property Tax receipts are anticipated to grow approximately 5.5% from 2021-2022 collections and total \$19.6 million.

It should be noted that final data on the actual tax levy for 2021-2022 is not yet available as adjustments are made through June 30, 2022. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Some of the adjustments, however, are not reflected until the latter months of a given fiscal year, such as the reassessments of commercial property. As updated information becomes available, refinements to the Property Tax estimates may be brought forward during the 2022-2023 budget process.

Unsecured Property Taxes are the second largest revenue source in this category. Changes in this category are driven primarily by increases or decreases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through January and information provided by Santa Clara County, Unsecured Property Tax receipts are estimated at \$14.5 million in 2021-2022, which is almost 10% below the prior year collection level of \$16.1 million. In 2022-2023, due to pandemic's continued impact on local businesses, Unsecured Property Taxes are estimated to remain flat at \$14.5 million.

# Elements of the General Fund Forecast

## Revenue Forecast

### Property Tax

For the other Property Tax categories, collections are estimated at \$7.7 million in 2021-2022 and \$7.9 million in 2022-2023. **SB 813 Property Tax** receipts are estimated at \$3.8 million in 2021-2022 and \$4.0 million in 2022-2023; **Aircraft Property Tax** receipts are estimated at \$3.0 million in 2021-2022 and 2022-2023; and **Homeowners Property Tax Relief** revenue are anticipated to total \$900,000 in 2021-2022 and 2022-2023.

In the out-years of the Forecast, annual Property Tax receipts are projected to increase approximately 5.2% to 5.7% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

### Sales Tax

As shown in the following table, the City receives 1.25% of the 9.375% Sales Tax collected for items sold in San José. The distribution percentage includes a 0.25% local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years). The City also receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected State-wide.

<b>Agency</b>	<b>Distribution Percentage</b>
State of California	5.500%
City of San José	1.000%
City of San José (Local Tax)	0.250%
Public Safety Fund (Proposition 172)	0.500%
Santa Clara County (Including VTA)	2.000%
<b>Total</b>	<b>9.375%</b>

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. Information related to Sales Tax payments are distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity), February (representing October-December activity), May (representing January-March activity), and August (representing April-June activity). Based on information received through February 2022 (which reflects two quarters of Sales Tax activity; from July 2021 through December 2021), it is anticipated that 2021-2022 Sales Tax revenue will total \$308.5 million. This robust growth parallels the strong economic recovery – locally, state-wide and nationally – since the arrival of effective vaccines and the corresponding relaxation of public health restrictions. In 2022-2023 this growth is expected to taper somewhat, with overall growth of approximately 4% for a total of \$320.0 million. Additional information about each of the Sales Tax sub-categories is provided below.

# Elements of the General Fund Forecast

## Revenue Forecast

### Sales Tax

**General Sales Tax** is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 2021 and February 2022, respectively and continue to reflect strong growth that began in the third quarter of 2020-2021. Beginning in the third quarter of 2021-2022 growth is anticipated to continue, but at a more moderate level. Based on these assumptions, General Sales Tax collections are anticipated to total \$248.0 million in 2021-2022, which reflects an overall increase of 8% from the 2020-2021 collection level.

Due to the pandemic's impact on Sales Tax activity in 2020-2021, all General Sales Tax categories have experienced year-over-year growth in 2021-2022. The largest changes experienced in the first quarter General Sales Tax payment reflected growth of 34.3% in General Retail, 31.2% in Transportation, and 28.2% in Food Products. In addition, the County Pool, which is where the majority of online transactions are captured, has continued to grow (7.9%). This growth is attributable to the pandemic's sustained impact of redirecting a significant amount of activity to online sales. The recent growth in County Pool receipts has been fueled by online purchases during the pandemic and is facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 40% - 50% of the total County Pool. In 2021-2022, it is anticipated the County Pool receipts will continue to remain strong, though may decline slightly from the extremely high levels experienced in 2020-2021 as consumers begin to shift some of their online spending to brick-and-mortar establishments.

In 2022-2023, General Sales Tax revenue is anticipated to continue growing, but at a moderate level. The 2022-2023 General Sales Tax revenue is anticipated to experience growth of 4% and total \$257.0 million.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 40% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

# Elements of the General Fund Forecast

## Revenue Forecast

### Sales Tax

Similar to General Sales Tax, Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and for the second quarter (sales tax activity from October-December) were received in November 2021 and February 2022, respectively and continue to reflect strong growth that began in the third quarter of 2020-2021. Beginning in the third quarter of 2021-2022 growth is anticipated to continue, but at a more moderate level. Based on these assumptions, Local Sales Tax collections are anticipated to total \$52.0 million in 2021-2022, which reflects an increase of 11% from the 2020-2021 collection level. In 2022-2023, Local Sales Tax revenue is anticipated to continue growing at a moderate level of 4% and total \$54.0 million.

**Proposition 172 Sales Tax** collections (representing the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total \$8.5 million in 2021-2022 and grow to \$9.0 million in 2022-2023.

In the out-years of the Forecast, annual Sales Tax performance is expected to show growth of 2.7% to 4.0% annually.

### Transient Occupancy Tax

In 2021-2022, Transient Occupancy Tax (TOT) receipts in the General Fund (which represent 40% of the total tax) are estimated to reach \$9.0 million, reflecting a 66.4% increase from the 2020-2021 collection level of \$5.4 million, but a 36.2% decline from the 2019-2020 collection level of \$14.1 million. This drastic fluctuation in TOT receipts is illustrative of the evolving impact of the COVID-19 pandemic on hotel activity, the effects of which peaked in spring 2020 but are resulting in a slower than anticipated rebound in the demand for hotel rooms. Through December 2021, the average hotel occupancy rate reported for the San José market was 56.3%, a 19.6 percentage point increase from the same period in 2020-2021 (36.7%). Average room rates increased by 18.3%, from \$101.70 to \$120.31, and the year-to-date average revenue-per-available room (RevPAR) increased 81.5%, from \$37.30 to \$67.68, relative to the same period in 2020-2021.

Although the emergence of COVID-19 variants, as with recent national experiences with the Delta and Omicron variants, may continue to suppress travel and hotel activity, the incremental improvement in hotel activity sustained since April 2020 is expected to continue into 2022-2023. The rate of increase, however, is uncertain. The 2023-2027 General Fund Forecast increases TOT receipts by 22%, to \$11.0 million in 2022-2023, and increases an additional 18% to \$13.0 million in 2023-2024. The remaining out-years of the Forecast grow by an annual average of 7.2%, ending at \$16.0 million in 2026-2027 and well below the 2018-2019 pre-pandemic level of \$20.5 million. These estimates incorporate the City's internal review of available data, including past recovery scenarios following recessionary periods, along with information received from the City's consultants, forecasted economic and convention performance, and other correlated economic variables. However, the growth assumptions used in the development of this Forecast are more conservative than those assumed by the City's consultant specializing in the hotel sector, which

# Elements of the General Fund Forecast

## Revenue Forecast

### Transient Occupancy Tax

projected potential annual growth ranging from 45% to 6% over the forecast period. While the Administration is hopeful of a recovery in the hotel sector in line with the consultant's forecast, the rebound of TOT receipts from the onset of the pandemic have generally fallen short of expectations. Since TOT projections in the General Fund also drive corresponding revenue estimates in the TOT Fund – which in turn allocates revenues by Municipal Code formula to support the City's cultural arts programs, the operation of the Convention Center and other cultural facilities managed by Team San Jose, and the San Jose Convention and Visitors Bureau – taking a conservative approach in this Forecast should allow for a more predictable spending baseline within the TOT Fund. The Administration will continue to monitor hotel activity and revise the current and future forecasts based on updated information, as appropriate.

### Real Property Transfer Tax

On March 3, 2020, San José voters approved Measure E, the Real Property Transfer Tax. This new tax, which became effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. In 2021-2022 collections are projected at \$90.0 million, which is significantly above the prior year collections of \$50.5 million. The significant 2021-2022 collection level is due to several factors. First, due to the timing of when the payment from Santa Clara County was processed for June collections, funding of \$9.7 million is reflected in 2021-2022, but is attributable to 2020-2021 activity. In addition, ten high-value property transfers occurred between July and December 2021, totaling \$32.9 million. Combined, the revenue due to the prior year activity (\$9.7 million) and the ten high-value transfers (\$32.9 million) attributed almost \$43 million of the total \$76 million collections received so far in 2021-2022. The Real Property Transfer Tax collections began in 2020, therefore limited historical collection information is known. In addition, receipts are significantly influenced by large property transfers, which are difficult to forecast. As a result, a conservative estimate of annual collections of \$65.0 million is anticipated in 2022-2023 and the out-years of the Forecast.

In accordance with City Council Policy 1-18, Section 22, the additional revenue will be allocated for homelessness prevention efforts and the development of new affordable housing. It is important to note that the Administration is recommending adjustments to the spending allocation of these revenues to broaden eligible uses to also include the construction and operation of emergency interim housing communities and other homeless shelters. In accordance with the process specified in the policy for any changes to the spending allocations, the City initiated a 60-day public noticing period on February 4, 2022 and held the first of two public hearings on February 15, 2022. A second public hearing and action for City Council to approve the recommended policy changes is scheduled for April 12, 2022.

# Elements of the General Fund Forecast

## Revenue Forecast

### Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, City-Generated Tow, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at \$47.0 million in 2021-2022, which is approximately 3% above the prior year receipts of \$45.6 million. In 2022-2023, Franchise Fees are expected to increase approximately 2% to \$48.0 million, which primarily reflects increases in the Electric and Gas Franchise Fees.

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 2021-2022 are based on calendar year 2021 and revenues in 2022-2023 will be based on calendar year 2022). Year-end estimates are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories. The reconciliation of annual receipts from PG&E for 2021-2022 will be received in April 2022.

In the **Electricity Franchise Fee** category, collections in 2021-2022 are anticipated to reach \$19.8 million, reflecting growth of approximately 5% from the 2020-2021 receipts. This estimate takes into consideration the actual collection patterns for electricity utility tax receipts in calendar year 2020. In 2022-2023, the Electricity Franchise Fee is estimated to grow to \$20.4 million, which is due to higher approved electricity rates.

In the **Gas Franchise Fee** category, the 2021-2022 estimated collections of \$6.2 million reflects a 4% increase from prior year receipts of \$5.9 million. This estimate takes into consideration the actual collection patterns for gas utility tax receipts in calendar year 2020. Similar to the Electric Franchise Fee, gas rates are anticipated to rise in 2022-2023, resulting in Gas Franchise Fee revenue growing approximately 5% to \$6.5 million. It is important to note, however, that receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

**Commercial Solid Waste (CSW) Franchise Fee** collections are estimated to reach \$12.4 million in 2021-2022, 1.4% above the prior year collections, which is primarily due to the 2021-2022 CPI-based increase. Collections reflect the revised methodology for assessing this fee that became effective July 1, 2012. On October 19, 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure is a base of \$5 million per year for each of two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District. This revised structure is subject to an annual increase based on the percentage change in the CPI rate during the prior two calendar years. It should be noted that this increase is not automatic, and is subject to City Council approval each year. Therefore, the 2022-2023 estimate of \$12.4 million is consistent with the 2021-2022 estimate and does not automatically assume a CPI adjustment. This adjustment will be brought forward as a proposed change in the 2022-2023 Proposed Operating Budget.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### Franchise Fees

In the **Cable** Franchise Fee category, the estimated 2021-2022 collections of \$8.3 million is consistent with the prior year collections. In addition, revenue in 2022-2023 is anticipated to remain at \$8.3 million.

Remaining franchise fees include the **City Generated Tow, Great Oaks Water, and Nitrogen Gas Pipeline** categories. City Generated Tow receipts are estimated at \$0 in 2021-2022 and \$50,000 in 2022-2023 (these low levels are associated with the pandemic's impact on the Tow program), Great Oaks Water receipts are estimated at \$240,000 in 2021-2022 and \$250,000 in 2022-2023, and Nitrogen Gas Pipeline receipts are estimated at \$65,000 in 2021-2022 and 2022-2023.

In the out-years of the Forecast, Franchise Fee revenues are anticipated to increase by 1.0% to 2.9%. However, it is important to keep in mind that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels.

### Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2021-2022 are anticipated to total \$97.7 million, which is significantly below the 2020-2021 collection level of \$107.0 million. However, this drop is due to a payment processing timing issue, resulting in collections being included in 2020-2021 that should have been reflected in 2021-2022. In 2022-2023, Utility Tax collections are projected at \$107.5 million. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases; however, it does take into account changes already approved. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

The **Electricity Utility Tax** is anticipated to generate \$51.0 million in 2021-2022 and grow to \$57.0 million in 2022-2023. After accounting for the payment processing timing issue, the 2022-2023 collection reflects anticipated growth of 5% from estimated 2021-2022 collections. The 2022-2023 growth is primarily reflective of approved electricity rate increases, which will drive up Electricity Utility Tax receipts.

The **Gas Utility Tax** is anticipated to generate \$12.5 million in 2021-2022 and grow to \$14.0 million in 2022-2023. After accounting for the payment processing timing issue, the 2022-2023 collection reflects anticipated growth of 5% from estimated 2021-2022 collections. The 2022-2023 growth is primarily reflective of higher gas costs and approved rate increases, which will drive up Gas Utility Tax receipts.



# Elements of the General Fund Forecast

## Revenue Forecast

### Utility Tax

Based on current year collection levels, **Water Utility Tax** receipts of \$15.6 million are anticipated to be received in 2021-2022. In 2022-2023, water rates are anticipated to rise, therefore Water Utility Tax receipts are estimated at \$18.0 million, which after accounting for the payment processing timing issue, reflects a 5% increase from the 2021-2022 anticipated collection level.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Receipts in 2021-2022 are projected at \$18.6 million, a 13% drop from the 2020-2021 collection level. In 2022-2023, receipts are projected to drop an additional 1% and total \$18.5 million. The Telephone Utility Tax category has experienced continuous declines as a result of wireless consumers shifting to less expensive prepaid wireless plans, competition with cellular companies that keep prices down, and that the data component of wireless plans not being taxable.

In the out-years of the Forecast, growth ranging from 3.2% to 4.4% annually is projected overall in the Utility Tax category. However, it is important to note that there is significant volatility and uncertainty regarding the performance in this category based on potential changes in rates and consumption levels. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

### Telephone Line Tax

Based on the current collection trend, receipts (excluding compliance revenue) in 2021-2022 and 2022-2023 are estimated to total \$20.0 million, which is consistent with the 2020-2021 actuals. Given the steady nature of collections in this category, receipts are anticipated to remain flat in the out-years of the Forecast as well.

### Business Tax

This category includes Cannabis Business Tax, Cardroom Business Tax, Disposal Facility Tax, and General Business Tax. Business Taxes are estimated to reach \$84.2 million in 2021-2022, a 20% increase from prior year levels, which is primarily due to increased Cardroom Tax revenues that were significantly impacted by the pandemic. In 2022-2023, Business Taxes revenues are anticipated to increase 2% to \$86.0 million.

**Cannabis Business Tax** collections began after San José voters approved Ballot Measure U on November 2, 2010, which allowed the City to tax marijuana businesses. Further, in November 2016, the California Marijuana Legalization Initiative (Proposition 64) was approved by voters, which legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. Based on current collection trends, it is anticipated Cannabis Business Tax receipts will total \$18.5 million in 2021-2022, which is consistent with the prior year level. In 2022-2023 receipts are projected to grow by approximately 5% to \$20.0 million.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### **Business Tax**

**Cardroom Business Tax** receipts are estimated at \$27.0 million, a significant increase from prior year collections of \$11.1 million. Cardrooms suspended operations from March 2020 to August 2020, then again from November 2020 to January 2021 due to health orders by the County of Santa Clara and/or the State of California. Since late January 2021, cardrooms have once again been operational, under modified restrictions. Currently, cardrooms are generally operating a pre-pandemic levels. In 2022-2023, Cardroom Tax receipts are anticipated to remain steady at \$27.0 million. The estimates for Cardroom Tax receipts are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021.

**Disposal Facility Taxes (DFT)** are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream can vary due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. Based on current collection trends, 2021-2022 DFT collections are estimated at \$13.0 million, which is slightly below the 2020-2021 collection level of \$13.8 million. In 2022-2023, receipts are anticipated to remain flat at \$13.0 million.

Beginning in 2017-2018, **General Business Tax** collections reflect the modernization of the San José business tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017. The adjustments to the business tax included increasing the base tax, increasing the incremental tax and making it more progressive, increasing the cap (the maximum amount of the tax affecting large businesses), updating the application of the tax to more classes of business, and adding inflation-based adjustments for future tax rates. In 2021-2022, General Business Tax proceeds are anticipated to reach \$25.7 million, which is slightly below the 2020-2021 collection level of \$26.5 million. In 2022-2023, General Business Tax revenue is anticipated to grow slightly (1%) to \$26.0 million as a result of a moderate annual inflation rate change, partially offset by reduced activity levels, as a number of businesses are still recovering from the pandemic.

In the remaining years of the forecast, overall, the Business Tax category is expected to experience growth of approximately 1.6% per year.

### **Licenses and Permits and Fees, Rates, and Charges**

The Licenses and Permits and Fees, Rates, and Charges categories contain fees and charges collected by various departments. Historically, a significant portion of the revenue captured in these categories were associated with development-related fees. However, beginning in 2020-2021, all revenue and expenditures related to the Development Fee Programs are no longer captured in the General Fund, and are instead allocated to specific Development Fee Program Funds.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### **Licenses and Permits and Fees, Rates, and Charges**

Remaining non-development fees are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. The Licenses and Permits category is estimated to total \$20.1 million in 2021-2022 and grow slightly to \$21.6 million in 2022-2023. The Fees, Rates, and Charges category is estimated to total \$18.4 million in 2021-2022 and grow to \$24.0 million in 2022-2023, which is primarily due to growth related to Parks, Recreation, and Neighborhood Services (PRNS) Department Fee revenue. In 2020-2021, PRNS Fee revenue was decimated as a result of the pandemic, with revenues totaling only \$2.1 million compared to pre-pandemic levels of \$21.7 million. With the loosening of public health restrictions that now allow for greater levels of programming and activation, PRNS Fee revenue is experiencing a relatively strong rebound in 2021-2022 to an estimated \$12.9 million and is expected to further increase in 2022-2023 to \$17.7 million. In the out-years of the Forecast, both the Licenses and Permits and Fees, Rates, and Charges categories are expected to experience annual growth ranging from 2.3% to 2.5%. The growth rates in the out-years are tied to the expected increases in personnel costs, which the fees are designed to recover, including salary, retirement, and health costs.

### **Fines, Forfeitures and Penalties**

The Fines, Forfeitures and Penalties category is expected to generate \$11.2 million in 2021-2022 and \$12.1 million in 2022-2023. The largest component of this revenue category is Parking Fines, which are expected to generate approximately \$7.3 million in 2021-2022 and \$8.5 million in 2022-2023. These levels are below historical Parking Fine collections of approximately \$11 million - \$12 million annually, due to parking fine activity being impacted by the pandemic. The Transportation Department has begun the process of reinstating Residential Permit Parking Zones, issuing safety related and street sweeping violations citywide, and enforcing parking meter related violations within the Downtown and citywide. Parking Compliance activities will continue to be phased in thoughtfully while remaining sensitive to the community's economic concerns. In the out-years of the Forecast, annual growth of approximately 0.4% to 1.8% is projected in this revenue category.

### **Revenue from the Use of Money and Property**

The Revenue from the Use of Money and Property category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, interest income, and small cell lease revenue. Overall revenue in this category is anticipated to generate \$8.8 million in 2021-2022 and reduce slightly to \$8.7 million in 2022-2023. In the out-years of the Forecast, growth of 2.0% to 3.0% annually is assumed in the Money and Property category.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### Revenue from Local Agencies

In 2021-2022, revenue of \$22.9 million is projected from other local agencies, such as the Central Fire District payment for fire services provided to County residents by the San José Fire Department, the County of Santa Clara payments for the Paramedic Program and Senior Nutrition, and the Valley Transportation Authority reimbursement for police services at the Berryessa BART station. In 2022-2023, revenue in this category is projected at \$16.3 million, which is \$6.6 million below the 2021-2022 estimate. The decrease in 2022-2023 revenue is primarily due to reimbursements and grants that are not secured on an ongoing basis being eliminated.

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on information provided by the Central Fire District, payments of \$8.7 million are anticipated in 2021-2022 and payments of \$8.9 million are anticipated in 2022-2023.

The Forecast assumes reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program), which totals \$3.0 million in 2021-2022 and 2022-2023. Funding for the Paramedic Program includes the equipment reimbursement component (Annex B, Category A funds; \$1.45 million) and service-related component (Annex B, Category B funds; \$1.55 million). In addition, the Forecast assumes reimbursement from the Valley Transportation Authority for police services at the Berryessa BART station, which totals \$2.1 million in 2021-2022 and 2022-2023.

In the out-years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by 3.2% to 3.4%.

### Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach \$12.1 million in 2022-2023 and remain flat through the out-years of the Forecast.

Tobacco Settlement payments account for the majority of revenue in this category and are estimated at \$10.2 million in 2022-2023, which is consistent with the amount projected for 2021-2022.

The remaining State grants and reimbursements total \$1.9 million in 2022-2023, with the largest reimbursements for the Auto Theft program (\$800,000), Vehicle License Fees Collection in Excess (\$500,000), and Abandoned Vehicles Abatement program (\$500,000). Vehicle License Fees Collection in Excess account for the Vehicle License Fee revenues that are collected by the Department of Motor Vehicles as a result of certain compliance procedures that are equally apportioned to counties and cities on a population basis.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues. In 2022-2023 and the out-years of the Forecast, there is no funding assumed for this revenue category.

### Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including cost reimbursements for the Investment Program, payments from Comcast and AT&T required under the Franchise Agreement, and payments for Sidewalk Repairs. In 2021-2022, this category is expected to generate \$322.7 million, which includes one-time revenue of \$285.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension benefits that are brought forward for City Council approval in June of each year along with the associated expenditure. Additionally, one-time funding of \$15.0 million is anticipated from lease-revenue bond proceeds related to the construction of the Fire Training Center and Emergency Operations Center.

In 2022-2023, the Other Revenue estimate of \$8.3 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2022-2023 costs or agreements and the elimination of one-time funding sources. In 2022-2023, payments from Comcast and AT&T are estimated at \$1.7 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities; associated City-Wide Expenses appropriations are also allocated for this purpose. Sidewalk repair services are estimated at \$2.0 million (which has an expenditure offset in City-Wide Expenses). In addition, the cost reimbursement for the Investment Program as administered by the Finance Department is estimated at \$1.1 million based on the current allocation of staff to this function.

In the out-years of the Forecast, annual collections are expected to experience growth ranging from 0.2% to 0.6% annually.

### Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2021-2022 are projected to reach \$15.0 million, which is 5.9% below the prior year actuals. Several factors impact collections, including rising gas prices that may decrease consumption, less people driving due to the pandemic, and the move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In 2022-2023, collections are estimated at \$15.5 million, a 3% increase from current year levels. In the out-years of the Forecast, due to a combination of changing fuel prices, increased use of fuel-efficient or hybrid vehicles, and the increased use of electric vehicles, annual collections are expected to experience changes ranging from -3.11% to 1.4% annually.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2022-2023, a total of \$76.6 million in overhead reimbursements are projected based on 2022-2023 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2022-2023 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual growth ranging from 1.6% to 2.0% is assumed, reflecting increases in costs, which the overhead rate is designed to recover, including increased personal services costs.

### Transfers

The Transfers category is projected at \$28.4 million in 2022-2023. The largest component of the Transfers category is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs (\$18.6 million). Additional large transfers programmed for 2022-2023 include the Construction and Conveyance Tax Fund transfer (\$4.9 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer (\$1.75 million) for general use and pavement maintenance activities; the General Purpose Parking Fund (\$726,000); and the transfer from the Convention and Cultural Affairs Fund (\$356,000) for reimbursement of City oversight of the fund.

In the remaining years of the Forecast, annual increases range from 1.6% to 2.0%. The reimbursement from the Airport Maintenance and Operation Fund for police and fire services is expected to increase in the out-years based on the increased costs for those services.

### Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program, Voluntary Employee Beneficiary Association (VEBA) Fund, and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2022-2023 of \$796,000. In the remaining years of the Forecast, annual growth ranging from 1.6% to 2.0% is anticipated to recover the projected costs.

# Elements of the General Fund Forecast

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## Revenue Forecast

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### **Beginning Fund Balance**

The \$66.3 million forecast estimate of available 2022-2023 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of \$40.5 million is carried forward at the current level based on the assumption that this amount will not be used in 2021-2022 and will be available for use in 2022-2023. The current funding level is enough to cover General Fund payroll costs for approximately two weeks in an emergency. (On the expenditure side, the Contingency Reserve is set at \$41.0 million in 2022-2023 and increases in the out-years of the forecast to \$46.5 million by 2026-2027 to comply with the City Council policy to set aside at least 3% of General Fund operating expenditures in this Reserve.)
- A total of \$25.0 million in fund balance will be achieved in 2021-2022 for use in 2022-2023 from a combination of excess revenues and expenditure savings, as well as the liquidation of prior-year carryover encumbrances. Consistent with past practice, the Administration will closely monitor actual General Fund performance through the remainder of the year and may bring forward adjustments to this estimate as appropriate later in the budget process.
- An additional \$750,000 reflects the anticipated liquidation of the San José 311 Implementation Reserve, which will be used to support base costs programmed in 2022-2023.

In the out-years of the Forecast, the Beginning Fund Balance estimates assume that excess revenue and expenditure savings, including liquidations of carryover encumbrances will increase slightly each year from \$23.9 million in 2023-2024 to \$25.4 million in 2026-2027. In addition, it is assumed that the Contingency Reserve will be carried over each year and will grow slightly from \$41.0 million in 2022-2023 to \$46.5 million in 2026-2027. In total, the Beginning Fund Balance totals \$66.3 million in 2022-2023 (of which \$750,000 reflects the liquidation of the San José 311 reserve discussed above) and \$71.9 million in 2026-2027.

# Elements of the General Fund Forecast

## Expenditure Forecast

General Fund expenditure categories were analyzed in depth to develop the 2022-2023 expenditure estimates in this Forecast. These estimates will be re-examined and updated during the preparation of the 2022-2023 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from \$1.3 billion in 2022-2023 to \$1.4 billion in 2026-2027, representing an average annual growth rate of 1.8%.

### 2023-2027 General Fund Forecast Expenditure Summary

Expenditure Category	Modified Budget	Forecast				
	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
<b>Personal Services</b>						
Salaries and Other Compensation	536,261,393	563,146,660	582,856,793	603,256,781	624,370,768	646,223,745
Retirement	349,021,646	340,373,023	337,053,505	324,306,234	316,479,195	307,556,291
Health and Other Fringe Benefits	67,400,976	67,281,840	70,052,415	72,937,079	75,940,530	79,067,658
	<b>952,684,015</b>	<b>970,801,523</b>	<b>989,962,713</b>	<b>1,000,500,094</b>	<b>1,016,790,493</b>	<b>1,032,847,694</b>
<b>Non-Personal/Equipment</b>						
	<b>153,609,811</b>	<b>128,962,000</b>	<b>129,616,000</b>	<b>132,434,000</b>	<b>133,495,000</b>	<b>135,631,000</b>
<b>City-Wide, Capital, Transfers, Reserves</b>						
City-Wide Expenses	472,842,004	80,287,045	80,140,847	81,294,207	82,118,043	82,676,555
Capital Contributions	82,123,508	5,750,000	5,750,000	5,750,000	5,750,000	5,750,000
Transfers to Other Funds	30,393,345	24,432,476	24,576,010	24,644,849	24,722,523	24,801,574
Earmarked Reserves	292,685,264	95,200,000	94,394,000	95,405,000	96,413,000	97,323,000
Contingency Reserve	40,500,000	41,000,000	42,000,000	43,500,000	45,000,000	46,500,000
	<b>918,544,121</b>	<b>246,669,521</b>	<b>246,860,857</b>	<b>250,594,056</b>	<b>254,003,567</b>	<b>257,051,129</b>
<b>Committed Additions</b>						
New Parks and Recreation Facilities Maintenance and Operations		248,000	512,000	1,486,000	1,666,000	1,785,000
New Traffic Infrastructure Assets Maintenance and Operations		43,000	125,000	205,000	258,000	289,000
New Public Safety Facilities Maintenance and Operations		204,000	513,000	932,000	2,668,000	2,767,000
Measure T (LED Streetlight Conversion (Controllers))		-	100,000	250,000	400,000	400,000
Measure T (City Facility LED Conversion (Controllers))		34,000	36,000	36,000	36,000	36,000
Measure T (Clean Water Projects (River Oaks Stormwater Capture))		-	163,000	168,000	173,000	178,000
Measure T (911 Call Center Expansion)		-	-	15,000	150,000	154,000
Measure T (Emergency Operations Center and OEM Relocation)		463,000	1,614,000	1,662,000	1,712,000	1,763,000
Measure T (Fire Station 8 Relocation)		-	-	126,000	206,000	212,000
Measure T (Fire Station 23 Relocation)		-	-	-	131,000	179,000
Measure T (Fire Station 32)		-	-	4,884,000	4,968,000	5,117,000
Measure T (Fire Station 36)		-	-	-	5,002,000	5,111,000
Measure T (Police Training Center Relocation)		-	-	1,665,000	1,815,000	1,881,000
Measure T (Police Air Support Hangar)		-	-	80,000	82,000	85,000
		<b>992,000</b>	<b>3,063,000</b>	<b>11,509,000</b>	<b>19,267,000</b>	<b>19,957,000</b>
<b>Total Base Expenditures (w/ Committed Additions)</b>	<b>2,024,837,947</b>	<b>1,347,425,044</b>	<b>1,369,502,570</b>	<b>1,395,037,150</b>	<b>1,423,556,060</b>	<b>1,445,486,823</b>
<b>% Growth</b>			<b>1.6%</b>	<b>1.9%</b>	<b>2.0%</b>	<b>1.5%</b>

Adjustments are made to this Forecast to account for one-time additions/deletions included in the 2021-2022 Adopted Budget, and to annualize partial-year allocations. Various one-time additions totaling over \$20 million – excluding funding committed for capital projects, equipment, purchases, and the pay down of debt obligations that are truly one-time in nature – are scheduled to expire in June 2022 and will be re-evaluated for inclusion in 2022-2023. Notable one-time allocations included the following: Police Sworn Hire Ahead, Foot Patrol in Downtown and High Needs Neighborhoods, Community Service Officers, Police Department Public Records Requests Staffing, Traffic Safety and Illegal Sideshows, Police Redistricting, Parks Rehabilitation Strike and Capital Infrastructure Team, Project Hope, Neighborhood Center Partner Program, Police Activities League Facilities Support, Beautify San José Landscape Maintenance Program, San José 311 Enhancements, Library Branch Hours and Operations for Lower Resourced Communities, Climate Smart San José Plan Implementation, Learning and Development Roadmap, and Urban



# Elements of the General Fund Forecast

## Expenditure Forecast

Areas Security Initiative Grant Staffing. Many of these programs and services will be re-evaluated for continued funding beyond the 2021-2022 fiscal year, with recommendations included in the 2022-2023 Proposed Operating Budget as appropriate, and in the context of other budgetary needs. In addition, the City took advantage of approximately \$105 million of federal funding through the American Rescue Plan Act to provide critical pandemic response and recovery programs in 2021-2022, which will also be re-evaluated for continuation in 2022-2023 in consideration of ongoing community needs.

Understanding the basis for the expenditure estimates included in this Forecast requires discussion of the assumptions used for estimating each of the expenditure categories. The following discussion focuses on the individual expenditure components in the General Fund.

### **Personal Services**

As is the usual practice, the first year (2022-2023) projection for personal services costs in this Forecast has been calculated at a detailed level, using a January 2022 extract from the City's payroll system as the starting point. This included the most recent salary, retirement plan, and health plan information for each position. The individual position-level information was then reviewed, corrected, and updated to ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Further, 2021-2022 ongoing position additions (cost increases) and reductions (cost savings), as appropriate, were annualized and all categories of benefit costs in the coming year were projected.

For the 2022-2023 General Fund Forecast, personal services costs continue to account for nearly three-quarters of the total costs in the General Fund. The personal services category has been broken down into three major components: salaries and other compensation, retirement, and health and other fringe benefits. Of the \$970.8 million projected personal services total for 2022-2023, salaries and other compensation costs amount to \$563.1 million (58.0% of projected personal services), retirement costs amount to \$340.4 million (35.1% of projected personal services), and health and other fringe benefits costs amount to \$67.3 million (6.9% of projected personal services).

Following is a discussion of the factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. The out-years are projected to inflate at an average annual rate of approximately 1.5%, which is lower from prior Forecasts primarily due to reduced retirement contribution projections provided by the actuary of the City's retirement boards.

#### *Salaries and Other Compensation:*

Pay increases for all employees, salary step increases for current non-management employees, and pay for performance for management employees are assumed in each year of this Forecast.

# Elements of the General Fund Forecast

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## Expenditure Forecast

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### **Personal Services**

#### *Salaries and Other Compensation:*

Legal Professionals (ALP) and International Union of Operating Engineers (OE#3). The following bargaining units have agreements that will expire on June 30, 2023: Association of Building, Mechanical and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA, SEA), Association of Maintenance Supervisory Personnel (AMSP), City Association of Management Personnel (CAMP), International Association of Firefighters (IAFF), Municipal Employees' Federation (MEF), and Peace Officer Park Ranger Association (POPRA). The agreement with the San Jose Police Officers' Association (SJPOA) will expire on June 30, 2022 and the International Brotherhood of Electrical Workers (IBEW) expired on June 30, 2021.

Except for employees represented by SJPOA and IAFF, Local 230, non-management step increases have been calculated at a 2.5% step increase rate. For SJPOA and IAFF, a 5% step increase rate was applied in this Forecast.

A Salaries and Benefits Reserve funding is included in each year of this Forecast that sets aside funds to: 1) account for potential pay increases and other compensation beyond the expiration date of the various bargaining unit agreements; 2) allocate funding for pay for performance for management employees; 3) to reserve resources for anticipated increases to employee benefits such as health and dental; and 4) sets aside funding for potential increases as a result of classification/compensation studies. For 2022-2023, this reserve totals \$21.3 million and would require City Council action before any form of distribution could be made. As contracts in the out-years of the Forecast are determined, subsequent Forecast documents will be updated to reflect the latest information at that time. The out-years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

The Overtime budget in the General Fund totals \$34.1 million for 2022-2023, with most of these funds allocated to Police Department (\$21.6 million) and Fire Department (\$10.7 million) operations. The out-years of the Forecast continues the ongoing base level costs, with small adjustments using salary and step growth as the inflationary factor.

#### *Retirement:*

The City's two retirement systems, the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan, provide defined retirement benefits to eligible employees. Both retirement plans use investment income and employer and employee contributions to provide eligible retirees with pensions and retiree healthcare benefits. Each system also maintains two benefit levels: Tier 1 and Tier 2.

# Elements of the General Fund Forecast

## Expenditure Forecast

### Personal Services

#### *Retirement:*

Employees represented by SJPOA and IAFF, Local 230, are members of the Police and Fire Department Retirement Plan and have different retirement benefits with the corresponding different City contributions and rates. Within the Police and Fire Department Retirement Plan, effective August 4, 2013, the City provides for a lower defined benefit plan (Tier 2) for new and rehired Police members. Effective January 2, 2015, a lower defined benefit plan (Tier 2) was implemented for new and rehired Fire members. With the passage of Measure F in 2016, former Tier 1 members previously or newly rehired to the City are placed within the Tier 1 defined benefit plan.

Within the Federated Retirement System, effective September 30, 2012, the City provides for a lower defined benefit plan (Tier 2) for new employees in that system. Federated employees who joined the City between September 30, 2012 and September 27, 2013 are eligible for retiree healthcare coverage (Tier 2A). Effective September 27, 2013, however, new employees no longer receive retiree healthcare coverage (Tier 2B). With the passage of Measure F, former Tier 1 members previously or newly rehired to City are placed within the Tier 1 defined benefit plan.

Effective March 31, 2017, for members of the Police and Fire Department Retirement Plan and June 18, 2017 for members of the Federated City Employees' Retirement System, employees with previous CalPERS or reciprocal retirement system experience are eligible to join the Tier 1 defined benefit pension plan for their respective retirement systems. These employees need to have been employed at their previous agency before January 1, 2013, have less than a six-month break in service before joining the City, and not have concurrent service.

On December 4, 2012, a defined contribution plan (Tier 3) for new employees in Unit 99 (Senior Staff, Executive Staff, and senior managers under the City Manager's Appointing Authority; City Council Office staff; professional and management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor; and some employees in the City Clerk's Office) was approved. Effective February 4, 2013, new employees to the City hired directly into Unit 99 have the ability to make the one-time election to participate in the defined benefit Tier 2B plan or the Tier 3 plan. The Tier 3 plan provides for a City contribution of 3.75%.

For 2022-2023, retirement costs total \$340.4 million for the General Fund, and reflect the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. These assumptions include a discount rate for both pension systems at 6.625%, which is held flat throughout the Forecast period.

# Elements of the General Fund Forecast

## Expenditure Forecast

### Personal Services

#### Retirement:

To generate budgetary savings, retirement contributions assume the pre-payment of Tier 1 pension costs related to the Federated Retirement System and the Police and Fire Department Retirement Plan. For 2022-2023, net budgetary savings from the pre-payment, including short-term borrowing costs, foregone interest earnings, and a reduction to the pre-payment discount rate, are estimated at approximately \$4.1 million in the General Fund (\$6.6 million in all funds). While pre-payment is assumed to continue in the out-years of the Forecast, the Administration will continue to evaluate the cost effectiveness of pre-payment as part of the annual budget development process.

A portion of the City's retirement contributions (\$36.2 million in the General Fund and \$46.6 million in all funds) are associated with retiree healthcare. Prior to Measure F, these contributions were frozen at certain levels for Federated and Police and Fire systems. Subsequent to the passage of Measure F, each board adopted annual contribution amounts for retiree health care, subject to various actuarial assumptions that are evaluated each year.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, Table 1 details the General Fund's retirement costs and for the Federated Retirement System and the Police and Fire Department Retirement Plan. These amounts are broken out by Tier 1 contributions (normal cost), Tier 2 contributions, the unfunded actuarial liability (UAL), and retiree healthcare.

For reference, Tier 1 normal cost contributions and Tier 2 contributions are also displayed in the tables below as a rate. Over this Forecast, the General Fund retirement costs are expected to decrease from \$340.4 million (\$460.6 million in all funds) in 2022-2023 to \$307.6 million (\$419.6 million in all funds) in 2026-2027.

It is important to note that retirement contributions as a percentage of ongoing General Fund expenditures are decreasing across the forecast period, from 25.3% in 2022-2023 to 21.3% in 2026-2027. These contribution levels are lower than the levels shown in the 2022-2026 Five-Year Forecast, where retirement contribution levels ranged from 28% to 29% of ongoing General Fund expenditures. The decrease is primarily attributable to the historically high returns plans – in excess of 25% – received by both retirement systems in 2020-2021. This high level of return significantly lowered the UAL and future City contributions as calculated by Cheiron.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution amounts for 2022-2023 and the Cheiron-projected amounts for the out-years of the Forecast. It should be noted that the City budgetary amounts differ from the Federated and Police and Fire Retirement Board approved amounts due to the budgetary spread across vacant, as well as filled, positions. Cheiron applies retirement contributions to an assumed level of filled positions.

# Elements of the General Fund Forecast

## Expenditure Forecast

**TABLE 1 – 2023-2027 CITY RETIREMENT BUDGETED CONTRIBUTION AMOUNTS  
GENERAL FUND  
(\$ in Millions)\***

Retirement Plan	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027
<b>Federated Retirement Plan</b>						
Tier 1 Pension (Normal Cost)	\$14.0	\$16.8	\$17.4	\$16.3	\$15.4	\$14.5
<i>Tier 1 Pension (Normal Cost) Rate</i>	<i>19.6%</i>	<i>19.6%</i>	<i>19.7%</i>	<i>19.8%</i>	<i>20.0%</i>	<i>20.3%</i>
Tier 2 Pension+	\$8.5	\$12.2	\$15.3	\$16.9	\$18.6	\$20.3
<i>Tier 2 Pension Rate</i>	<i>8.2%</i>	<i>8.2%</i>	<i>8.2%</i>	<i>8.3%</i>	<i>8.3%</i>	<i>8.4%</i>
Unfunded Actuarial Liability	\$74.3	\$68.6	\$65.3	\$64.1	\$62.5	\$60.8
Retiree Health Care	\$9.2	\$8.0	\$7.4	\$6.8	\$6.9	\$7.0
<b>Total Federated Contributions</b>	<b>\$106.0</b>	<b>\$105.6</b>	<b>\$105.4</b>	<b>\$104.1</b>	<b>\$103.4</b>	<b>\$102.6</b>
<b>Police Retirement Plan</b>						
Tier 1 Pension (Normal Cost)	\$36.8	\$24.3	\$27.2	\$25.9	\$24.6	\$23.3
<i>Tier 1 Pension (Normal Cost) Rate</i>	<i>31.4%</i>	<i>32.3%</i>	<i>32.6%</i>	<i>33.0%</i>	<i>33.7%</i>	<i>34.5%</i>
Tier 2 Pension+	\$9.5	\$10.7	\$17.6	\$20.8	\$24.4	\$28.2
<i>Tier 2 Pension Rate</i>	<i>14.4%</i>	<i>14.4%</i>	<i>14.2%</i>	<i>14.2%</i>	<i>14.2%</i>	<i>14.2%</i>
Unfunded Actuarial Liability	\$78.4	\$73.9	\$62.6	\$56.8	\$49.6	\$41.9
Retiree Health Care	\$17.2	\$18.0	\$18.9	\$19.0	\$19.8	\$20.6
<b>Total Police Contributions</b>	<b>\$141.9</b>	<b>\$126.9</b>	<b>\$126.3</b>	<b>\$122.5</b>	<b>\$118.4</b>	<b>\$114.0</b>
<b>Fire Retirement Plan</b>						
Tier 1 Pension (Normal Cost)	\$24.8	\$24.5	\$24.6	\$23.8	\$23.0	\$22.2
<i>Tier 1 Pension (Normal Cost) Rate</i>	<i>32.6%</i>	<i>33.3%</i>	<i>33.5%</i>	<i>33.8%</i>	<i>34.0%</i>	<i>34.4%</i>
Tier 2 Pension+	\$3.0	\$3.8	\$6.5	\$8.7	\$10.8	\$13.1
<i>Tier 2 Pension Rate</i>	<i>15.3%</i>	<i>15.2%</i>	<i>15.1%</i>	<i>15.1%</i>	<i>15.1%</i>	<i>15.1%</i>
Unfunded Actuarial Liability	\$68.6	\$67.5	\$62.0	\$53.0	\$48.3	\$42.6
Retiree Health Care	\$11.0	\$11.2	\$11.4	\$11.3	\$11.7	\$12.2
<b>Total Fire Contributions</b>	<b>\$107.4</b>	<b>\$107.0</b>	<b>\$104.5</b>	<b>\$96.8</b>	<b>\$93.8</b>	<b>\$90.1</b>
<b>Other Retirement Contributions</b>	<b>\$0.9</b>	<b>\$0.9</b>	<b>\$0.9</b>	<b>\$0.9</b>	<b>\$0.9</b>	<b>\$1.0</b>
<b>Total General Fund</b>	<b>\$356.2</b>	<b>\$340.4</b>	<b>\$337.1</b>	<b>\$324.3</b>	<b>\$316.5</b>	<b>\$307.6</b>
<b>Total All Funds</b>	<b>\$485.6</b>	<b>\$460.6</b>	<b>\$452.6</b>	<b>\$438.3</b>	<b>\$429.5</b>	<b>\$419.6</b>

+ Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of Unfunded Actuarial Liability (UAL) related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

\* City budgetary amounts differ from the Federated and Police and Fire Retirement Boards approved amounts due to the budgetary spread of retirement contributions across vacant, as well as filled positions. Cheiron, the Boards' actuary, applies retirement contributions to an assumed level of filled positions. Figures for 2021-2022 are from the 2021-2022 Forecast and are provided only for reference; these amounts differ from the adjusted amounts currently included in the 2021-2022 Modified Budget.

Source: Cheiron Letters dated January 11, 2022 (Federated) and January 26, 2022 (Police and Fire).

# Elements of the General Fund Forecast

## Expenditure Forecast

**TABLE 2 – 2023-2027 BOARD APPROVED CITY CONTRIBUTION AMOUNTS  
ALL FUNDS  
(\$ in Millions)**

Retirement Plan	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027
<b>Federated Retirement Plan</b>						
Tier 1 Pension (Normal Cost)	\$26.9	\$26.9	\$24.9	\$23.0	\$21.3	\$19.7
<i>Tier 1 Pension (Normal Cost) Rate</i>	19.6%	18.2%	18.1%	17.9%	17.8%	17.6%
Tier 2 Pension*	\$17.5	\$19.3	\$20.5	\$21.8	\$23.1	\$24.4
<i>Tier 2 Pension Rate</i>	8.2%	8.2%	8.2%	8.3%	8.3%	8.4%
Unfunded Actuarial Liability	\$155.6	\$162.6	\$159.6	\$156.6	\$152.8	\$148.5
Retiree Health Care	\$19.9	\$18.3	\$17.5	\$16.1	\$16.3	\$16.5
<b>Total Federated Contributions</b>	<b>\$219.9</b>	<b>\$227.1</b>	<b>\$222.5</b>	<b>\$217.5</b>	<b>\$213.5</b>	<b>\$209.1</b>
<b>Police Retirement Plan</b>						
Tier 1 Pension (Normal Cost)	\$26.5	\$25.8	\$23.6	\$21.7	\$19.9	\$18.1
<i>Tier 1 Pension (Normal Cost) Rate</i>	31.4%	33.2%	33.7%	34.3%	35.0%	35.9%
Tier 2 Pension*	\$9.7	\$12.1	\$13.7	\$15.3	\$17.0	\$18.7
<i>Tier 2 Pension Rate</i>	14.4%	14.4%	14.2%	14.2%	14.2%	14.2%
Unfunded Actuarial Liability	\$78.4	\$76.3	\$64.6	\$58.7	\$51.2	\$43.2
Retiree Health Care	\$17.2	\$18.0	\$18.9	\$19.0	\$19.8	\$20.6
<b>Total Police Contributions</b>	<b>\$131.8</b>	<b>\$132.2</b>	<b>\$120.8</b>	<b>\$114.7</b>	<b>\$107.9</b>	<b>\$100.6</b>
<b>Fire Retirement Plan</b>						
Tier 1 Pension (Normal Cost)	\$23.4	\$23.6	\$22.2	\$20.8	\$19.6	\$18.4
<i>Tier 1 Pension (Normal Cost) Rate</i>	32.6%	34.3%	34.6%	34.9%	35.2%	35.6%
Tier 2 Pension*	\$3.7	\$4.5	\$5.6	\$6.8	\$7.8	\$8.9
<i>Tier 2 Pension Rate</i>	15.3%	15.2%	15.1%	15.1%	15.1%	15.1%
Unfunded Actuarial Liability	\$68.6	\$69.7	\$64.0	\$54.7	\$49.9	\$44.0
Retiree Health Care	\$11.0	\$11.2	\$11.4	\$11.3	\$11.7	\$12.2
<b>Total Fire Contributions</b>	<b>\$106.7</b>	<b>\$109.0</b>	<b>\$103.2</b>	<b>\$93.6</b>	<b>\$89.0</b>	<b>\$83.5</b>
<b>Total City Contributions</b>	<b>\$458.4</b>	<b>\$468.3</b>	<b>\$446.5</b>	<b>\$425.8</b>	<b>\$410.4</b>	<b>\$393.2</b>

\* Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of Unfunded Actuarial Liability (UAL) related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

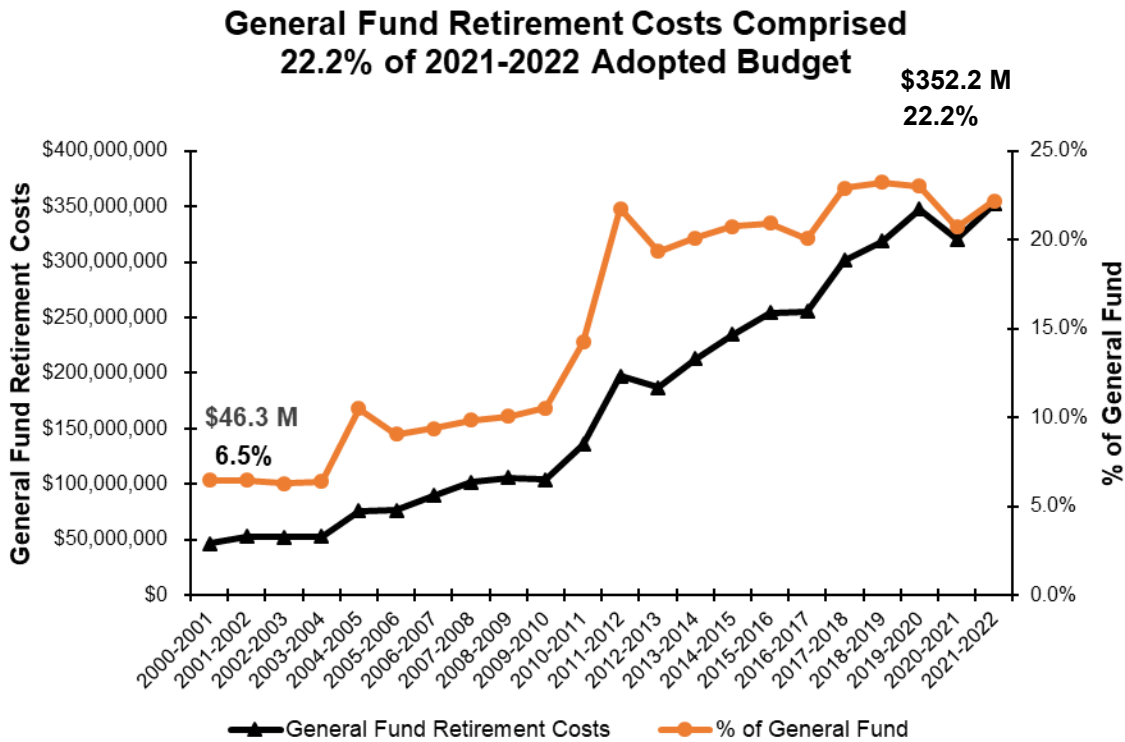
Source: Cheiron Letters dated January 11, 2022 (Federated) and January 26, 2022 (Police and Fire).

# Elements of the General Fund Forecast

## Expenditure Forecast

### Personal Services

The chart below describes the history of retirement costs as a share of the total General Fund Adopted Budget. In 2001-2002, retirement costs of \$46.3 million accounted for 6.5% of the General Fund, while in 2021-2022, those costs totaled 22.2% of the General Fund Adopted Budget. It is important to note that, because adopted budgets include carryover costs from the previous year, fund balance, and other one-time elements, this percentage is lower than the ongoing average contribution of approximately 23% reflected in the Forecast.



### Health and Other Fringe:

A projected health rate increase of 9.0% is included in the 2022-2023 Forecast effective January 2023 based on national and City trend information received from the City’s Human Resources Department benefits consultant. The annual health increase assumptions are held constant at 4.0% annually for the out-years of the forecast.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, a dental rate decrease of 8.5% is assumed in 2022-2023 to spend down savings from previously accumulated fund balance in the Dental Insurance Fund. The savings will equally offset contributions from the City, current employees, and retirees. For the out-years, the Forecast assumes annual dental rate increases of 4% based on City trends and actuarial analysis.

# Elements of the General Fund Forecast

## Expenditure Forecast

### Personal Services

#### *Health and Other Fringe:*

A decrease of 0.45% to the unemployment insurance rate is included in this Forecast based on projected future claims. There are no changes to the life insurance rates in this Forecast based on projected provider charges.

### Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total \$129.0 million in 2022-2023. To determine this ongoing funding level, the City Manager's Budget Office: comprehensively reviews all budgetary actions approved for funding solely in 2021-2022 and decreases or increases corresponding funding levels to account for these one-time additions/deletions; annualizes all partial-year reductions or increases that were approved for 2021-2022; and analyzes historical usage, rate adjustments, contractual obligations, fleet management, and overall expenditures to project future needs for key non-personal/equipment allocations – utilities, vehicle replacement, vehicle maintenance and operations, contractual services, and data processing (software/information system maintenance). The resulting 2022-2023 estimate represents a decrease of \$24.6 million (16%) from the 2021-2022 Modified Budget level of \$153.6 million, primarily due to the removal of rebudgeted funds for initiatives or projects continuing into 2021-2022 from the prior year.

Departmental funding levels for utilities (\$22.8 million), including gas, electricity, and water for 2021-2022 increased by \$1.1 million in this Forecast to reflect projected rate increases, the prorated or annualized costs of new facilities coming online, and estimated changes in consumption. Vehicle maintenance and operations costs in the General Fund, including fuel, inventory, and fleet staffing are also increased by \$1.8 million, primarily due to increased fuel prices and parts costs for the maintenance of vehicles in the City's fleet. The 2022-2023 non-personal/equipment base also maintains funding of \$6.5 million for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles based on the current replacement schedules and projected costs for these vehicles. Police vehicle replacement costs are expected to fluctuate over remaining years of the Forecast based on anticipated replacements, totaling \$28.4 million through 2026-2027. Additional non-personal/equipment increases are included in this Forecast, primarily for: increases for city-wide janitorial services (\$783,000); FirstNet service costs for the Police Department (\$771,000); mobile device management platform for FirstNet devices (\$232,000); various contractual increases for information systems and software license agreements city-wide (\$367,000); and cost increases for City facilities general maintenance services and supplies (\$227,000).

Growth rates ranging from 0.5% to 2.2% are assumed in the out-years of the Forecast, relative to non-personal/equipment base levels in each of the preceding four years, largely varying due to the projected Police vehicle replacement costs in those years. Excluding these adjustments for vehicle replacements, the average growth rate for the non-personal/equipment category is estimated at 1.5% annually.



# Elements of the General Fund Forecast

## Expenditure Forecast

### City-Wide, Capital, Transfers, and Reserves

**City-Wide Expenses** in the first year of the Forecast (2022-2023) total \$80.3 million, a decrease of \$378.6 million from the 2021-2022 Modified Budget of \$458.9 million, largely due to the removal of TRANS Debt Service related to the 2021-2022 pre-payment of retirement contributions (\$285.0 million), removal of one-time budget actions from 2021-2022 that are subject to re-evaluation (\$37.5 million), removal of one-time allocations from 2020-2021 that were rebudgeted into 2021-2022 (\$34.6 million), removal of the one-time loan commitment to First Community Housing for a new affordable apartment development (\$15.6 million), and various technical adjustments to ongoing allocations (\$5.8 million).

The line-items in this category are primarily made up of cross-departmental, large grant, and general city-wide expenditures. Forecast funding levels for 2022-2023 include cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2022-2023 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims (\$21.5 million); San José BEST and Safe Summer Initiative Programs (\$6.4 million); General Liability Claims (\$6.0 million); Sick Leave Payments Upon Retirement (\$5.0 million); Homeless Rapid Rehousing (\$4.0 million); Measure E – 5% Program Administration (\$3.4 million); Elections and Ballot Measures (\$2.5 million); Property Tax Administration Fee (\$2.5 million); Insurance Premiums (\$2.3 million); Sidewalk Repairs (\$2.0 million); Property Leases (\$1.9 million); Local Sales Tax – San José Works- Youth Jobs Initiative (\$1.6 million); TRANS Debt Service (\$1.5 million); Public, Educational and Government Access Facilities – Capital (\$1.3 million); and, Senior Nutrition Program (\$1.2 million).

For continuing initiatives authorized in 2022-2023, City-Wide Expenses are projected to grow overall by approximately \$8.5 million, primarily the result of increased projected Workers' Compensation Claims payments (\$3.3 million) to account for a higher rate in the settlement of claims; the return of ongoing General Fund funding for the Homeless Rapid Rehousing allocation (\$2.0 million) that was funded for two years from the Housing Department's Multi-Source Housing Fund; Measure E 5% Program Administration cost changes to align with anticipated Real Property Transfer Tax revenue levels (\$1.3 million); an increase to Insurance Premiums (\$769,000) that reflects changes in premium rates and growth in the insured value of City assets; the liquidation of the San José 311 Enhancements Reserve to a live appropriation in 2022-2023 (\$750,000) to continue a two-year program that began in 2021-2022 to expand San José's 311 internal capacity for coding and customer experience; and various cost-of-living adjustments for Elections and Ballot Measures (\$360,000), Property Tax Administration Fee (\$326,000), San José BEST and Safe Summer Initiative Programs (\$188,000), Property Lease payments (\$136,000), and Commercial Paper Program Fees (\$102,000). These increases are partially offset by various base budget decreases, including reduced revenues available to support the Digital Inclusion Program (\$458,000), and a reduction to the Workers' Compensation State License fee (\$110,000).

# Elements of the General Fund Forecast

## Expenditure Forecast

### City-Wide, Capital, Transfers, and Reserves

While the majority of City-Wide Expenses are expected to remain at 2022-2023 levels during the Forecast period, some categories are expected to experience modest growth over the next five years, including the: Arena Authority (\$256,000 to \$280,000); Children’s Discovery Museum (\$358,000 to \$391,000); City Dues and Memberships (\$523,000 to \$572,000); Hammer Theater Center Operations and Maintenance (\$338,000 to \$369,000); History San José (\$929,000 to

\$1,015,000); Insurance Premiums (\$2.4 million to \$2.6 million); Mexican Heritage Plaza Maintenance and Operations (\$493,000 to \$539,000); Property Leases (\$2.0 million to \$2.2 million); Property Tax Administration Fee (\$2.3 million to \$2.7 million); San José BEST and Safe Summer Initiative Programs (\$6.6 million to \$7.3 million); San Jose Downtown Association (\$281,000 to \$308,000); San José Museum of Art (\$591,000 to \$646,000); Sanitary Sewer Fees (\$625,000 to \$724,000); Sports Authority (\$441,000 to \$482,000); Storm Fees (\$350,000 to \$424,000); Tech Museum of Innovation (\$1.5 million to \$1.6 million); and Workers’ Compensation State License (\$870,000 to \$952,000).

Overall, Workers’ Compensation Claims payments are projected to gradually and slightly decrease over the Forecast period, from \$21.0 million to \$20.6 million.

The General Fund **Capital Contributions** category totals \$5.8 million in 2022-2023, remaining at this level in each following year of the Forecast. The largest item in this category is fire apparatus replacement (\$3.75 million), which assumes that the Fire Construction and Conveyance Tax Fund will contribute \$400,000 annually for these costs over the five-year period. Capital Contributions funding also includes the continuation of annual allocations for: the unanticipated/emergency maintenance of City facilities (\$1.25 million); closed landfill compliance (\$450,000); annual capital requirements to maintain power backup for City Hall and the 9-1-1 Police Communications Building (\$200,000); and for arena repairs (\$100,000). Due to the planned closure of the Las Plumas site, the previous allocation for fuel tank monitoring costs (\$20,000) is not included in this Forecast. Additionally, annual funding for unanticipated/emergency maintenance is restored to the previous level of \$1.25 million, prior to the reductions implemented in 2020-2021 in response to the projected General Fund shortfall caused by the COVID-19 pandemic.

The **Transfers** category totals \$24.4 million in 2022-2023 and averages \$24.7 million for each remaining year of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for the construction of City Hall is the largest recurring line-item in this category at \$17.2 million. Other transfers include: funding for capital rehabilitation and enhancements at the SAP Center in accordance with the San José Arena Management Agreement with Sharks Sports and Entertainment (\$2.3 million); funding to support the Silicon Valley Regional Interoperability Authority (SVRIA) in the Construction and Conveyance Tax Fund – Communications (\$2.0 million, an increase of \$300,000 from prior planned levels for 2022-2023); funding for the Vehicle Maintenance and Operations Fund for general fleet replacement (\$1.50 million, reflecting the restoration of funding (\$250,000) to the previous level in 2020-2021); and payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund’s share of landscape services in those areas (\$1.2 million, increasing to \$1.5 million annually by 2026-2027).

# Elements of the General Fund Forecast

## Expenditure Forecast

### City-Wide, Capital, Transfers, and Reserves

The increased recurring transfer (\$300,000) to the Construction and Conveyance Tax Fund – Communications is included to assist for the planned replacement of end-of-life, unsupported radio equipment capable of accessing the Silicon Valley Communications System (SVRCS). Additional funding, totaling \$5.25 million, was approved as part of the 2021-2022 Adopted Budget to replace over 800 radios that would become unsupported in July 2021. The increased General Fund support will partially address the estimated \$2.2 million annual costs of SVRCS radio replacements, based on a 10-year replacement schedule.

The transfer from the General Fund to the Downtown Property and Business Improvement District (PBID) Fund increases by \$144,000, to \$1.0 million in 2022-2023, to reflect anticipated PBID cost increases effective January 2023 – comprised of a 5% increase to baseline service level costs (enhanced cleaning, beautification, and ambassadors), a 5% increase to assessments on City properties, a new general benefit payment to cover costs not exclusive to downtown property owners, and boundary adjustments anticipated to be approved as part of the renewal of the district (effective January 2023) and resulting in the addition of City properties. Funding increases to \$1.2 million in 2023-2024 to reflect the annualized impact of these changes.

Transfers from the General Fund to the Municipal Golf Course Fund ceased in 2021-2022 due to increasing operating revenues, payoff of remaining debt obligations for the Rancho del Pueblo Golf Course in 2019-2020, and subsequent payoff for the Los Lagos Golf Course in 2020-2021. Similarly, due to projected Construction and Conveyance Tax performance, the previous transfer (\$750,000) to the Construction and Conveyance Tax Fund – Service Yards ceased in 2021-2022, as revenues are anticipated to be sufficient to cover debt service payments associated with the Central Service Yard.

The **Earmarked Reserves** category totals \$95.2 million in 2022-2023 and decreases to \$93.2 million in 2023-2024 and throughout the Forecast. This category includes \$61.75 million in reserves to be expended on homeless prevention and affordable housing in accordance with the Real Property Transfer Tax revenues authorized by Measure E, a ballot measure approved by San José voters on March 3, 2020. Other reserves include the: Revenue Loss Reserve of \$30.0 million, established as part of the 2021-2022 Mid-Year Budget Review, to set aside disputed revenues to address the potential negative impact to the General Fund in the event there is a final adverse determination regarding the ongoing allocation of tax revenues to the City; Deferred Infrastructure and Maintenance Reserve of \$2.0 million (increased from \$1.25 million) to fund critical capital maintenance or address urgent technology needs, which will be allocated during development of the 2022-2023 Proposed Budget; and annual funding of \$450,000 for the Artificial Turf Replacement Reserve to set aside funding for the cost of replacing artificial turf fields in various neighborhood parks. These funds are available from the projected field reservation revenues collected above the estimated costs to reserve and maintain the fields and reflect higher levels of operation following the impacts of COVID-19. Additionally, the annual allocation to the Cultural Facilities Maintenance Reserve is maintained at \$1.0 million (increased from \$850,000) throughout the Forecast to address the growing deferred infrastructure rehabilitation needs at these facilities.

# Elements of the General Fund Forecast

## Expenditure Forecast

### City-Wide, Capital, Transfers, and Reserves

The Forecast does not include several Earmarked Reserves that may remain unspent in 2021-2022 and later recommended for rebudget or use in 2022-2023. Some of the larger current Earmarked Reserves include the: Budget Stabilization Reserve; Measure E – 45% Extremely Low Income

Reserve; Measure E – 35% Low Income Reserve; Revenue Loss Reserve; 2022-2023 Future Deficit Reserve; Workers' Compensation/General Liability Catastrophic Reserve; Measure E – 10% Moderate Income Reserve; FEMA Non-Reimbursable Expenses Reserve; Salaries and Benefits Reserve; Community and Economic Recovery Reserve; Measure E – 10% Homelessness Prevention Reserve; Sick Leave Payments Upon Retirement Reserve; Information Technology Sinking Fund Reserve; Google Parking Lots Option Payment Reserve; Artificial Turf Replacement Reserve; Berryessa Flea Market Vendor Business Transition Fund Reserve; Code Enforcement Permit System Reserve; Pest and Turf Management Team Reserve; Police Redistricting Implementation Reserve; and Police Property Facility Relocation Reserve.

Per City Council policy, the **Contingency Reserve** (\$41.0 million) is projected at the level necessary to comply with the City Council policy to maintain a minimum 3% Contingency Reserve and allows for anticipated rebudget adjustments that will be incorporated into the 2022-2023 budget. This amount would be sufficient to cover approximately one pay period of payroll costs (two weeks). This amount steadily increases each year of the Forecast, ending at \$46.5 million in 2025-2026 to remain in compliance with the reserve policy.

### Committed Additions to the Base General Fund Forecast

In this Forecast, projected additions to the base expenditure level have been included as Committed Additions. Although all are subject to further review during the budget process, Committed Additions are additional expenditures for which the City is committed to fund in accordance with prior City Council action, such as the costs related to maintaining and operating capital projects previously approved by the City Council. The Forecast Base Case, considered most likely to occur, includes ongoing program costs plus Committed Additions. Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

Committed Additions total \$992,000 in 2022-2023 and increase to approximately \$20.0 million by 2026-2027, primarily due to the anticipated projects from the passage of Measure T – The Disaster Preparedness, Public Safety, and Infrastructure Bond. Several Measure T facilities are anticipated to come online within the five-year forecast period and include Fire Stations 32 and 36. The Police Training Facility, now expected to come online in 2024-2025, will trigger the phased activation of the South San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility. A site for the new Police Training Facility has been secured and design is in progress, with maintenance costs of \$1.9 million representing an early look at potential ongoing impacts of this facility.

# Elements of the General Fund Forecast

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## Expenditure Forecast

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### **Committed Additions to the Base General Fund Forecast**

All estimates will be further refined once a site is selected and fully scoped, the results of which will be brought forward for City Council consideration. Additional maintenance and operations funding were factored for other Measure T projects including the: LED Streetlight Conversion (Controllers), City Facility LED Conversion (Controllers); Clean Water Projects (River Oaks Stormwater Capture); Emergency Operations Center Relocation, Fire Station 8 Relocation, Fire Station 23 Relocation, and Police Air Support Unit Hangar expansion. In total, the maintenance and operations funding for Measure T facilities coming online will increase from \$497,000 in 2022-2023 to approximately \$15.1 million by 2026-2027.

The Committed Additions also include maintenance and operations costs associated with non-Measure T projects such as new parks and recreation facilities, new traffic infrastructure assets, and the Fire Training Center relocation from its current location on Montgomery Street. The non-Measure T projects committed additions costs in the Forecast range from \$495,000 in 2022-2023 to \$4.8 million by 2026-2027.

# Elements of the General Fund Forecast

## Operating Margin

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2022-2023, a General Fund surplus of \$27.7 million is projected. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. General Fund surpluses are also projected in the remaining years of the Forecast; 2023-2024 (\$26.0 million), 2024-2025 (\$23.5 million), 2025-2026 (\$22.7 million), and 2026-2027 (\$28.9 million). These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from 1.6% to 2.1% of the projected annual budget (based on expenditures), which ranges from \$1.3 billion to \$1.4 billion.

The following table shows how the projected surpluses and shortfalls have changed in the most recent forecasts. It is assumed that each preceding surplus is completely expended with ongoing uses in the year it appears. Each year of the February 2022 Forecast is compared to the corresponding year in the February 2021 Forecast.

<b>2023-2027 General Fund Forecast Changes in Operating Margin (\$ in Millions)</b>					
	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
<b>February 2021</b> Incremental Surplus/(Shortfall)	<b>\$3.3</b>	<b>\$0.2</b>	<b>\$4.4</b>	<b>\$1.9</b>	<b>N/A</b>
<b>June 2021*</b> Incremental Surplus/(Shortfall)	(\$31.6)	N/A	N/A	N/A	N/A
<b>February 2022</b> Incremental Surplus/(Shortfall)	<b>\$27.7</b>	<b>\$26.0</b>	<b>\$23.5</b>	<b>\$22.7</b>	<b>\$28.9</b>

\* Of the \$38.3 million General Fund shortfall resolved by the 2021-2022 Adopted Operating Budget, \$31.6 million was resolved on a one-time basis, resulting in the carry-forward of that shortfall amount into 2022-2023.

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2021-2022; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

# Elements of the General Fund Forecast

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## Operating Margin

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For the February 2022 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2022-2023 and the remaining four years of the forecast period. The 2022-2023 projected surplus of \$27.7 million is primarily the result of escalating revenues due to a strong economy and expenditures that grow at a lower rate, which is primarily attributable to decreasing retirement contributions. The numerous revenue and expenditure changes anticipated in 2022-2023 are described in this document.

In the out-years of this Forecast, the General Fund has an operating margin ranging from a surplus of \$22.7 million to a surplus of \$28.9 million annually, reflective of the fact that future year revenues are anticipated to remain in excess of expenditures. These margins, however, are narrow when put into context of the size of the projected General Fund budget (based on expenditures) of over \$1.4 billion.

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# Base General Fund Forecast

<b>BASE CASE</b>						
<b>FEBRUARY FORECAST</b>	<b>MODIFIED BUDGET</b>	<b>FEBRUARY FORECAST</b>				
<b>REVENUE SUMMARY</b>	<b><u>2021-2022</u></b>	<b><u>2022-2023</u></b>	<b><u>2023-2024</u></b>	<b><u>2024-2025</u></b>	<b><u>2025-2026</u></b>	<b><u>2026-2027</u></b>
PROPERTY TAX	406,500,000	427,000,000	451,339,000	476,975,000	502,922,000	528,924,000
		5.04%	5.70%	5.68%	5.44%	5.17%
SALES TAX	300,200,000	320,000,000	332,736,000	343,517,000	354,269,000	363,976,000
		6.60%	3.98%	3.24%	3.13%	2.74%
TRANSIENT OCCUPANCY TAX	9,000,000	11,000,000	13,000,000	14,000,000	15,000,000	16,000,000
		22.22%	18.18%	7.69%	7.14%	6.67%
FRANCHISE FEES	44,651,652	47,985,652	48,446,000	49,173,000	50,304,000	51,768,000
		7.47%	0.96%	1.50%	2.30%	2.91%
UTILITY TAX	97,060,000	107,450,000	110,878,000	114,781,000	119,475,000	124,744,000
		10.70%	3.19%	3.52%	4.09%	4.41%
TELEPHONE TAX	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
		0.00%	0.00%	0.00%	0.00%	0.00%
BUSINESS TAX	82,500,000	86,000,000	87,385,000	88,783,000	90,203,000	91,628,000
		4.24%	1.61%	1.60%	1.60%	1.58%
REAL PROPERTY TRANSFER TAX	90,000,000	65,000,000	65,000,000	65,000,000	65,000,000	65,000,000
		-27.78%	0.00%	0.00%	0.00%	0.00%
LICENSES AND PERMITS	20,452,045	21,619,831	22,154,000	22,653,000	23,204,000	23,770,000
		5.71%	2.47%	2.25%	2.43%	2.44%
FEES, RATES, AND CHARGES	18,972,684	24,007,180	24,600,000	25,154,000	25,766,000	26,395,000
		26.54%	2.47%	2.25%	2.43%	2.44%
FINES, FORFEITURES & PENALTIES	8,676,000	12,132,000	12,279,000	12,497,000	12,660,000	12,710,000
		39.83%	1.21%	1.78%	1.30%	0.39%
USE OF MONEY & PROPERTY	9,304,000	8,688,000	8,949,000	9,172,000	9,356,000	9,543,000
		-6.62%	3.00%	2.49%	2.01%	2.00%
REVENUE FROM LOCAL AGENCIES	22,325,814	16,277,711	16,818,000	17,385,000	17,959,000	18,535,000
		-27.09%	3.32%	3.37%	3.30%	3.21%
REVENUE FROM THE STATE OF CALIFORNIA	24,004,770	12,100,000	12,100,000	12,100,000	12,100,000	12,100,000
		-49.59%	0.00%	0.00%	0.00%	0.00%
REVENUE FROM THE FEDERAL GOVERNMENT	8,525,953	0	0	0	0	0
		-100.00%	N/A	N/A	N/A	N/A
OTHER REVENUE	322,829,265	8,332,611	8,349,000	8,374,000	8,413,000	8,464,000
		-97.42%	0.20%	0.30%	0.47%	0.61%
GAS TAX	16,000,000	15,500,000	15,709,000	15,758,000	15,566,000	15,082,000
		-3.13%	1.35%	0.31%	(1.22%)	(3.11%)
<b>TOTAL GENERAL REVENUES</b>	<b>1,501,002,183</b>	<b>1,203,092,985</b>	<b>1,249,742,000</b>	<b>1,295,322,000</b>	<b>1,342,197,000</b>	<b>1,388,639,000</b>
		-19.85%	3.88%	3.65%	3.62%	3.46%

# Base General Fund Forecast

<b>BASE CASE</b>						
<b>FEBRUARY FORECAST</b>	<b>MODIFIED BUDGET</b>	<b>FEBRUARY FORECAST</b>				
<b>REVENUE SUMMARY</b>	<b><u>2021-2022</u></b>	<b><u>2022-2023</u></b>	<b><u>2023-2024</u></b>	<b><u>2024-2025</u></b>	<b><u>2025-2026</u></b>	<b><u>2026-2027</u></b>
<b>TRANSFERS &amp; REIMBURSEMENTS</b>						
OVERHEAD REIMBURSEMENTS	69,542,276	76,562,780	78,454,000	80,220,000	82,172,000	84,179,000
TRANSFERS	84,321,090	28,435,007	28,246,000	28,286,000	28,495,000	28,686,000
REIMBURSEMENTS FOR SERVICES	791,968	796,377	816,000	834,000	855,000	876,000
<b>TOTAL TRANSFERS &amp; REIMBURSEMENTS</b>	<b>154,655,334</b>	<b>105,794,164</b>	<b>107,516,000</b>	<b>109,340,000</b>	<b>111,522,000</b>	<b>113,741,000</b>
		-31.59%	1.63%	1.70%	2.00%	1.99%
<b>TOTAL GENERAL FUND REVENUES</b>	<b>1,655,657,517</b>	<b>1,308,887,149</b>	<b>1,357,258,000</b>	<b>1,404,662,000</b>	<b>1,453,719,000</b>	<b>1,502,380,000</b>
		-20.94%	3.70%	3.49%	3.49%	3.35%
BEGINNING FUND BALANCE	369,180,430	66,250,000	65,947,000	67,627,000	69,746,000	71,919,000
<b>GRAND TOTAL SOURCES</b>	<b>2,024,837,947</b>	<b>1,375,137,149</b>	<b>1,423,205,000</b>	<b>1,472,289,000</b>	<b>1,523,465,000</b>	<b>1,574,299,000</b>
		(32.09%)	3.50%	3.45%	3.48%	3.34%

## Base General Fund Forecast

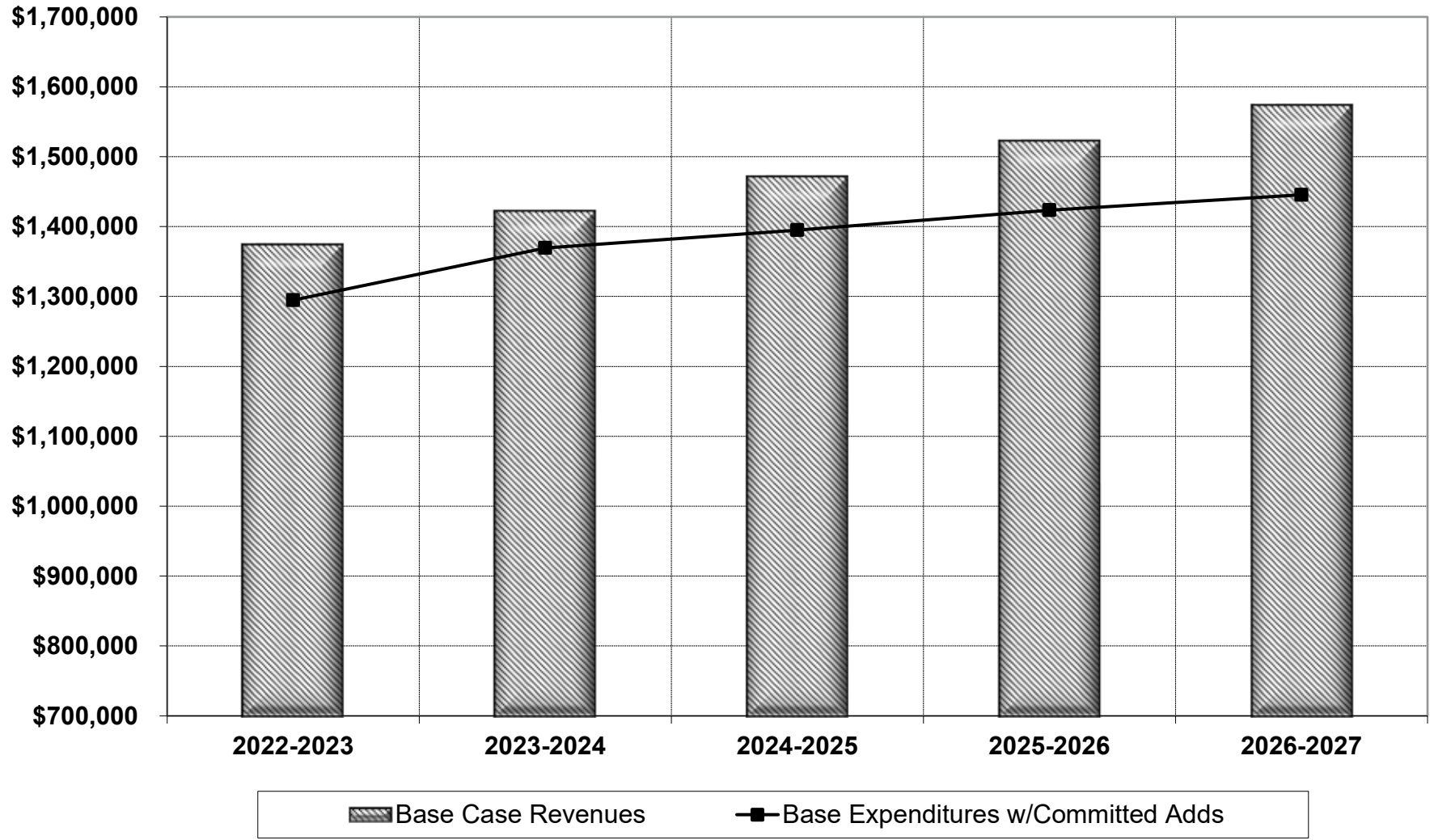
<b>BASE CASE</b>						
<b>FEBRUARY FORECAST</b>	<b>MODIFIED BUDGET</b>	<b>FEBRUARY FORECAST</b>				
<b>EXPENDITURE SUMMARY</b>	<b>2021-2022</b>	<b>2022-2023</b>	<b>2023-2024</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>
<b>PERSONAL SERVICES</b>						
Salaries and Other Compensation	536,261,393	563,146,660	582,856,793	603,256,781	624,370,768	646,223,745
Retirement	349,021,646	340,373,023	337,053,505	324,306,234	316,479,195	307,556,291
Health and Other Fringe Benefits	67,400,976	67,281,840	70,052,415	72,937,079	75,940,530	79,067,658
<b>TOTAL PERSONAL SERVICES</b>	<b>952,684,015</b>	<b>970,801,523</b>	<b>989,962,713</b>	<b>1,000,500,094</b>	<b>1,016,790,493</b>	<b>1,032,847,694</b>
		1.90%	1.97%	1.06%	1.63%	1.58%
<b>TOTAL NON-PERSONAL/EQUIPMENT</b>	<b>153,609,811</b>	<b>128,962,000</b>	<b>129,616,000</b>	<b>132,434,000</b>	<b>133,495,000</b>	<b>135,631,000</b>
	24,647,811.00	(16.05%)	0.51%	2.17%	0.80%	1.60%
<b>CITY-WIDE</b>						
CITY-WIDE EXPENSES	472,842,004	80,287,045	80,140,847	81,294,207	82,118,043	82,676,555
CAPITAL PROJECTS	82,123,508	5,750,000	5,750,000	5,750,000	5,750,000	5,750,000
TRANSFERS	30,393,345	24,432,476	24,576,010	24,644,849	24,722,523	24,801,574
EARMARKED RESERVES	292,685,264	95,200,000	94,394,000	95,405,000	96,413,000	97,323,000
CONTINGENCY RESERVE	40,500,000	41,000,000	42,000,000	43,500,000	45,000,000	46,500,000
<b>TOTAL CITY-WIDE</b>	<b>918,544,121</b>	<b>246,669,521</b>	<b>246,860,857</b>	<b>250,594,056</b>	<b>254,003,567</b>	<b>257,051,129</b>
		(73.15%)	0.08%	1.51%	1.36%	1.20%
<b>TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)</b>	<b>2,024,837,947</b>	<b>1,346,433,044</b>	<b>1,366,439,570</b>	<b>1,383,528,150</b>	<b>1,404,289,060</b>	<b>1,425,529,823</b>
		(33.50%)	1.49%	1.25%	1.50%	1.51%
<b>OPERATING MARGIN</b>						
	<b>MODIFIED BUDGET</b>	<b>FEBRUARY FORECAST</b>				
<b>BASE EXPENDITURES (w/o COMMITTED ADDITIONS)</b>	<b>2021-2022</b>	<b>2022-2023</b>	<b>2023-2024</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>
<b>GRAND TOTAL REVENUE</b>	2,024,837,947	1,375,137,149	1,423,205,000	1,472,289,000	1,523,465,000	1,574,299,000
GROWTH RATE		(32.09%)	3.50%	3.45%	3.48%	3.34%
<b>TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)</b>	2,024,837,947	1,346,433,044	1,366,439,570	1,383,528,150	1,404,289,060	1,425,529,823
GROWTH RATE		(33.50%)	1.49%	1.25%	1.50%	1.51%
<b>OPERATING MARGIN CHANGE</b>	<b>0</b>	<b>28,704,105</b>	<b>28,061,325</b>	<b>31,995,420</b>	<b>30,415,090</b>	<b>29,593,000</b>
<i>From Prior Year</i>						

# Base General Fund Forecast

<b>BASE CASE</b>						
<b>FEBRUARY FORECAST</b>	<b>MODIFIED BUDGET</b>	<b>FEBRUARY FORECAST</b>				
<b>EXPENDITURE SUMMARY</b>	<b><u>2021-2022</u></b>	<b><u>2022-2023</u></b>	<b><u>2023-2024</u></b>	<b><u>2024-2025</u></b>	<b><u>2025-2026</u></b>	<b><u>2026-2027</u></b>
<b><u>COMMITTED ADDITIONS:</u></b>						
New Parks and Recreation Facilities Maintenance and Operations	0	248,000	512,000	1,486,000	1,666,000	1,785,000
New Traffic Infrastructure Assets Maintenance and Operations	0	43,000	125,000	205,000	258,000	289,000
New Public Safety Facilities Maintenance and Operations	0	204,000	513,000	932,000	2,668,000	2,767,000
Measure T (LED Streetlight Conversion (Controllers))	0	0	100,000	250,000	400,000	400,000
Measure T (City Facility LED Conversion (Controllers))	0	34,000	36,000	36,000	36,000	36,000
Measure T (Clean Water Projects (River Oaks Stormwater Capture))	0	0	163,000	168,000	173,000	178,000
Measure T (911 Call Center Expansion)	0	0	0	15,000	150,000	154,000
Measure T (Emergency Operations Center and OEM Relocation)	0	463,000	1,614,000	1,662,000	1,712,000	1,763,000
Measure T (Fire Station 8 Relocation)	0	0	0	126,000	206,000	212,000
Measure T (Fire Station 23 Relocation)	0	0	0	0	131,000	179,000
Measure T (Fire Station 32)	0	0	0	4,884,000	4,968,000	5,117,000
Measure T (Fire Station 36)	0	0	0	0	5,002,000	5,111,000
Measure T (Police Training Center Relocation)	0	0	0	1,665,000	1,815,000	1,881,000
Measure T (Police Air Support Hangar)	0	0	0	80,000	82,000	85,000
<b>TOTAL COMMITTED ADDITIONS</b>	<b>0</b>	<b>992,000</b>	<b>3,063,000</b>	<b>11,509,000</b>	<b>19,267,000</b>	<b>19,957,000</b>
<b>TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)</b>	<b>2,024,837,947</b>	<b>1,347,425,044</b>	<b>1,369,502,570</b>	<b>1,395,037,150</b>	<b>1,423,556,060</b>	<b>1,445,486,823</b>
		(33.46%)	1.64%	1.86%	2.04%	1.54%
<b>OPERATING MARGIN</b>						
	<b>MODIFIED BUDGET</b>	<b>FEBRUARY FORECAST</b>				
<b>BASE EXPENDITURES (w / COMMITTED ADDITIONS)</b>	<b><u>2021-2022</u></b>	<b><u>2022-2023</u></b>	<b><u>2023-2024</u></b>	<b><u>2024-2025</u></b>	<b><u>2025-2026</u></b>	<b><u>2026-2027</u></b>
<b>GRAND TOTAL REVENUE</b>	2,024,837,947	1,375,137,149	1,423,205,000	1,472,289,000	1,523,465,000	1,574,299,000
<b>GROWTH RATE</b>		(32.09%)	3.50%	3.45%	3.48%	3.34%
<b>TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)</b>	2,024,837,947	1,347,425,044	1,369,502,570	1,395,037,150	1,423,556,060	1,445,486,823
<b>GROWTH RATE</b>		(33.46%)	1.64%	1.86%	2.04%	1.54%
<b>OPERATING MARGIN</b>	<b>0</b>	<b>27,712,105</b>	<b>53,702,430</b>	<b>77,251,850</b>	<b>99,908,940</b>	<b>128,812,177</b>
<b>ONGOING OPERATING MARGIN CHANGE</b>		<b>27,712,105</b>	<b>25,990,325</b>	<b>23,549,420</b>	<b>22,657,090</b>	<b>28,903,237</b>
<i>From Prior Year</i>						

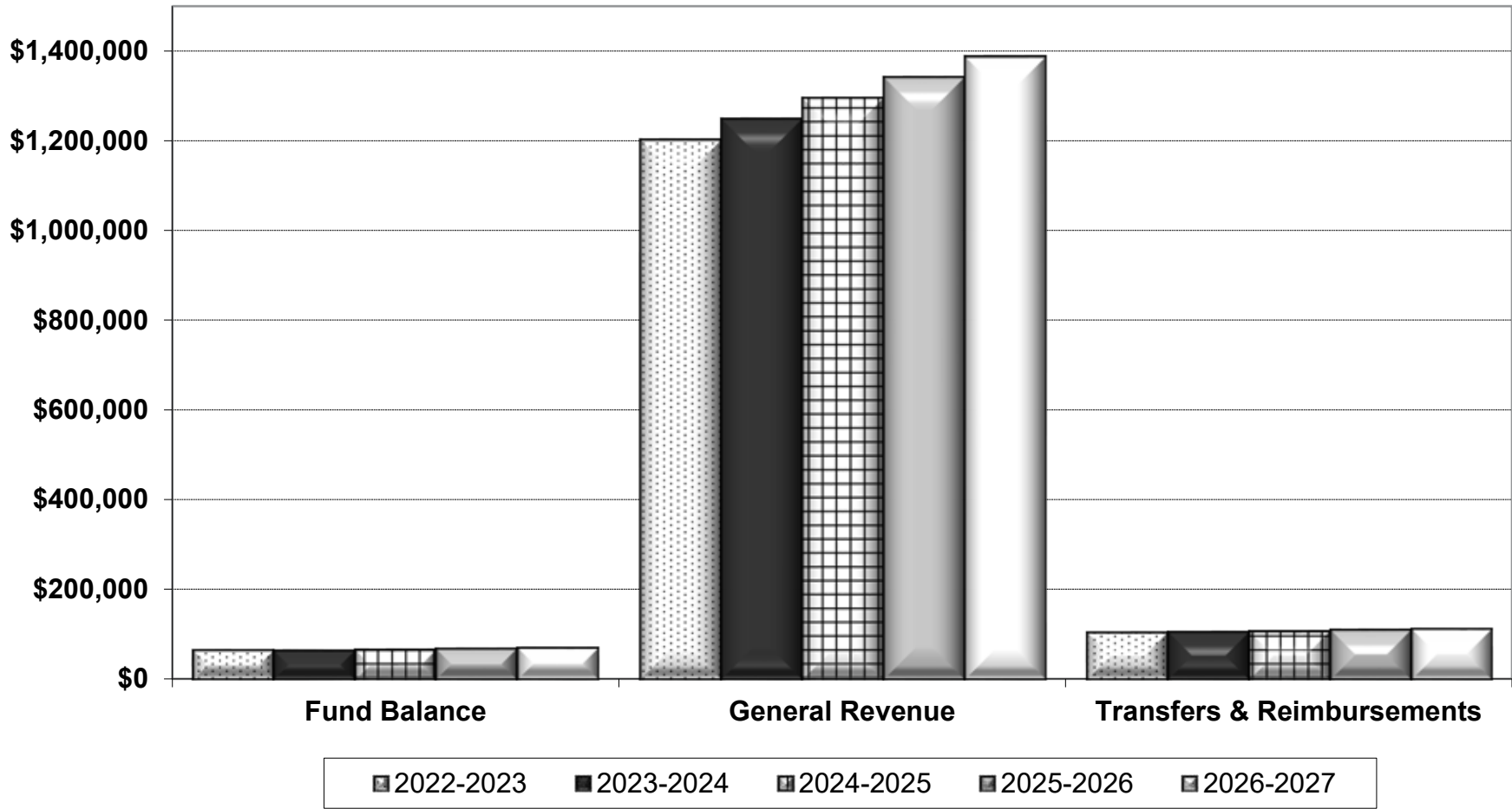
# Base General Fund Forecast

## 2023-2027 General Fund Forecast PROJECTED REVENUES AND EXPENDITURES (\$ in thousands)



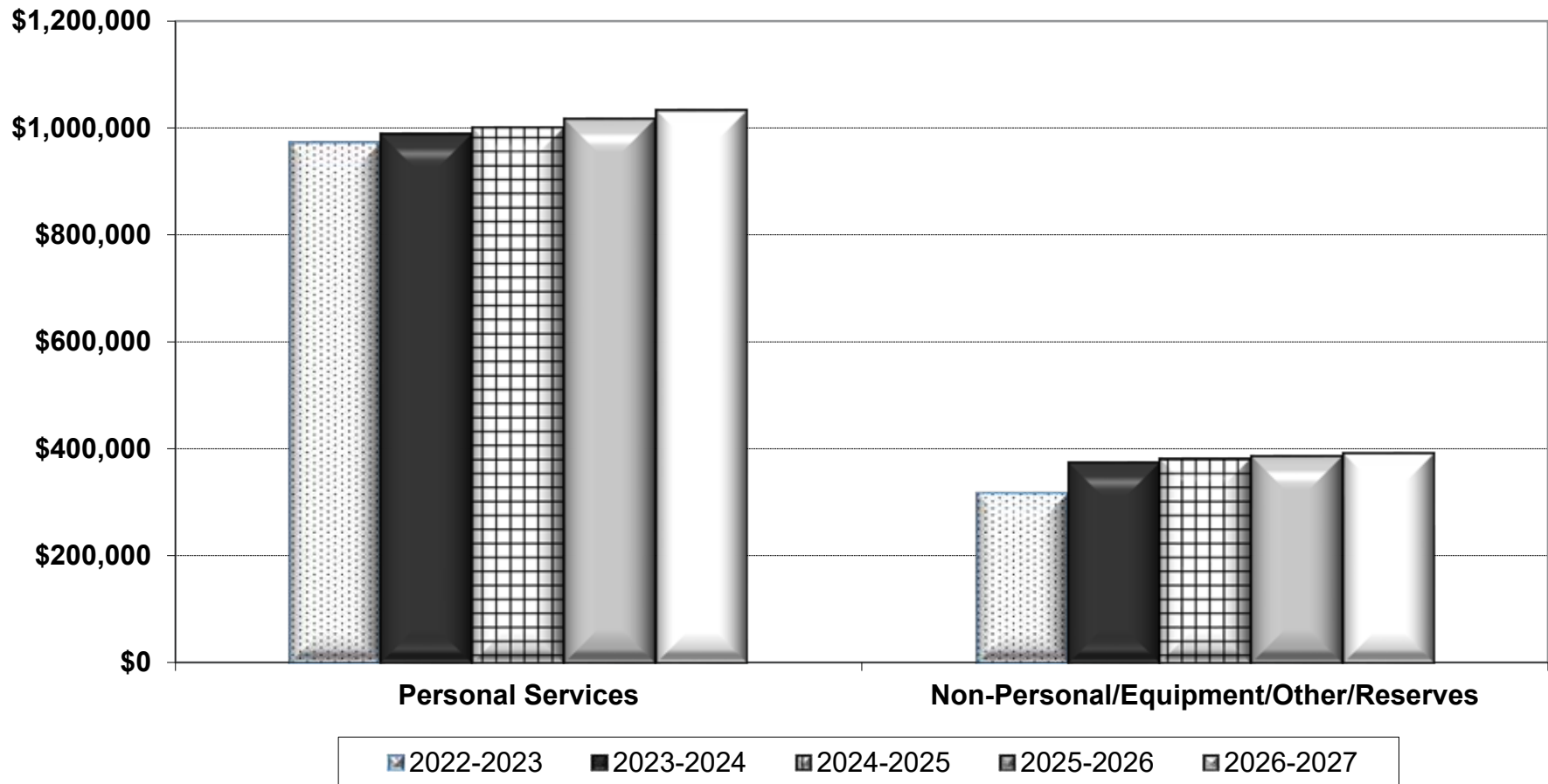
# Base General Fund Forecast

**2023-2027 General Fund Forecast  
FIVE-YEAR SOURCE OF FUNDS COMPARISON  
(\$ in thousands)**



## Base General Fund Forecast

**2023-2027 General Fund Forecast  
FIVE-YEAR USE OF FUNDS COMPARISON  
(\$ in thousands)**



Note: Committed Additions ranging from \$2.6 million to \$21.4 million annually during this Forecast are not displayed.

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## Committed Additions to the Base General Fund Forecast

As has been the practice, potential future-year program expenses in the General Fund have been included in a “**Committed Additions**” section of the General Fund Forecast.

**Committed Additions** involve future operating expenses for projects that have been previously approved by the City Council and deemed relatively unavoidable. The largest items in this category are the Emergency Operations Center and Office of Emergency Management Relocation, Fire Stations 32 and 36, and the Police Training Facility, as part of the Measure T: Disaster Preparedness, Public Safety, and Infrastructure Bond program and the activation of the South San José Police Substation. The remaining items included in this category are expenses that will be required to operate and maintain other approved capital projects scheduled to be completed and open within the five-year horizon of this forecast. These expenses are related to the maintenance and operations of projects such as new parks and recreation facilities, new traffic infrastructure assets, and other public safety facilities. It should be noted that the estimated costs included in this category have been submitted by the various departments involved but have not yet been fully analyzed by the Budget Office. It can be anticipated that refinements of these estimates, as well as determining funding for fixtures, furnishings, and equipment, will be completed prior to bringing them forward for consideration by the City Council in any given year.

A summary of the Committed Additions included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council’s adoption of Budget Principle #8 during the 2008-2009 budget process, a General Fund Capital Operating and Maintenance/Budget Principle #8 discussion is included in this section. Capital projects with annual maintenance and operating costs over \$100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A of this section. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast, that have not been previously approved by the City Council, may be recommended for certification as part of the 2023-2027 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

Following is a summary of Committed Additions included in the General Fund Five-Year Forecast. Projections factor in an inflation escalator for the out-years of the Forecast and are displayed in a cumulative, not incremental, cost method.

**New Parks and Recreation Facilities Maintenance and Operations** – This category reflects the projected additional costs that are necessary to operate and maintain new and expanded parks and recreation facilities included in the Capital Improvement Program. Several parks and recreation facilities are scheduled to come online over the next five years include, but are not limited to, Columbus Park Soccer Fields; Hillsdale Fitness Staircase at Communications Hill; Havana Midfield Pocket Park; Newbury Park; North San Pedro Park; Old Orchard Park; Payne Avenue Park; Pellier Park; Penitencia Creek Dog Park; and Winchester Orchard Park. The City will assume maintenance and operating costs for Bassett Park and River Oaks Park – locations which received in-lieu payments for maintenance from the developers, but the limited funding sources are expected to be depleted within the next five years.

# Committed Additions to the Base General Fund Forecast

The Forecast also includes operating cost estimates for trails, including a section of Thompson Creek Trail from Quimby to Aborn and sections along Coyote Creek Trail, including Singleton, Phelan to Tully, and Mabury to Empire. The City currently has approximately 61 miles of trails.

<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
248,000	512,000	1,486,000	1,666,000	1,785,000

**New Traffic Infrastructure Assets Maintenance and Operations** – This category reflects the anticipated additional costs that are necessary to operate and maintain transportation-related projects included in the Capital Improvement Program. Funding to operate and maintain new traffic signals and streetlights (including those installed by developers), landscaping, and other traffic infrastructure is assumed in this category. Most of the projects are related to traffic safety enhancements for pedestrians and bicyclists, such as Pedestrian Improvements, Protected Intersection Improvements at 6<sup>th</sup> and Taylor, Vision Zero: City-wide Pedestrian Safety and Traffic Calming projects, and West San Carlos Corridor Safety Improvements.

<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
43,000	125,000	205,000	258,000	289,000

**New Public Safety Facilities Maintenance and Operations** – This category reflects the anticipated additional costs that are necessary to operate and maintain the new Fire Training Center and the anticipated reactivation of the South San José Police Substation. The new Fire Training Center is under construction at the Central Service Yard and is scheduled to be completed in the second half of 2022-2023. The Police Training Facility, expected to come online in 2024-2025, will also trigger the phased activation of the South San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility. All estimates will be further refined once the scope of work necessary for activation is finalized, the results of which will be brought forward for City Council consideration.

<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
204,000	513,000	932,000	2,668,000	2,767,000

# Committed Additions to the Base General Fund Forecast

**Measure T Maintenance and Operations** – This category reflects the projected maintenance and operating costs of new disaster preparedness, public safety facilities, and infrastructure improvements that were included as part of the Measure T bond approved by the voters in November 2018.

Fire Stations 32 and 36 are anticipated to come online in 2024-2025 and 2025-2026, respectively. The increased costs associated with these new fire stations are primarily driven by the need for a new engine company at each facility. Other facility maintenance and operations funding is included for the 911 Call Center Expansion; the Emergency Operations Center and Office of Emergency Management Relocation; Fire Station 8 and 23 Relocations; Police Training Facility; River Oaks Stormwater Capture; and the relocation of the Police Air Support Unit Hangar that are all scheduled to come online during the five-year period. Additionally, ongoing costs associated with controllers for outdoor LED lights for specific city facilities such as parks and trails, community centers, and libraries and streetlight LED lights are included. In total, the maintenance and operations funding for Measure T facilities coming online will increase from \$497,000 in 2022-2023 to approximately \$15.1 million by 2026-2027.

As the Measure T program continues to progress over the next two years, the corresponding estimates for operations and maintenance costs will be updated accordingly. Future General Fund forecasts will also incorporate any incremental costs associated with the improvements for the Police Headquarters.

<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
497,000	1,913,000	8,886,000	14,675,000	15,116,000

## **General Fund Capital Operating and Maintenance/Budget Principle #8**

In March 2008, the City Council adopted City of San José Budget Principles as part of the approval of the Mayor’s 2008-2009 March Budget Message. Budget Principle #8 is as follows:

Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire project, including maintenance and operations costs, will not require a decrease in existing basic neighborhood services.

## Committed Additions to the Base General Fund Forecast

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Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for these projects were included as part of the previously approved Capital Improvement Program or align with previous City Council direction. All capital projects with annual maintenance and operating costs in the General Fund greater than \$100,000 have been denoted in the chart. By 2026-2027, the costs to maintain and operate all City Council projects expected to come online during the five-year period are estimated at approximately \$20.0 million annually, of which approximately \$15.1 million is related to Measure T facilities as described above.

As always, maintenance and operating costs for new or expanded capital facilities will continue to be closely scrutinized to ensure that costs for any newly built or expanded infrastructure are supported on an ongoing basis without a decrease in existing basic neighborhood services. All project maintenance and operating costs will be evaluated on an annual basis for inclusion in subsequent Five-Year General Fund Forecasts. A careful evaluation of the project schedules and/or staffing necessary to maintain and operate these facilities, including the one-time funding for fixtures, furnishings, and equipment will be performed prior to bringing them forward for consideration by the City Council in any given year.

# Committed Additions to the Base General Fund Forecast

## CHART A - 2023-2027 GENERAL FUND FORECAST Net Operating Impact of Committed Additions

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
<b>NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS</b>					
199 Race Street - Undeveloped Property	1,000	1,000	1,000	1,000	2,000
460 Park Avenue - Undeveloped Property	1,000	1,000	1,000	1,000	2,000
Bassett Park†	-	-	28,000	28,000	29,000
Columbus Park Soccer Fields*	-	58,000	772,000	858,000	954,000
Communications Hill II - Hillsdale Fitness Staircase	-	69,000	75,000	78,000	80,000
Havana Midfield Pocket Park	5,000	9,000	10,000	10,000	10,000
Miner Walking Loop	1,000	4,000	4,000	4,000	5,000
Newbury Park	17,000	27,000	27,000	28,000	28,000
North San Pedro Park	-	6,000	74,000	76,000	77,000
Northwood Park Walking Loop	1,000	1,000	1,000	1,000	1,000
Old Orchard Park	-	-	40,000	82,000	83,000
Payne Ave Park	18,000	54,000	55,000	56,000	57,000
Pellier Park	30,000	31,000	32,000	33,000	33,000
Penitencia Creek Dog Park	25,000	44,000	45,000	46,000	47,000
PAL Stadium Turf Replacement	-	-	19,000	23,000	24,000
RAMAC Turf Replacement	22,000	22,000	23,000	23,000	24,000
River Oaks Park†	110,000	121,000	127,000	134,000	140,000
TRAIL: Coyote Creek - Mabury to Empire	-	21,000	42,000	43,000	43,000
TRAIL: Coyote Creek - Phelan to Tully	-	-	26,000	28,000	29,000
TRAIL: Coyote Creek - Singleton	4,000	4,000	4,000	4,000	4,000
TRAIL: Thompson Creek (Quimby - Aborn)	9,000	19,000	20,000	20,000	21,000
Tully Dog Park	4,000	20,000	21,000	21,000	22,000
Winchester Orchard Park	-	-	39,000	68,000	70,000
<b>TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS</b>	<b>248,000</b>	<b>512,000</b>	<b>1,486,000</b>	<b>1,666,000</b>	<b>1,785,000</b>
<b>NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS</b>					
Balbach Street Transportation Improvements	-	12,000	25,000	26,000	26,000
Community Development Block Grant - Crosswalk Lights	-	10,000	10,000	11,000	11,000
Copper to Fiber Conversion - Digital Inclusion	4,000	4,000	4,000	4,000	4,000
Copper to Fiber Conversion - Digital Inclusion (Future Years)	-	4,000	8,000	12,000	16,000
Developer Installations - Ped Safety Infrastructure	1,000	1,000	2,000	2,000	2,000
Developer Installations - Signals	10,000	10,000	10,000	10,000	11,000
Developer Installations - Signals (Future Years)	-	29,000	35,000	41,000	47,000
Developer Installations - Streetlights	7,000	7,000	7,000	8,000	8,000
Developer Installations - Streetlights (Future Years)	-	7,000	14,000	21,000	29,000
Highway Soundwalls (Highway 680)	-	1,000	2,000	2,000	2,000
Protected Intersection Improvements (6th and Taylor Traffic Signal)	5,000	5,000	5,000	5,000	5,000
Roosevelt Park Transportation Improvements	-	3,000	5,000	6,000	6,000
Route 101/Blossom Hill Interchange	3,000	7,000	7,000	7,000	7,000
Route 101/Trimble/De La Cruz Interchange Improvement	-	-	12,000	12,000	13,000
Safety: Pedestrian Improvements	9,000	9,000	9,000	10,000	10,000
Safety: Pedestrian Improvements (Future Years)	-	9,000	18,000	27,000	36,000
San Felipe and Yerba Buena Intersection Improvements	2,000	3,000	3,000	4,000	4,000
Vision Zero: City-wide Pedestrian Safety & Traffic Calming	2,000	2,000	3,000	3,000	3,000
Vision Zero: City-wide Pedestrian Safety & Traffic Calming (Future Years)	-	2,000	3,000	3,000	3,000
W San Carlos Corridor Safety Improvements (OBAG)	-	-	13,000	25,000	26,000
Willow-Keyes Complete Streets Improvements	-	-	10,000	19,000	20,000
<b>TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS</b>	<b>43,000</b>	<b>125,000</b>	<b>205,000</b>	<b>258,000</b>	<b>289,000</b>
<b>NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS</b>					
Fire Training Center	204,000	513,000	539,000	566,000	594,000
Police Substation Activation*	-	-	393,000	2,102,000	2,173,000
<b>TOTAL NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS</b>	<b>204,000</b>	<b>513,000</b>	<b>932,000</b>	<b>2,668,000</b>	<b>2,767,000</b>

# Committed Additions to the Base General Fund Forecast

## CHART A - 2023-2027 GENERAL FUND FORECAST Net Operating Impact of Committed Additions

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
<b>MEASURE T MAINTENANCE AND OPERATIONS</b>					
911 Call Center Expansion*	-	-	15,000	150,000	154,000
City Facility LED Conversion (Controllers)	34,000	36,000	36,000	36,000	36,000
City Streetlight LED Conversion (Controllers)*	-	100,000	250,000	400,000	400,000
Clean Water Projects (River Oaks Stormwater Capture)	-	163,000	168,000	173,000	178,000
Emergency Operations Center and OEM Relocation	463,000	1,614,000	1,662,000	1,712,000	1,763,000
Fire Station 8 Relocation*	-	-	126,000	206,000	212,000
Fire Station 23 Relocation*	-	-	-	131,000	179,000
Fire Station 32 (New)*	-	-	4,884,000	4,968,000	5,117,000
Fire Station 36 (New)*	-	-	-	5,002,000	5,111,000
Police Air Support Unit Hangar	-	-	80,000	82,000	85,000
Police Training Facility*	-	-	1,665,000	1,815,000	1,881,000
<b>TOTAL MEASURE T MAINTENANCE AND OPERATIONS</b>	<b>497,000</b>	<b>1,913,000</b>	<b>8,886,000</b>	<b>14,675,000</b>	<b>15,116,000</b>
<b>TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS</b>	<b>992,000</b>	<b>3,063,000</b>	<b>11,509,000</b>	<b>19,267,000</b>	<b>19,957,000</b>

†Parks that are currently being maintained by a developer. City responsibility for maintenance and operations begin when initial developer funding ends.

\*Annual maintenance and operating costs in the General Fund greater than \$100,000 that will require certification prior to authorizing construction.

## Alternate Forecast Scenarios

### 2023-2027 General Fund Forecast PROJECTED FIVE-YEAR OPERATING MARGINS Alternate Forecast Scenarios

BASE CASE					
	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
TOTAL REVENUES (\$)	1,375,137,149	1,423,205,000	1,472,289,000	1,523,465,000	1,574,299,000
GROWTH RATE		3.50%	3.45%	3.48%	3.34%
TOTAL EXPENDITURES (\$)	1,347,425,044	1,369,502,570	1,395,037,150	1,423,556,060	1,445,486,823
GROWTH RATE		1.64%	1.86%	2.04%	1.54%
<b>OPERATING MARGIN - BASE</b>	<b>27,712,105</b>	<b>25,990,325</b>	<b>23,549,420</b>	<b>22,657,090</b>	<b>28,903,237</b>

OPTIMISTIC CASE					
	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
TOTAL REVENUES (\$)	1,399,081,497	1,449,971,000	1,480,859,000	1,538,641,000	1,598,569,000
GROWTH RATE		3.64%	2.13%	3.90%	3.89%
TOTAL EXPENDITURES (\$)	1,347,425,044	1,369,502,570	1,395,037,150	1,423,556,060	1,445,486,823
GROWTH RATE		1.64%	1.86%	2.04%	1.54%
<b>OPERATING MARGIN - OPTIMISTIC</b>	<b>51,656,453</b>	<b>28,811,977</b>	<b>5,353,420</b>	<b>29,263,090</b>	<b>37,997,237</b>

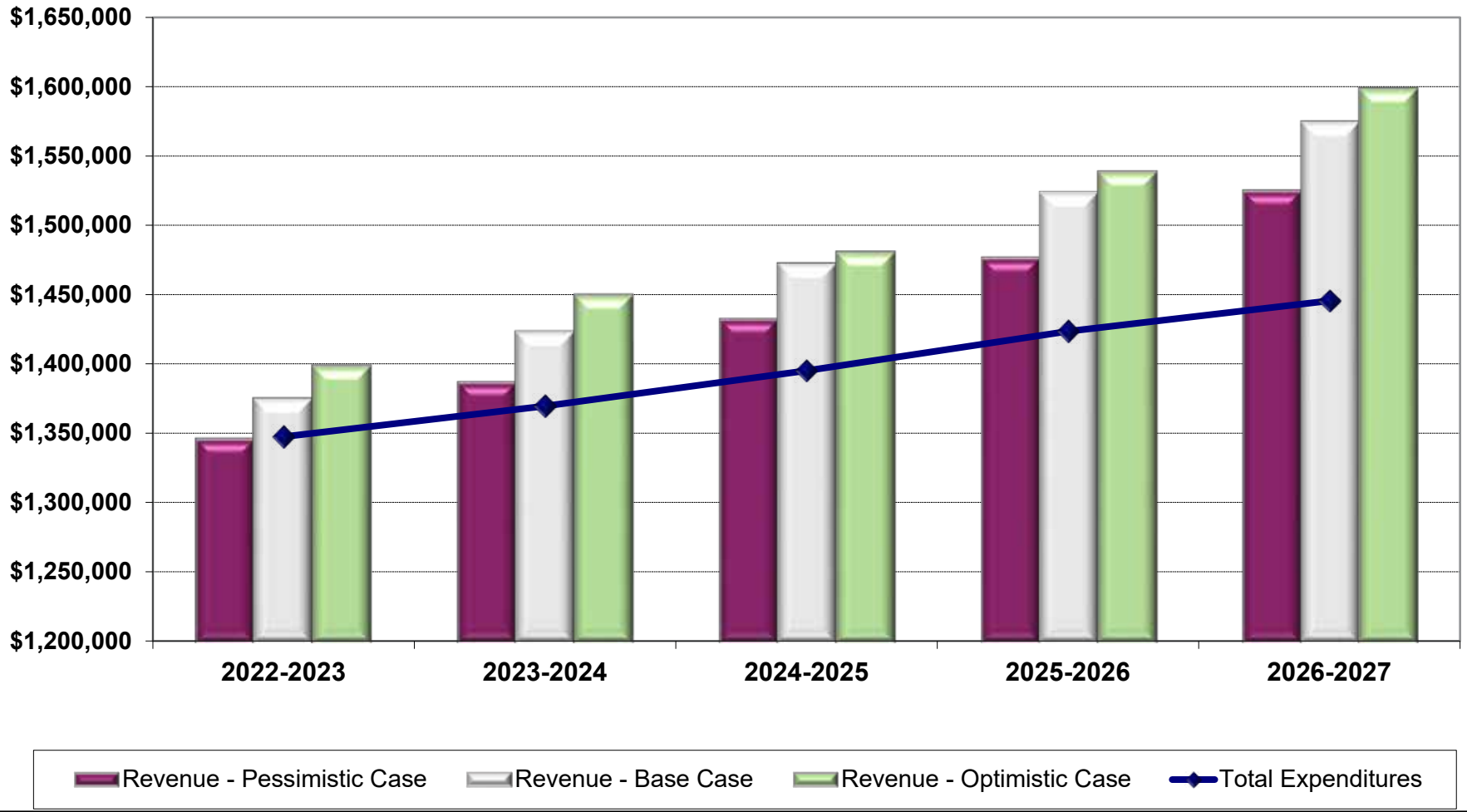
  

PESSIMISTIC CASE					
	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>
TOTAL REVENUES (\$)	1,346,381,497	1,386,996,000	1,432,461,000	1,476,666,000	1,525,002,000
GROWTH RATE		3.02%	3.28%	3.09%	3.27%
TOTAL EXPENDITURES (\$)	1,347,425,044	1,369,502,570	1,395,037,150	1,423,556,060	1,445,486,823
GROWTH RATE		1.64%	1.86%	2.04%	1.54%
<b>OPERATING MARGIN - PESSIMISTIC</b>	<b>(1,043,547)</b>	<b>18,536,977</b>	<b>19,930,420</b>	<b>15,686,090</b>	<b>26,405,237</b>

Note: The optimistic and pessimistic scenarios model changes to most revenues with no changes in expenditures.

## Alternate Forecast Scenarios

**2022-2026 General Fund Forecast**  
**FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES**  
**Alternate Forecast Scenarios**  
 (\$ in thousands)





# Capital Revenue Forecast

## MAJOR CAPITAL REVENUES

### Overview

The major revenues that support the City of San José’s capital programs are financing proceeds, revenue from other agencies, transfers between funds, and a number of taxes and fees levied on construction and property resale (conveyance) activity. This document provides a five-year forecast for the following taxes and fees: Construction and Conveyance Tax; Building and Structure Construction Tax; Construction Excise Tax; various Municipal Water System Fees; Residential Construction Tax; Sanitary Sewer Connection Fee; and Storm Drainage Connection Fee.

Construction and property resale-related Capital Program revenues are generally tracking at or above the modified expectations for 2021-2022 and anticipated to end the year approximately 23% above the estimates of the 2022-2026 Adopted CIP. While property resale-related performance will positively influence future years, construction activity in the following five years is expected to remain at or near current levels. Overall revenue estimates of \$413.9 million are 12% higher than the estimates used to develop the 2022-2026 Adopted CIP (\$370.9 million), as the real estate market has remained strong in spite of the pandemic’s impacts in other areas of the economy. The Construction-Related Revenue chart included at the end of this section provides a comparison of this forecast with the 2022-2026 Adopted CIP.

### Capital Revenue Forecast Comparison Summary (\$ in thousands)

	2022-2026 Adopted	2023-2027 Forecast	Difference	% Change
<b>Construction and Conveyance Tax</b>	\$184,000	\$230,000	\$46,000	25%
<b>Building and Structure Construction Tax</b>	96,000	95,000	(1,000)	(1%)
<b>Construction Excise Tax</b>	86,000	84,000	(2,000)	(2%)
<b>Municipal Water System Fees</b>	375	375	0	0%
<b>Residential Construction Tax</b>	1,000	1,000	0	0%
<b>Sanitary Sewer Connection Fee</b>	2,500	2,500	0	0%
<b>Storm Drainage Connection Fee</b>	1,000	1,000	0	0%
<b>TOTAL</b>	<b>\$370,875</b>	<b>\$413,875</b>	<b>\$43,000</b>	<b>12%</b>

A discussion of major construction activity trends and anticipated performance in each of the revenue categories is included in more detail on the following pages.

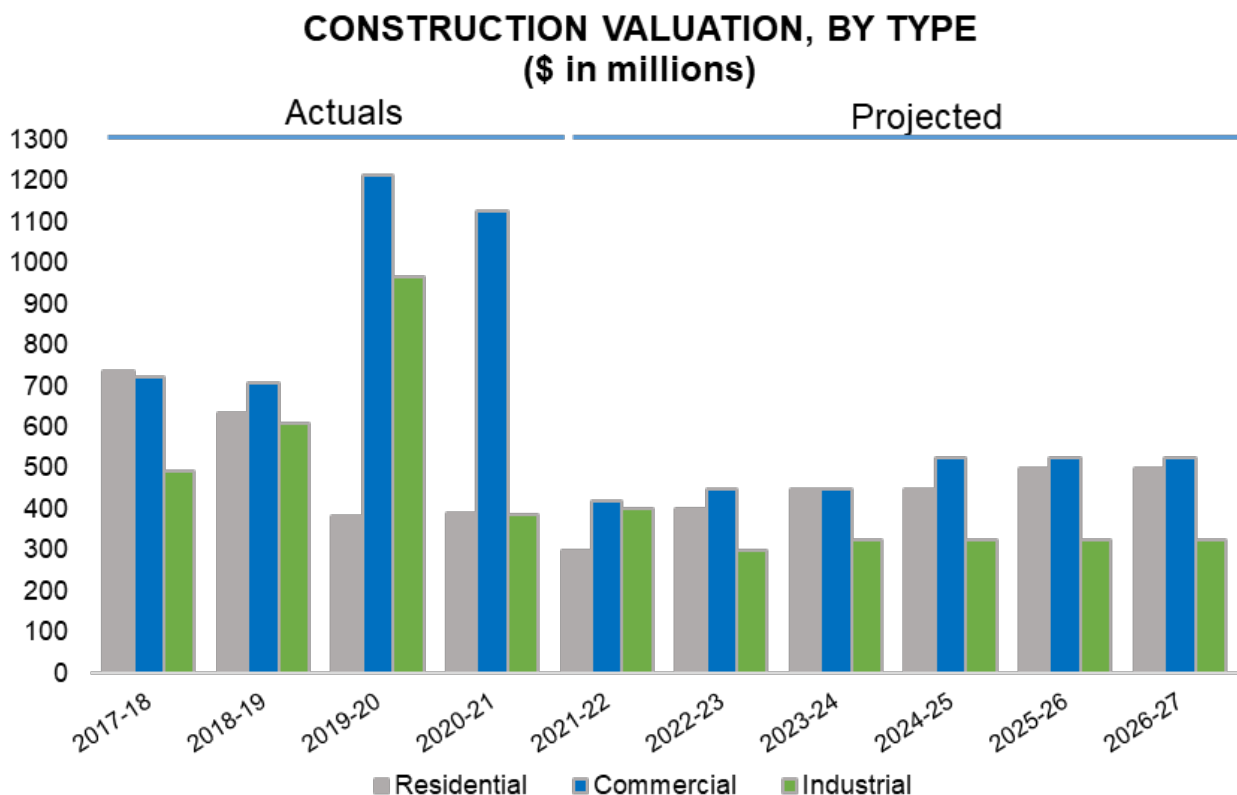
# Capital Revenue Forecast

## CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides construction activity projections in residential, commercial, and industrial development categories. The valuation figures have been adjusted to 2021 dollars per Bureau of Labor Statistics Consumer Price Index, San Francisco-Oakland-Hayward all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled “Development Activity Highlights and Five-Year Forecast (2023-2027)”, which is included as Appendix C.

Based on projections provided by the PBCE Department, construction activity valuation is anticipated to be lower than the prior year with \$1.1 billion in 2021-2022, a 41% decrease compared to \$1.9 billion in 2020-2021. Construction valuation is projected to increase in the first four years of the forecast period, going from \$1.2 billion in 2022-2023 to \$1.4 billion in 2025-2026 and staying the same in 2026-2027. As described in Appendix C, while the pandemic led to some interruptions in the local construction sector, the market showed resilience last year and this year as projects already in progress re-started after the shutdown and other permits were pulled for the first time. Though these estimates may be conservative, they are reflective of the uncertain development environment in the future and an acknowledgement that the extremely high levels of activity experienced over the last several years will likely not continue. While there is continuous hope to move towards normalcy, the COVID-19 pandemic’s effects may be long term.

The following graph illustrates the level of projected construction activity by type.



# Capital Revenue Forecast

## CONSTRUCTION ACTIVITY PROJECTIONS

A summary of the PBCE Department construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast. As new information becomes available, these estimates will be refined.

### A. Residential Construction Activity

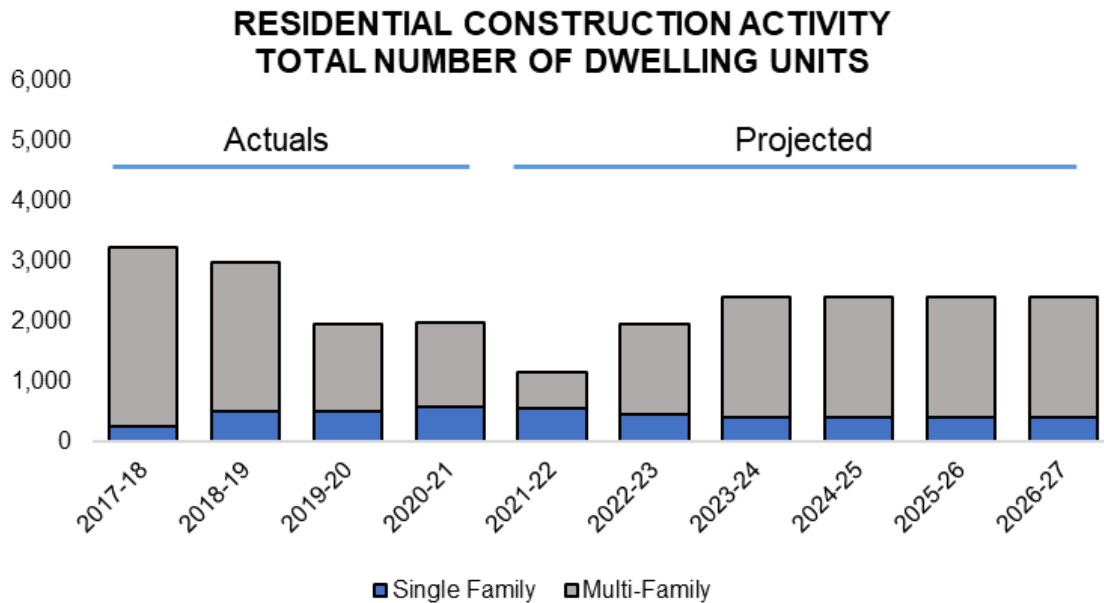
A significant portion of development-related revenue in San José has traditionally been generated by residential construction. New construction activity peaked in 2013-2014 in this sector with a total of 4,724 multi-family and single-family dwelling units, and then decreased the next two years and dropped to 1,692 dwelling units in 2015-2016, rebounded to 3,241 new dwelling units in 2017-2018, and then continued to drop for the next two years, ending with 1,954 new dwelling units in 2019-2020. Residential construction activity rose slightly in 2020-2021 to 1,975 but is anticipated to drop again to 1,150 in 2021-2022, a decrease of 42% from the prior year total.

The total value of residential construction activity projected in this forecast is \$2.3 billion, which is same as the projected valuation included in the 2022-2026 Forecast. New residential construction slowed down due to the impacts from the COVID-19 pandemic, but is expected over time to grow moderately as the economic outlook becomes clearer. The PBCE Department expects residential construction activity to generate an estimated 1,950 new units in 2022-2023, increase to 2,400 new units in 2023-2024, and then stay flat the remaining years of the forecast. This represents an average of 2,310 units per year or 11,550 units over the forecast period. The activity level represents an 1% increase compared to the 11,400 units included in the 2022-2026 Forecast.

This forecast expects a total of 9,500 multi-family dwelling units or approximately 82% of all dwelling units (single-family and multi-family) to be constructed. This total number of multi-family dwelling units is same as what was projected in the 2022-2026 Forecast. The number of new single-family dwelling units is estimated to be 2,050 during this forecast period, which is 8% higher than the projections in the 2022-2026 Forecast. Starting in 2016, the City Council has taken several actions to ease requirements for accessory dwelling units (ADU), and since 2017-2018, the amount of ADU construction has continued to increase. The trend of ADUs comprising a significant portion of single-family units is expected to continue. The following chart shows the number of new units, by housing type, anticipated in San José through 2026-2027.

# Capital Revenue Forecast

## CONSTRUCTION ACTIVITY PROJECTIONS



### B. Commercial Construction Activity

In 2020-2021, commercial construction activity totaled \$1.1 billion, a decrease of 7% from a peak level of activity in 2019-2020 of \$1.2 billion. In 2021-2022, the PBCE Department expects commercial activity to decrease 63% to \$420 million in total permit valuation as large commercial new construction projects move through the development pipeline and construction is completed. Going forward, commercial new construction and alteration activity is expected to increase slightly over the forecast period, going up to \$450 million in 2022-2023, rising to \$525 million in 2024-2025, and then staying flat the remaining years of the forecast

The total commercial construction valuation projected in this forecast is \$2.5 billion, an increase of 13% from the previous five-year forecast at \$2.2 billion because of an increase in commercial new construction and alterations. As discussed in the attached report provided by the PBCE Department, the most notable commercial project in the planning phase is Google's Downtown West mixed-use project that includes office, residential, and active use space. On May 25<sup>th</sup>, 2021 the City Council unanimously approved the Downtown West Mixed-Use Project. Although growth is forecasted for the commercial sector, commercial activity is expected to drop significantly from the high points of 2019-2020 and 2020-2021 due to lack of available land for large retail centers, as well as companies potentially right sizing office needs based on their hybrid work models.

Information provided by real estate trade groups for the 4<sup>th</sup> Quarter 2021 compared to the same period in 2020 indicated that the overall San José office vacancy rate increased to 19.0% from 16.2%, research and development (R&D) vacancy rate decreased to 15.0% from 15.9%, and retail vacancy rate remained the same at 5.4%<sup>1</sup>.

1 Marketbeat Silicon Valley 2021, Cushman and Wakefield

## CONSTRUCTION ACTIVITY PROJECTIONS

### C. Industrial Construction Activity

In 2020-2021, industrial activity totaled \$387 million, a decrease of 60% from 2019-2020, primarily driven by a decrease in new construction. The PBCE Department expects valuation to increase to \$400 million in 2021-2022, primarily driven by an upward trend in alteration activity, while permit records show a decrease in total production of industrial square footage. Valuation then is projected to drop to \$300 million annually in 2022-2023 as alteration activity slows down, and in 2023-2024 rise slightly to the five-year historic average of \$325 million and remain at that level for the remainder of the forecast period.

Information provided by real estate trade groups for 4<sup>th</sup> Quarter 2021 indicated that the overall San José vacancy rate for industrial space was 3.3%, decreasing from 4.0% in 4<sup>th</sup> Quarter 2020<sup>1</sup>.

It should be noted that the City Council has undertaken several actions to reduce the cost of new development in San José to create a predictable and competitive environment that supports the City's economic development goals of filling industrial buildings and encouraging new workplace development. The City Council approved incentives for high-rise residential developments and a partial suspension for construction taxes for building projects that fall under the refined land use definition of Office, Research and Development and Data Center. How these incentive programs impact the Building and Structure Construction Tax and the Construction Excise Tax are discussed later in this section.

### Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2023-2027) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on “major” projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but construction not yet commenced, and pending City approval). In addition, the City is divided into 15 planning areas and individual maps that show the projects in all status categories are available through the City of San José's map gallery (see “Development Projects” gallery at <https://gis.sanjoseca.gov/apps/mapsgallery/>), except for the Almaden, Calero, Coyote, and San Felipe planning areas as no major development activity has occurred and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary. These maps can be used in conjunction with the activity data to help analyze the rate, type, and location of major development activity in San José.

# Capital Revenue Forecast

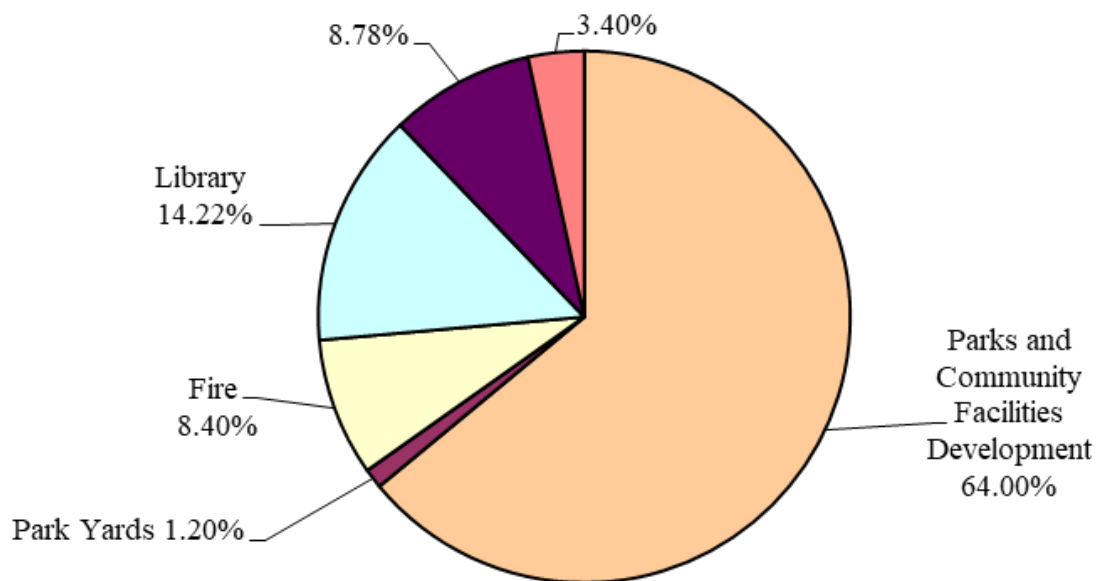
## CONSTRUCTION AND CONVEYANCE TAX

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least 20 dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of new floor area constructed. The Construction Tax accounts for a very small portion (approximately 1%) of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds \$100. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 99% of the total Construction and Conveyance Taxes collected.

Under current ordinance, Construction and Conveyance Tax receipts are allocated to six different capital programs per the following distribution formula:

### CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION



Under the current City ordinance, the combined proceeds from the Construction and Conveyance Tax may be used for facility acquisition, construction, equipment, furnishings, and limited operating and maintenance expenses.

Consistent with the Construction and Conveyance Tax Task Force recommendations adopted by the City Council in June 1989, the Parks and Community Facilities Development portion of the estimated revenues, less non-construction costs and transfers to the General Fund, is allocated for all years of the forecast using a two-to-one ratio, with two-thirds of the proceeds going to neighborhood/district park projects and one-third to city-wide park projects. Per the current City Council policy, 20% of funds for neighborhood/district projects are set aside and equally allocated to meet special needs.

# Capital Revenue Forecast

## CONSTRUCTION AND CONVEYANCE TAX

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The balance of the funds is then distributed to district funds based on a formula using the following criteria:

- neighborhood and community-serving park acres per 1,000 population;
- developed neighborhood and community-serving park acres per 1,000 population;
- square feet of neighborhood and community-serving center space per 1,000 population; and
- developed park acres and/or facilities in good condition per 1,000 population.

The five-year projection for Construction and Conveyance Tax revenue totals \$230.0 million, which is \$46.0 million higher than the estimate used to develop the 2022-2026 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

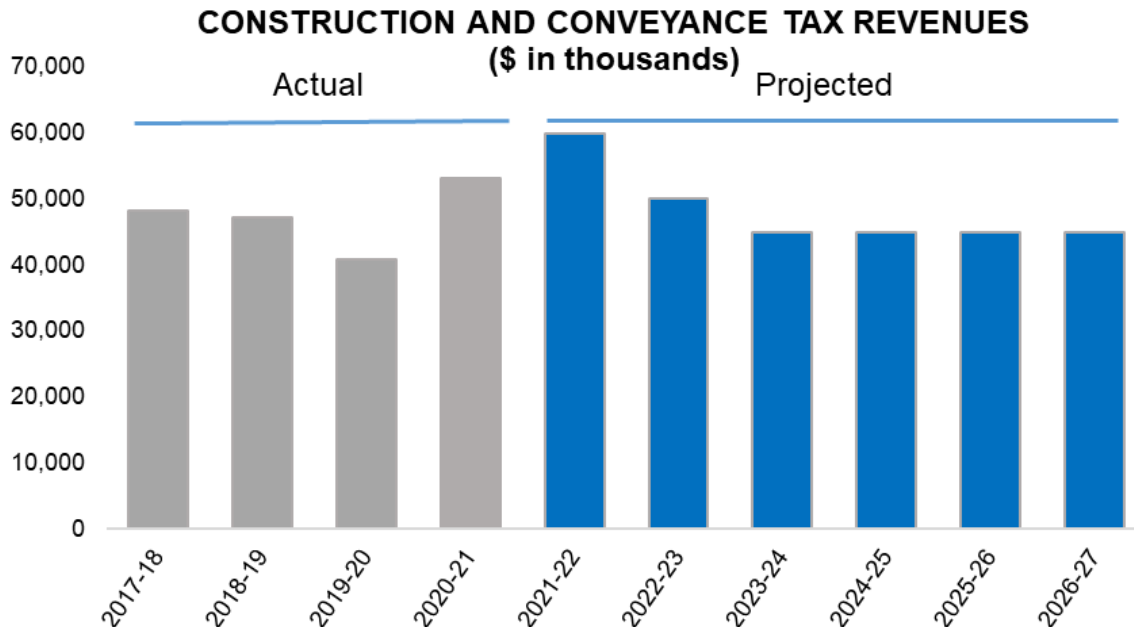
Historically, Construction and Conveyance Tax revenues have been volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high at the time of \$49.0 million in 2005-2006, tax collections continuously fell following the real estate slowdown and financial market crisis, dropping to as low as \$20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and have been steadily increasing, hitting a new all-time high of \$53.1 million in 2020-2021.

In contrary to the general consensus where real estate activity was anticipated to be sluggish at the onset of the COVID-19 pandemic due to higher unemployment rates coupled with lower consumer confidence, the local real estate market swiftly recovered and has since remained strong. According to data from the Santa Clara County Association of Realtors, the local real estate market has been experiencing robust year-over-year growth in home prices. Additionally, it is taking less time to sell these more expensive homes. The average days on the market for single-family and multi-family dwellings decreased from an average of 26 days in December 2020 to an average of 16 days in December 2021. The median single-family home price, which totaled \$1.2 million in December 2020, has grown by over 20% to \$1.5 million in December 2021. Finally, property transfers through the first half of the fiscal year has grown by almost 15% compared to July through December 2020 sales.

C&C collections in 2021-2022 are projected to end the year at \$60.0 million. This collection level is 13.0% above the actual receipts received in 2020-2021 (\$53.1 million), which is reflective of the strong housing market despite the pandemic. Collections in this extremely volatile revenue category are forecasted to drop to \$50.0 million in 2022-2023 and then drop further to \$45.0 million the remainder of the forecast period. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.

# Capital Revenue Forecast

## CONSTRUCTION AND CONVEYANCE TAX



## CONSTRUCTION VALUATION TAX RATES

The primary ongoing revenue stream for the Traffic Capital Program, which rehabilitates and improves the City’s transportation infrastructure, is supplied by taxes levied on the valuation of private new construction and alteration activity. The two main taxes are the Building and Structure Construction Tax and the Construction Excise Tax. To balance the need to promote San José’s job growth and economic development with necessary investment in transportation infrastructure, these tax rates have seen temporary suspensions regarding the definition of commercial and industrial classification of uses over the past several years. The tables below display the permanent tax rates without suspensions, and the rates in effect through March 31, 2024 with partial suspensions resulting from the identification of specific uses as approved by the City Council.

### Permanent Tax Rates without Partial Suspension:

Category	Percentage Tax Based on Building Official’s Valuation		
	Building and Structure Construction Tax	Construction Excise Tax	Combined Tax Rate
Residential	1.75 % (of 88% of valuation)	2.75 % (of 88% of valuation)	4.5% (of 88% of valuation)
Commercial	1.5%	3.0%	4.5%
Industrial	1.0%	-	1.0%



# Capital Revenue Forecast

## Tax Rates with Partial Suspension from April 1, 2019 through March 31, 2024:

	Percentage Tax Based on Building Official's Valuation		
Category	Building and Structure Construction Tax	Construction Excise Tax	Combined Tax Rate
Residential	1.75 % (of 88% of valuation)	2.75 % (of 88% of valuation)	4.5% (of 88% of valuation)
Commercial	1.5%	3.0%	4.5%
Office - General Business	1.5%	0.5%	2.0%
Office - Research and Development	1.5%	0.5%	2.0%
Data Centers	1.0%	-	1.0%
Industrial	1.0%	-	1.0%

Historically, revenues received from the Building and Structure Construction Tax and the Construction Excise Tax generally tracked in alignment with each other, though years of heavy industrial investment have always favored Building and Structure Construction Tax collections. However, starting in 2019-2020, the change in tax rates and strong office development have resulted in a more pronounced variance between the two revenue sources, with Building and Structure Construction Tax achieving significantly higher collections and Construction Excise Tax tracking consistently compared to historical levels. Even as industrial activity descends from its elevated levels, the partial suspension of the tax rates is designed to incent office-related development, while also directing a greater proportion of revenue into the Building and Structure Construction Tax Fund that restricts funding for improvements to major arterial and collector streets.

The City Council approved incentives for high-rise residential developments in 2007 and incentives remain in effect today. Completion deadlines of the current Downtown High-Rise Residential Development Incentive Program were extended by the City Council in September 2019 until December 31, 2023 for construction related taxes such as the Building and Structure Construction Tax and the Construction Excise Tax and the Affordable Housing Impact Fee.

# Capital Revenue Forecast

## **BUILDING AND STRUCTURE CONSTRUCTION TAX**

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The Building and Structure Construction Tax is imposed upon the construction, repair or improvement of any building or structure where a building permit is required. The proceeds from the Building and Structure Construction Tax are restricted by ordinance for use for traffic capital improvements on major arterials and collectors. These improvements can include the acquisition of land and interest in land and the construction, reconstruction, replacement, widening, modification and alteration (but not maintenance) of City streets. This tax revenue provides the Traffic Capital program with funds to complete major street infrastructure projects, particularly those that improve the Level of Service (LOS). LOS refers to the efficiency with which streets and roadways accommodate peak level traffic.

In 2021-2022, Building and Structure Construction Tax receipts through January totaled \$10.4 million, down 43% from \$18.2 million collected through the same period last year, and expected to end 2021-2022 at \$19.0 million, 5.0% below the Adopted Budget estimate of \$20.0 million. Based on the collections to date, a revised estimate for 2021-2022 of \$19.0 million has been used for the development of the 2023-2027 Proposed Traffic Capital Improvement Program.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections total \$95.0 million, \$1.0 million below the estimate included in the 2022-2026 Adopted CIP. It is projected that collections will remain flat at \$19.0 million for the entire five years of the forecast period.

In 2005, the City Council adopted the North San José Area Development Policy (Policy), which established a policy framework to guide the ongoing development of the area as an important employment center for San José. In order to provide public infrastructure requirements and to fund roadway improvements to mitigate the impacts of increased traffic generated by new development under the Policy, the City Council adopted the North San José Traffic Impact Fee to fund these improvements. In January 2012, the City Council adopted the North San José Traffic Impact Fee Incentive Program that reduced the traffic impact fee imposed on industrial development projects. This Program was amended in February 2013 and again in December 2013, further reducing the traffic impact fee to entice commercial/job-oriented development in North San José. With the lowering of the impact fees and the loss of San Jose Redevelopment Agency contributions, a large traffic infrastructure funding gap was created. In June 2014, as part of the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, Manager's Budget Addendum #8 described a funding strategy to address the funding gap. The approved funding strategy dedicates future Building and Structure Construction Tax revenues generated from new development in North San José to be held in reserve for North San José transportation projects. It is anticipated that there will be several new major projects under construction in the North San José area during the forecast period. As the budget for the 2023-2027 Proposed Traffic Capital Improvement Program is developed, an estimate of the tax revenue from these projects will be set aside so that funding is available for the construction of North San José and Route 101/Mabury Road transportation improvement projects.

A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax is shown in the chart that follows the discussion of Construction Excise Tax performance.

# Capital Revenue Forecast

## CONSTRUCTION EXCISE TAX

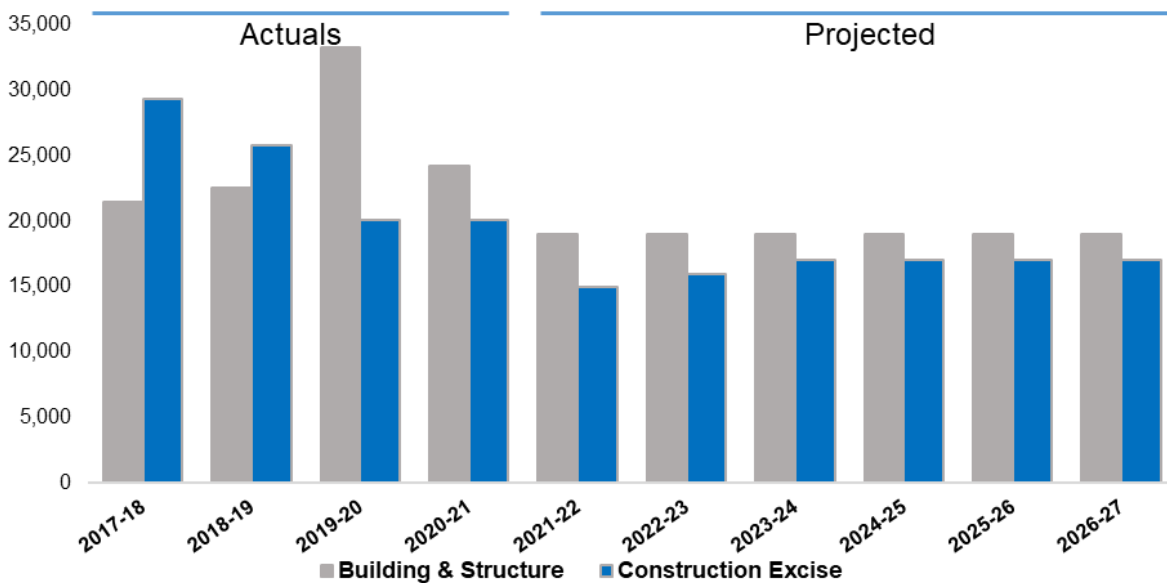
The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. This general purpose tax may be used for any “usual current expenses” of the City. However, the City Council has historically used the majority of these funds for traffic improvements that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City’s ability to obtain State and federal grants for transportation projects. A portion of these taxes (\$1.0 million) is transferred to the General Fund on an ongoing basis and has also been used as a budget balancing solution to address General Fund shortfalls in prior years.

In 2021-2022, tax receipts through January for the Construction Excise Tax Fund totaled \$7.4 million, 46% below the \$13.7 million collected through the same period last year and projected to fall short of the 2021-2022 Adopted Budget estimate of \$18.0 million by \$3.0 million. Based on the collections to date, a revised estimate for 2021-2022 of \$15.0 million has been used for the development of the 2023-2027 Proposed Traffic Capital Improvement Program.

Based upon the construction projections provided by the PBCE Department and an analysis of actual collection patterns, Construction Excise Tax collections are projected to total \$84.0 million over the five-year forecast period, \$2.0 million less than the estimate included in the 2022-2026 Adopted CIP. It is projected that collections will increase from the 2021-2022 estimate of \$15.0 million to \$16.0 million in 2022-2023 and to \$17.0 million for the remainder of the forecast period.

A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax and Construction Excise Tax are shown in the chart that follows.

**MAJOR CONSTRUCTION-RELATED TAX REVENUES**  
(\$ in thousands)



# Capital Revenue Forecast

## MUNICIPAL WATER SYSTEM FEES

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Various Municipal Water System fees are charged for connecting to the City’s water system. These fees include the Advance System Design Fee, Meter Installation Fee, and Service Connection Fee. Advance System Design Fees are charged to developers to cover engineering and inspection costs for water facilities required in new developments. Meter Installation Fees are charged to developers to recover costs based on the size of the meter and/or fire hydrant installation necessary.

Service Connection Fees are charged to developers to recover the actual costs associated with the construction of water main or fire hydrant installations when improvements are constructed by the City.

Based on projected activity and collection trends, the Municipal Water System fees are projected to remain at \$375,000 over the forecast period. These fees are detailed in the chart below.

### MUNICIPAL WATER SYSTEM FEES

(\$ in Thousands)

	2022-2026	2023-2027		%
	CIP	Forecast	Difference	Change
Advance System Design Fee	125	125	-	0%
Meter Installation Fee	125	125	-	0%
Service Connection Fee	125	125	-	0%
<b>TOTAL</b>	<b>375</b>	<b>375</b>	<b>-</b>	<b>0%</b>

## RESIDENTIAL CONSTRUCTION TAX

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The Residential Construction Tax is imposed upon the construction of residential dwelling units and mobile home lots in the City. The rates are imposed on each dwelling unit and differ according to the number of units located in the building. Rates vary from \$90 for each unit in a building of at least 20 dwelling units to \$180 for a single-family residence.

This tax is collected and placed in the Residential Construction Tax Contribution Fund and is used to reimburse developers that have constructed a wider arterial street than their residential development required. The funds are also used to construct median island landscaping and other street improvements.

In 2021-2022, receipts are projected to total \$200,000 based on year-to-date activity levels. This collection level is on target to meet the budgeted estimates of \$200,000. due strong residential development activity. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, collections are expected to remain at \$200,000 in the forecast as a result of development remaining strong. A total of \$1.0 million is expected over the five-year period of this forecast, which is equal to the total in the 2022-2026 Adopted CIP.

# Capital Revenue Forecast

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## **SANITARY SEWER CONNECTION FEE**

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The Sanitary Sewer Connection Fee is charged for connecting undeveloped parcels to the City's sewer system. The fees collected may only be used for the construction and reconstruction, including land acquisition, of the San José sanitary sewer system. The fee is based on the number of single and multi-family residential units built and the acres developed on commercial and industrial properties.

In 2021-2022, receipts are projected to total \$500,000 based on year-to-date activity levels, which is equal to the budgeted estimate of \$500,000. The five-year forecast for Sanitary Sewer Connection Fees totals \$2.5 million, with annual receipts of \$500,000 for the period from 2022-2023 to 2026-2027. This collection level is equal to the estimate included in the 2022-2026 Adopted CIP.

## **STORM DRAINAGE CONNECTION FEE**

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The Storm Drainage Connection Fee is charged to developers as a connection fee for any project that will discharge storm water, surface water or ground water runoff into the City's storm drainage system. The fees are charged by acreage or lot and vary by land use and by the number of units located in the development. Storm Drainage Connection Fees may only be used for the construction, reconstruction, land acquisition and maintenance of the San José storm drainage system.

In 2021-2022, receipts are projected to total \$200,000 based on year-to-date activity levels, which is a equal to the budgeted estimate of \$200,000. The five-year forecast for Storm Drainage Connection Fees totals \$1.0 million, with annual receipts of \$200,000 for the period from 2022-2023 to 2026-2027. This collection level is equal to the estimate included in the 2022-2026 Adopted CIP.

# Capital Revenue Forecast

## ATTACHMENT A

### CONSTRUCTION-RELATED REVENUE 2023-2027 FORECAST (\$ in thousands)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	5 Yr Total
<b>Construction and Conveyance Tax</b>							
2022-2026 Adopted CIP	38,000	38,000	36,000	36,000	36,000	N/A	184,000
2023-2027 FORECAST	60,000	50,000	45,000	45,000	45,000	45,000	230,000
<b>Difference</b>	22,000	12,000	9,000	9,000	9,000	N/A	46,000
<b>Building and Structure Construction Tax</b>							
2022-2026 Adopted CIP	20,000	19,000	19,000	19,000	19,000	N/A	96,000
2023-2027 FORECAST	19,000	19,000	19,000	19,000	19,000	19,000	95,000
<b>Difference</b>	(1,000)	-	-	-	-	N/A	(1,000)
<b>Construction Excise Tax</b>							
2022-2026 Adopted CIP	18,000	17,000	17,000	17,000	17,000	N/A	86,000
2023-2027 FORECAST	15,000	16,000	17,000	17,000	17,000	17,000	84,000
<b>Difference</b>	(3,000)	(1,000)	-	-	-	N/A	(2,000)
<b>Municipal Water Advance System Design Fee</b>							
2022-2026 Adopted CIP	25	25	25	25	25	N/A	125
2023-2027 FORECAST	25	25	25	25	25	25	125
<b>Difference</b>	-	-	-	-	-	N/A	-
<b>Municipal Water Meter Installation Fee</b>							
2022-2026 Adopted CIP	25	25	25	25	25	N/A	125
2023-2027 FORECAST	25	25	25	25	25	25	125
<b>Difference</b>	-	-	-	-	-	N/A	-
<b>Municipal Water Service Connection Fee</b>							
2022-2026 Adopted CIP	25	25	25	25	25	N/A	125
2023-2027 FORECAST	25	25	25	25	25	25	125
<b>Difference</b>	-	-	-	-	-	N/A	-
<b>Residential Construction Tax</b>							
2022-2026 Adopted CIP	200	200	200	200	200	N/A	1,000
2023-2027 FORECAST	200	200	200	200	200	200	1,000
<b>Difference</b>	-	-	-	-	-	N/A	-
<b>Sanitary Sewer Connection Fee</b>							
2022-2026 Adopted CIP	500	500	500	500	500	N/A	2,500
2023-2027 FORECAST	500	500	500	500	500	500	2,500
<b>Difference</b>	-	-	-	-	-	N/A	-
<b>Storm Drainage Connection Fee</b>							
2022-2026 Adopted CIP	200	200	200	200	200	N/A	1,000
2023-2027 FORECAST	200	200	200	200	200	200	1,000
<b>Difference</b>	-	-	-	-	-	N/A	-
<b>TOTAL</b>							
2022-2026 Adopted CIP	76,975	74,975	72,975	72,975	72,975	N/A	370,875
2023-2027 FORECAST	94,975	85,975	81,975	81,975	81,975	81,975	413,875
<b>Difference</b>	18,000	11,000	9,000	9,000	9,000	N/A	43,000
% Change from 2022-2026 CIP	23%	15%	12%	12%	12%	N/A	11.6%

## CITY OF SAN JOSE BUDGET PRINCIPLES

**The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.**

### **1) STRUCTURALLY BALANCED BUDGET**

The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

### **2) PROPOSED BUDGET REVISIONS**

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

### **3) USE OF ONE-TIME RESOURCES**

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

### **4) BUDGET REQUESTS DURING THE YEAR**

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

### **5) RESERVES**

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

## CITY OF SAN JOSE BUDGET PRINCIPLES

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### **6) DEBT ISSUANCE**

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

### **7) EMPLOYEE COMPENSATION**

Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees.)

### **8) CAPITAL IMPROVEMENT PROJECTS**

Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.

### **9) FEES AND CHARGES**

Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

### **10) GRANTS**

City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs with the exception of pilot projects to determine their suitability for long-term funding.

### **11) GENERAL PLAN**

The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

### **12) PERFORMANCE MEASURES**

All requests for City Service Area/departmental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

### **13) FIRE STATION CLOSURE, SALE OR RELOCATION**

The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.



## Service Delivery Framework



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### PROPERTY TAX

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the State Constitution and placed restrictions on the valuation of real property and on the imposition of ad valorem property tax. Under current law, all taxable real and personal property is subject to a tax rate of one percent of the assessed value. (In June 1986, California voters approved a Constitutional Amendment, which provides for an exception to the one-percent limitation. The Amendment allows local governments and school districts to raise property taxes above one percent to finance general obligation bond sales. A tax increase can only occur if two-thirds of those voting in a local election approve the issuance of bonds.) The assessed value of real property that has not changed ownership adjusts by the change in the California Consumer Price Index up to a maximum of two percent per year. Property which changes ownership, property which is substantially altered, newly-constructed property, State-assessed property, and personal property are assessed at the full market value in the first year and subject to the two percent cap, thereafter.

In 1979, in order to mitigate the loss of property tax revenues after approval of Proposition 13, the State Legislature approved Assembly Bill 8 (AB 8). This action was approved to provide a permanent method for allocating the proceeds from the 1% property tax rate, by allocating revenues back to local governments based on their historic shares of property tax revenues. AB 8 shifted approximately \$772 million of school district property tax revenue to local governments and backfilled schools' lost revenue with subsidies from the State General Fund. Actions taken by the State in order to balance the 1992-1993 and 1993-1994 State budgets partially reversed the AB 8 formula. The 1992-1993 action reduced the City's Property Tax proceeds by nine percent, and shifted this funding to schools in order to reduce the amount of State backfill required. As part of the State's 1993-1994 Budget, the AB 8 formula was again altered requiring another ongoing shift in City Property Tax revenue to K-12 schools and community colleges.

In November 1993, the City Council elected to participate in the Teeter Plan, which is an alternative method for County property tax apportionment. Under this alternative method authorized by the State Legislature in 1949, the County apportions property tax on the basis of the levy without regard for delinquencies. With the adoption of the Teeter Plan in 1993-1994, the City received a one-time buy out of all current, secured property tax delinquencies as of June 30, 1993, which totaled \$3.5 million. Under this system, the City's current secured tax payments are increased for amounts that typically were delinquent and flowed to the secured redemption roll, but the City gave up all future penalties and interest revenue derived from the delinquencies.

In 2004-2005, the State budget included a permanent reduction of the Motor Vehicle In-Lieu (MVLIF) tax rate from 2% to 0.65% (its current effective rate). As part of the State budget action, the loss of MVLIF was approved to be replaced with a like amount of property tax revenue, on a dollar-for-dollar basis, which now grows based on assessed valuations.

**SALES AND USE TAX**

The Sales Tax is an excise tax imposed on retailers for the privilege of selling tangible personal property. The Use Tax is an excise tax imposed on a person for the storage, use, or other consumption of tangible personal property purchased from any retailer. The local Sales and Use Tax is collected and administered by the California Department of Tax and Fee Administration and is authorized by the Uniform Local Sales and Use Tax Law and the Bradley-Burns Uniform Local Sales and Use Tax Law. The proceeds of sales and use taxes imposed within the boundaries of San José are distributed by the State to various agencies, with the City of San José receiving one percent.

On November 2, 1993, Proposition 172 (Public Safety Fund) was approved allowing for the permanent extension of the half-cent State sales tax that was originally imposed on July 15, 1991, and was to sunset on June 30, 1993. (On July 1, 1993, a six-month extension of the tax was granted by the State in order to provide a source of one-time funding for cities and counties to partially offset 1993-1994 ongoing property tax reductions.) The passage of the Proposition 172 legislation, effective January 1, 1994, required that the proceeds from the 0.5% tax be diverted from the State to counties and cities on an ongoing basis for funding public safety programs.

The current distribution of the sales tax proceeds is outlined below, which includes a voter-approved 1/4 percent local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years) to fund essential City services such as: improving police response to reduce violent crimes and burglaries; improving 911/emergency medical and fire response times; repairing potholes and streets; expanding gang prevention; and maintaining the City’s long-term financial stability.

**Sales Tax Rates**

State – General Fund .....	3.9375%
State – Local Revenue Fund .....	1.5625
State – County Transportation Funds .....	0.2500
State – City of San José .....	1.0000
Public Safety Fund (Proposition 172) <sup>(1)</sup> .....	0.5000
<b>Sub-Total Statewide Sales and Use Tax.....</b>	<b>7.2500</b>
Local – City of San José <sup>(2)</sup> .....	0.2500
Santa Clara County Transit District <sup>(3)</sup> .....	0.5000
Santa Clara County Valley Transportation Authority <sup>(4)</sup> .....	0.5000
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax <sup>(5)</sup> .....	0.1250
Santa Clara County Retail Transactions and Use Tax <sup>(6)</sup> .....	0.1250
Silicon Valley Transportation Solutions Tax <sup>(7)</sup> .....	0.5000
Peninsula Corridor Joint Powers Board (Caltrain) <sup>(8)</sup> .....	0.1250
<b>Total Sales and Use Tax.....</b>	<b>9.3750%</b>

<sup>(1)</sup> City of San José receives a portion of this Sales and Use Tax revenue that varies from year to year.  
<sup>(2)</sup> Approved by voters in June 2016, and effective October 1, 2016, (limited to 15 years) to fund essential City services.  
<sup>(3)</sup> Approved by voters in 1976; does not expire. Imposed by VTA.  
<sup>(4)</sup> Approved by voters in November 2000, and effective April 1, 2006 (limited to 30 years). Imposed by VTA.  
<sup>(5)</sup> Approved by voters in November 2008 to support BART and effective on July 1, 2012 (limited to 30 years). Imposed by VTA  
<sup>(6)</sup> Approved by voters in November 2012 and effective April 1, 2013 (limited to 10 years).  
<sup>(7)</sup> Approved by voters in June 2016, and effective April 1, 2017 (limited to 30 years). Imposed by VTA.  
<sup>(8)</sup> Approved by voters in November 2020, and effective July 1, 2021 (limited to 30 years). Imposed by Peninsula Corridor Joint Powers Board, which owns and operates Caltrain.

### **SALES AND USE TAX**

Major items, such as services, are exempt from the tax code. As part of a 1991-1992 legislative action, tax exemptions were removed from candy and snack foods, bottled water, newspapers and periodicals, and fuel and petroleum products sold to certain carriers. The removal of these exemptions became effective July 1991. On November 3, 1992, however, the voters approved Proposition 163, which partially repealed the prior action, re-establishing the exemption for snack foods, candy, and bottled water effective December 1, 1992.

### **TRANSIENT OCCUPANCY TAX**

The Transient Occupancy Tax is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The tax rate is currently 10%, of which 6% is placed in the Transient Occupancy Tax Fund and 4% is deposited in the General Fund. The tax is authorized by Title 4 of the Municipal Code, Section 4.74, Ordinance number 21931.

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (6% percent of room rent) is restricted by Title 4 of the Municipal Code, Section 4.72, Ordinance number 23481 to the following uses:

- 1) Funding for the Convention and Visitors Bureau (approximately 25%);
- 2) Funding for the cultural grant program and fine arts division programs, including funding of cultural grants and expenses of the fine arts division, including, but not limited to, personal and non-personal/equipment expenses, fringe benefits, and overhead (approximately 25%); and
- 3) Funding for the City's operating subsidy to the convention and cultural facilities of the City of San José (approximately 50%).

The General Fund portion, or 40% of the Transient Occupancy Tax, was enacted as a general tax. The other 60% of the Transient Occupancy Tax is restricted for use in cultural development, supporting a convention and visitors bureau, and supporting the convention and cultural facilities of San José. Although not specifically related to the Transient Occupancy Tax, many hotels in San José also belong to the Convention Center Facilities District, which assesses an additional special tax on daily room rates of 4%. Revenues from the Convention Center Facilities District are restricted for debt service payments or capital improvements related to the Convention Center. Of the approximately 14% total tax assessed on room rates at most hotels, only the 4% portion of the Transient Occupancy Tax is deposited into the General Fund.

### FRANCHISE FEES

The City collects compensation from Pacific Gas and Electric Company (PG&E) for the use of City streets in the distribution of natural **gas** and **electricity**. PG&E is assessed 2.0% of the gross receipts representing its sale of electricity and natural gas for a calendar year within the City limits. The taxes are authorized by Title 15 of the Municipal Code, Chapter 15.32, and no authorized exemptions exist.

On February 9, 2010, the City Council approved ordinances amending the franchises with PG&E for the sale of natural gas and the sale of electricity. These amendments added a franchise fee surcharge of 0.3%, resulting in a total franchise fee remitted to the City of 2.3% of gross receipts from the sale of gas and electricity in the City through 2021. The 0.3% surcharge was approved by the California Public Utilities Commission (CPUC) effective May 5, 2010. Implementation of the surcharge began in September 2010.

From the sale of **nitrogen gas**, the City collects an annual fee of \$0.119/linear foot of gas-carrying pipe installed within public streets. In addition, each customer is required to pay an annual per connection fee of \$118.76 multiplied by the inside diameter of pipe expressed in inches at the property line. A minimum of \$1,000 total franchise fees per calendar year is required. The fee is authorized by City Ordinance number 20822 and amended by Ordinance number 25054; there are no authorized exemptions.

On July 1, 1996, **Commercial Solid Waste** (CSW) collection franchise fees were converted to a volume basis. This revision amended the previous structure (which had been in effect since January 1, 1995) that assessed a franchise fee equal to 28.28% of gross receipts in excess of \$250,000. With that change, fees were set at \$1.64 per cubic yard per collection for cubic yards in excess of 43,000 (the cubic yard basis is tripled if the waste has been compacted) in a fiscal year, and were assessed on any commercial business engaged in the collection, transportation, or disposal of garbage and/or rubbish (solid waste) accumulated or generated in the City of San José. In December 1997, the City Council increased the rate to \$2.41 effective on January 1, 1998. In 1999-2000, this fee was increased to \$2.84 per cubic yard. In 2002-2003, a three-year gradual shift in the revenue distribution between the CSW and AB 939 fees (also known as the “commercial source reduction and recycling fee” collected and deposited in the Integrated Waste Management Fund) was approved, which increased the amount collected for CSW to \$3.34 per cubic yard in 2004-2005. In 2005-2006, the City Council increased the fee by 4.5% (\$0.15 per cubic yard) to \$3.49 per cubic yard.

In 2006-2007, an additional 5.0% increase was approved by the City Council, which brought the fee to \$3.67 per cubic yard. In 2009-2010, the elimination of the fee exclusion for the first 20,000 cubic yards hauled in the fiscal year was approved.

On October 19, 2010, the City Council amended the CSW franchise fee to a fee for franchises based on geographic collection districts rather than volume. The volume-based fee remains for franchisees that do not have a franchise based on geographic collection district, such as non-exclusive franchise holders that collect construction and demolition and residential clean-out material. However, this fee is Zero Dollars (\$0.00) per cubic yard, or fraction thereof, of construction and demolition debris or residential clean-out material with twenty percent (20%) or

### FRANCHISE FEES

less incidental contamination. The base fee of \$5.0 million per year for each of two geographic collection districts, plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District became effective July 1, 2012, and is subject to an annual Consumer Price Index (CPI) adjustment. The CSW fee is authorized by Title 9 of the Municipal Code, Chapter 9..10.1710.

The City collects a **Cable Television Franchise Fee** from any company that provides cable television (Municipal Code, Title 15, Chapter 15.34). The current fee requires each State video franchise holder to pay the city a franchise fee that is 5% of gross revenues derived from subscriptions. Excluded from the gross receipts are amounts derived from installation, late charges, advertising, taxes, line extensions, and returned check charges.

The **Water Franchise Fee** was established in 1995-1996 (effective July 27, 1995, Title 15 of the Municipal Code, Section 15.40). The assessment of the fee is allowable under State law, which asserts that a city can collect a franchise fee from a water utility company for laying pipelines and operating them in public right-of-ways. The fee is equal to the greater of either: 1) 2% of the utility's gross annual receipts arising from the use, operation, or possession of facilities located in public streets within the City limits established on or after October 10, 1911, or 2) 1% of all gross receipts derived from the sale of water within the City limits. Those portions of the water company's system that are established in private right-of-ways or utility easements granted by private developers are exempted from the franchise fee assessment. It should be noted that the City is not assessing a Water Franchise Fee on the San Jose Water Company due to a Santa Clara County Superior Court ruling that states San José cannot impose a franchise fee on that company.

### UTILITY TAX

The Utility Tax is charged to all users of a given utility (gas, electricity, telephone, and water) other than the corporation providing the utility (i.e., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). For the electricity, gas, and water categories, consumers pay 5% of their utility charges to the utility company that acts as a collection agent for the City. For the telephone utility tax, consumers pay 4.5% on all intrastate, interstate, and international communication services regardless of the technology used to provide such services. Private communication services, voice mail, paging, and text messaging are treated the same as traditional telephone services. In November 2008, voters approved Measure K that reduced the telephone utility rate from 5.0% to 4.5% and broadened the base for the tax and the definition of technologies covered by the tax. The tax is not applicable to State, County, or City agencies. Also, per State regulations, insurance companies and banks are exempted from the tax. This tax is authorized by Title 4 of the Municipal Code, Section 4.68.

## TELEPHONE LINE TAX

In November 2008, voters approved Measure J that replaced the Emergency Communication System Support (ECSS) Fee with a tax in an amount that is 10% less than the ECSS Fee. The tax amount is \$1.57 per telephone line per month and \$11.82 per commercial type trunk line. The City ceased collecting the fee and began collecting the tax by April 1, 2009. The tax is collected from telephone users on their telephone bills. Exemptions to the tax include low-income seniors and disabled persons who receive lifeline telephone service.

## BUSINESS TAXES

The **General Business Tax** was first adopted on July 15, 1963. The methodology used for calculating the Business Tax (Chapter 4.76 of the San José Municipal Code) was adopted in 1984 and adjusted in 1986. In November 1996, the rates were increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates were returned to the levels prior to November 1996. Those rates stayed in effect until San José voters approved the Business Tax Modernization measure on November 8, 2016. In addition to expanding the application of tax to more business classes, the Business Tax Modernization measure increased the base tax, the incremental tax, and the cap (the maximum amount of tax affecting large businesses). The Business Tax Modernization measure rates went into effect July 1, 2017 and will be adjusted annually on July 1<sup>st</sup> for inflation changes.

The following charts present the business tax rate structure after the Business Tax Modernization, along with the inflation adjusted rates for the periods listed. The updated rates that will take effect on July 1, 2022 are currently being analyzed and will be included in the 2022-2023 Proposed Budget, which is scheduled to be released on May 2, 2022.

### *Employee Count*

Every person engaged in business in the City shall pay a business tax based on employee count<sup>1</sup>, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

<b>Businesses: Employee Count <sup>1</sup></b>	<b>July 2020 - June 2021</b>	<b>Effective July 1, 2021 <sup>3</sup></b>
Base Tax: 1-2 employees	\$203.85	\$206.90
Incremental Tax: 3-35 <sup>2</sup>	\$32.70	\$33.20
Incremental Tax: 36-100 <sup>2</sup>	\$43.60	\$44.25
Incremental Tax: 101-500 <sup>2</sup>	\$54.50	\$55.35
Incremental Tax: 501+ <sup>2</sup>	\$65.45	\$66.45
Cap	\$163,745	\$166,365

<sup>1</sup> "Employee" means each and every person engaged in the operation or conduct of any business, whether as owner, member of the owner's family, partner, associate, agent, manager or solicitor, and each and every other person employed or working in such business for a wage, salary, commission or room and board.

<sup>2</sup> Incremental tax rates are applicable per employee.

<sup>3</sup> As prescribed in San José Municipal Code Section 4.76.365, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2020 to February 2021, the CPI grew by 1.6%.



**BUSINESS TAXES**

***Residential Rental Property Units***

Every person in the City engaged in the business of renting or leasing any residential real estate shall pay a business tax based on the number of rental units held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

<b>Residential Landlords: Rental Units</b>	<b>July 2020 - June 2021</b>	<b>Effective July 1, 2021 <sup>2</sup></b>
Base Tax: 1-2 units	\$203.85	\$206.90
Incremental Tax: 3-35 <sup>1</sup>	\$10.90	\$11.07
Incremental Tax: 36-100 <sup>1</sup>	\$16.35	\$16.60
Incremental Tax: 101-500 <sup>1</sup>	\$21.80	\$22.10
Incremental Tax: 501+ <sup>1</sup>	\$27.25	\$27.65
Cap	\$163,745	\$166,365

***Commercial (Non-Residential) Rental Property Units***

Every person in the City engaged in the business of renting or leasing any non-residential real estate shall pay a business tax based on the square footage of space held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

<b>Commercial Landlords</b>	<b>July 2020 - June 2021</b>	<b>Effective July 1, 2021 <sup>2</sup></b>
Base Tax	\$203.85	\$206.90
Flat Incremental Tax: per Square Foot <sup>1</sup>	\$0.0272	\$0.028
Cap	\$163,745	\$166,365

***Mobile Home Parks Rental Units***

Every person in the City engaged in the business of renting or leasing any mobile home parks shall pay a business tax based on the number of lots held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

<b>Mobile Home Parks – Rental Lot</b>	<b>July 2020 - June 2021</b>	<b>Effective July 1, 2021 <sup>2</sup></b>
Base Tax: 1-2 lots	\$203.85	\$206.90
Incremental Tax: 3+ lots <sup>1</sup>	\$10.90	\$11.07
Cap	\$163,745	\$166,365

<sup>1</sup> Incremental tax rates are applicable per unit.

<sup>2</sup> As prescribed in San José Municipal Code Section 4.76.450, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2020 to February 2021, the CPI grew by 1.6%.

**BUSINESS TAXES**

***Water Meter Connections***

Every person engaged in the business of a public water utility in the City shall pay a business tax based upon the number of active metered connections within the city, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

<b>Water Companies</b>	<b>July 2020 - June 2021</b>	<b>Effective July 1, 2021 <sup>2</sup></b>
Base Tax	\$203.85	\$206.90
Flat Incremental Tax: per connection <sup>1</sup>	\$1.09	\$1.11
Cap	\$163,745	\$166,365

<sup>1</sup> Incremental tax rates are applicable per connection.

<sup>2</sup> As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2020 to February 2021, the CPI grew by 1.6%.

***Exclusions and Exemptions***

There are several exclusions (by Federal or State regulations) or exemptions (by the City Council) from the General Business Tax. The major types of exempt organizations include banks and insurance companies, charitable and non-profit organizations, interstate commerce, and low revenue generation businesses.

***Specialty Business Taxes***

On May 26, 1987, the City Council enacted a new **Disposal Facility Tax**, which became effective July 1, 1987. The rate structure is based on the weight of solid waste disposed. On July 1, 1992, the City Council increased the Disposal Facility Tax from \$3.00 per ton of disposed waste to \$13.00 per ton. This tax is assessed on landfills located in the City of San José. Beginning 2002-2003, waste previously classified as alternate daily cover was made subject to the Disposal Facility Tax. After a legal challenge, the City reinstated the alternate daily cover exemption in August 2005.

During 1991-1992, the City Council approved a cardroom ordinance, which contained the provision of a **Cardroom Business Tax** to tax gross receipts from cardrooms located in the City. On June 9, 1992, the City Council amended the cardroom ordinance, increasing the tax rate schedule and expanding the permissible games authorized. A gross receipt monthly tax schedule was established with taxes ranging from 1% to 13% of gross receipts. In 1993-1994, the City Council approved a revision to the cardroom ordinance, instituting a flat 13% gross receipts tax for all cardrooms located in the City with annual gross revenues in excess of \$10,000. In June 2010, voters approved a ballot measure that increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98. In November 2020 voters approved a ballot measure to increase the tax rate from 15% to 16.5%, increase the maximum number of card tables from 98 to 128, and extend the cardroom tax to those businesses providing Third-Party Proposition Player Services in the cardrooms.

**BUSINESS TAXES**

On November 2, 2010, San José voters approved Ballot Measure U, which allowed the City to tax all marijuana businesses (medical and non-medical; legal and illegal) at a rate of up to 10% of gross receipts. On December 13, 2010, the City Council approved an ordinance that set the **Cannabis Business Tax** (formerly Marijuana Business Tax) at 7%, and on June 4, 2013, the City Council increased the rate to 10% effective on July 1, 2013. On May 21, 2019, the City Council approved an ordinance that amended Chapter 4.66 to rename the Marijuana Business Tax to the Cannabis Business Tax (CBT) and to establish a tiered CBT rate structure for various categories of cannabis business activities. Effective July 1, 2019, the following CBT rates are applicable on the gross receipts:

<b>Business Activity</b>	<b>July 2013 - June 2019</b>	<b>Effective July 1, 2019</b>
Cultivation	10%	4%
Manufacturing	10%	3%
Distribution	10%	2%
Laboratory Testing	10%	0%
Retail / Delivery Sales	10%	10%

**REAL PROPERTY TRANSFER TAX**

On March 3, 2020, San José voters approved Measure E, Real Property Transfer Tax. This new tax, which becomes effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. The Real Property Transfer Tax is a general tax, which means the City of San José can use the revenue for any governmental purpose.

The rate for the Real Property Transfer Tax is as follows:

- 1) Under \$2.0 million – Exempt;
- 2) \$2.0 million to \$5.0 million – 0.75% of the transferred property value;
- 3) \$5.0 million to \$10.0 million – 1.0% of the transferred property value; and
- 4) Over \$10.0 million – 1.5% of the transferred property value

**LICENSES AND PERMITS**

The City requires payment for the issuance of various health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. For example, the City requires fire safety inspections of all commercial property. The fee provides for inspection charges and a number of special charges. Authorized exceptions include the addition and/or alteration of under 20 sprinkler heads and the installation of portable extinguishers. The fee is authorized by Title 17 of the Municipal Code, Chapter 17.12. Where appropriate, license and permit fees take into consideration approved exceptions to the City Council’s full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City’s Fees and Charges Report, which is released in May of each year.

### **LICENSES AND PERMITS**

Prior to 2020-2021, this category included development-fee revenue related to the Fire Department and Planning, Building and Code Enforcement Department. However, beginning in 2020-2021, all revenue and expenditures related to the Development Fee Programs are no longer captured in the General Fund, and are instead allocated to specific Development Fee Program Funds. As before, the Development Fee Programs remain at 100% cost recovery.

### **FINES, FORFEITURES, AND PENALTIES**

The City receives a portion of the fines collected in connection with violations of the State Vehicle Code on city streets. Various fines may be assessed in addition to those imposed by the Santa Clara County bail schedule and judges' sentences. The County court system collects the fines as authorized by the State Vehicle Code and makes monthly remittances to the City. Only "on call" emergency vehicles are exempt from Vehicle Code street laws. State legislative action in 1991-1992 reduced the amount (by approximately 50%) of Vehicle Code fine and forfeiture revenue forwarded to the City. On October 10, 1997, however, the Governor signed Assembly Bill 233 (AB 233), which became effective on July 1, 1998. AB 233 changed how the State and its counties and cities share in traffic citation fine revenues. This legislation essentially resulted in the doubling of the City's revenue collections in this area, reversing the impact of the 1991-1992 State legislative action.

The City receives fines and forfeitures of bail resulting from violation of State Health and Safety Codes and City Ordinances. These fees, authorized by the State Criminal Code and City Ordinances, are collected by the County and remitted to the City on a monthly basis. The City also receives revenue collected in connection with violations of the City's vehicle parking laws. These fines vary according to the nature of the violation. The City pays an agency to process and collect the fines. The only authorized exemption is for "on call" emergency vehicles.

### **REVENUE FROM THE USE OF MONEY AND PROPERTY**

The City invests idle funds in order to earn interest. The total income varies with the market rates for interest and the funds available to invest. The City has established a formalized and conservative investment policy with objectives emphasizing safety and liquidity. This policy provides guidelines for the type, size, maturity, percentage of portfolio, and size of security issuer (among others) of each investment. In addition, the policy statement outlines several responsibilities of the City Council, City Manager, City Auditor, and Finance Director. These policy and monitoring units interact and produce investment performance reports and an annually updated investment policy. All reports and policies must be reviewed and approved by both the City Manager and City Council. Investment of funds is authorized by the City Charter, Section 8066. Revenue is also received from the rental of City-owned property.

### REVENUE FROM LOCAL AGENCIES

This revenue category includes revenue received from a variety of other local government agencies. For example, the City receives payments from Santa Clara County/Central Fire District for fire services provided to District residents by the San José Fire Department, reimbursement from Santa Clara County for the first responder of advanced life support (Paramedics Program), and reimbursement from the Valley Transportation Authority (VTA) for police services at the Berryessa Bay Area Rapid Transit (BART) station.

### REVENUE FROM THE STATE OF CALIFORNIA

The City receives revenue from the State of California in a number of different forms. While the State provides the City with funds through grants and contracts for services, by far the largest source of funds is the Tobacco Settlement payments.

On November 23, 1998, the attorneys general of most states and the major United States tobacco companies signed a Master Settlement Agreement (MSA) to settle more than 40 pending lawsuits brought by states against the tobacco industry. In exchange for the states dropping their lawsuits, and agreeing not to sue in the future, the tobacco companies agreed to pay, in perpetuity, various annual payments to the states to compensate them for some of the medical costs of caring for persons with smoking-related illnesses. Further, the companies have restricted their marketing activities and established new efforts to curb tobacco consumption. The City, along with the other states and local government entities, joined in the settlement. In the MSA, the Original Participating Manufacturers agreed to pay a minimum of \$206 billion over the first twenty-five years of the agreement.

The City has also previously received Motor Vehicle In-Lieu (MVLFF) Tax revenues, which are license fees collected by the California Department of Motor Vehicles (DMV). Until 1998-1999, the annual license fee was 2% of the market value of the vehicle as determined by the DMV.

In 1998-1999, the State reduced the license fees by 25%, but agreed to backfill local jurisdictions for the loss in revenue, which represented 67.5% of MVLFF revenues received by the City at the time. In 2004-2005, as part of State budget actions, the MVLFF rate was permanently reduced from 2% to 0.65% and all future receipts of the backfill were approved to be in the form of increased Property Tax receipts and are reflected in that category. Thus, the backfill amount due to the City has permanently become property tax revenue that now grows based on assessed valuations. The State withholds a portion of these fees for the support of the DMV. The remaining fees are divided equally between counties and cities, and their aggregate shares are distributed in proportion to the respective populations of the cities and counties of the State. The exemptions authorized by the State Constitution, Article 13, include vehicles owned by insurance companies and banks, publicly owned vehicles, and vehicles owned by certain veterans with disabilities. The tax is authorized by the State Revenue and Taxation Code. In late June 2011, the State Legislature approved SB 89, which shifted over \$130 million in annual General Fund Motor Vehicle In-Lieu revenue from cities to support State law enforcement grants effective July 1, 2011. State legislative action in 1992-1993 eliminated local Trailer Coach In-Lieu Tax revenues. These funds were shifted to the State General Fund.

### **REVENUE FROM THE FEDERAL GOVERNMENT**

Federal grants account for a significant portion of federal revenues. Grant programs must be specifically outlined and proposed for federal sponsorship. Due to the grant process, the volume of grants and level of revenue has been and will be sporadic.

### **FEES, RATES, AND CHARGES**

Fees, Rates, and Charges are comprised of fees charged for services, which are primarily provided by the following departments: Police; Transportation; Library; and Parks, Recreation and Neighborhood Services. Prior to 2020-2021, this category included development-fee revenue related to the Planning, Building and Code Enforcement Department and Public Works Department. However, beginning in 2020-2021, all revenue and expenditures related to the Development Fee Programs are no longer captured in the General Fund, and are instead allocated to specific Development Fee Program Funds. As before, the Development Fee Programs remain at 100% cost recovery.

The fees in this category are determined by ordinance and described in the City's annual Fees and Charges Report, which is released in May of each year. In addition, it should be noted that the fees assessed by the Parks, Recreation and Neighborhood Services Department can be found on the internet ([www.sanjoseca.gov/your-government/departments/parks-recreation-neighborhood-services](http://www.sanjoseca.gov/your-government/departments/parks-recreation-neighborhood-services)).

### **OTHER REVENUE**

This revenue category contains revenue received from a variety of miscellaneous sources. Significant sources of revenue include reimbursement related to Finance Department staff in the Investment Program, sale of surplus property receipts, one-time and/or varied levels of reimbursements, and miscellaneous revenues associated with the Office of the City Attorney.

### **TRANSFERS AND REIMBURSEMENTS**

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including operating and capital fund overhead charges, transfers, and reimbursements for services rendered.

Overhead charges are assessed to recover the estimated fair share of indirect General Fund support services costs (staff and materials) that benefit other City program and fund activities. Examples of support activities included in the charges are services provided by the following departments: Finance, Human Resources, Information Technology, Mayor and City Council, the Office of the City Attorney, and the Office of the City Manager. Each year the charges are calculated using Finance Department developed overhead rates applied to projected salary costs in most City funds. The most significant sources of overhead reimbursements are the Treatment Plant Operating Fund,

**TRANSFERS AND REIMBURSEMENTS**

the Sewer Service and Use Charge Fund, the Airport Maintenance and Operation Fund, and the Integrated Waste Management Fund.

Transfers consist of both one-time and ongoing revenue sources to the General Fund. Ongoing transfers include capital fund transfers for maintenance and operating expenses incurred by the General Fund. One-time transfers occur on a sporadic basis and have included the disposition of uncommitted fund balances in several special funds and the transfer of monies to fund a variety of City projects.

Reimbursements from other funds represent the cost to the General Fund for services provided on behalf of the other City funds. This category also includes the State Gas Tax funds that are used to reimburse the General Fund for eligible expenditures. The State Gas Tax is described in the following section.

**STATE GAS TAX**

A portion of the State Gas Tax is shared with cities and counties under separate sections of the Streets and Highways Code. The 1964 Gas Tax (Section 2106) provides for a \$0.0104 charge on every gallon of gasoline. Revenue is then allocated according to the following formula:

<hr/>			
County Allocation:	a	No. of Registered Vehicles in County	
	÷ b	No. of Registered Vehicles in State	
	x c	\$0.0104	
	x d	Gallons of Gas Sold	
<hr/>			
City Allocation:	a	Incorporated Assessed Value in County	
	÷ b	Total Assessed Value in County	
	x c	County Allocation	
<hr/>			
Individual City Allocation:	a	Population City	
	÷ b	Population of all Cities in County	
	x c	City Allocation	

The 1943 Gas Tax (Section 2107) authorized a per gallon charge of \$0.00725. The State allocates part of these revenues for snow removal; the balance is distributed by calculating the portion of the State population represented by the city’s population.

As a result of the passage of Proposition 111, gas and diesel taxes were increased \$0.05 per gallon on August 1, 1990, and increased by \$0.01 per gallon each January 1 until and including January 1, 1994. For the 1990 Gas Tax (Section 2105), cities are apportioned a sum equal to the net revenues derived from 11.5% of highway users taxes in excess of \$0.09 per gallon in the proportion that the total city population bears to the total population of all cities in the State.

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# Development Activity Highlights and Five-Year Forecast (2023-2027)



**Prepared by:**

**City of San José  
Department of Planning, Building and Code Enforcement  
February 2022**

# **Development Activity Highlights & Five-Year Forecast (2023-2027)**

*For more information, please contact:*

**City of San José  
Department of Planning, Building and Code Enforcement  
Planning Division  
200 East Santa Clara Street  
San José, CA 95113  
(408) 535-3555**

*This report in color and other information can be found  
on the Planning Division website at:*

**<https://www.sanjoseca.gov/your-government/departments/planning-building-code-enforcement/planning-division/data-and-maps/development-monitoring/activity-highlights-five-year-forecast>**

# Development Activity Highlights & Five-Year Forecast (2023-2027)

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# **Development Activity Highlights & Five-Year Forecast (2023-2027)**

## **I. PURPOSE**

The *Development Activity Highlights and Five-Year Forecast (2023-2027)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves three important functions, as follows:

1. Assists the Office of the City Manager in estimating future construction-related tax revenues that generate funds for the City's Capital Improvement Program;
2. Provides City policymakers and staff with key data for periodic assessment of the rate, type, and location of development activity in San José; and,
3. As a tool for distributing information on major development projects to the public.

## **II. SUMMARY**

The social and economic impacts of COVID-19 have been widespread and affected construction and development patterns in fiscal year 2019/2020 and 2020/2021. The impact of the COVID-19 global pandemic will not be fully realized for years to come as it continues to transform living preferences and redefine working patterns. In fiscal year 2019/2020 the City of San José saw a sharp decrease in total residential unit production and construction valuation, and while residential production has remained stable in fiscal year 2020/2021 lower residential production is anticipated for 2021/2022 before returning to more normal trendlines. On the contrary, the commercial sector saw an increase in total commercial square footage production and valuation in fiscal year 2020/2021 but is forecasted to decrease in fiscal year 2021/2022. New industrial construction valuation remained stable in 2020/2021 but is anticipated to decrease in fiscal year 2021/2022 as permit records show a decrease in building activity. New industrial construction valuation is dependent on submittals of large projects that can alter the overall valuation for the fiscal year.

While the pandemic led to some interruptions in the local construction sector, the market showed resilience as projects already in progress re-started after the shutdown, and others pulled permits for the first time. The slow roll-out of COVID-19 vaccines in early 2021 gave hope for a return to normalcy, but lower than anticipated national vaccination rates and new COVID-19 variants brought more uncertainty. The COVID-19 Delta variant and Omicron variant led to a rise in hospitalizations and temporarily halted many return-to-work timelines. Fortunately, the end to the pandemic may be on

the horizon as the state-wide mask mandate is set to expire and individual counties lift mask mandates.

## **Residential Development**

New construction in fiscal year 2020/2021 remained steady for both multi-family residential development and accessory dwelling unit (ADU) production. San José rents have steadily improved up 7.6% year-over-year, below the 13.7% U.S national average.<sup>1</sup>

During the first six months of fiscal year 2021/2022, building permits were issued for approximately 570 new residential units of which only 292 are multifamily units while 48 were single-family homes, and 230 were accessory dwelling units (ADUs).<sup>2</sup> As new multifamily units decline, single-family new construction remains steady and ADU production continues to increase over time. Since the major update of the City's ADU ordinance in 2016 and subsequent updates in 2018 and 2019, ADU production has increased every fiscal year for the past five years and the trend continues in fiscal year 2020/2021 as new ADU units increased to 464 units from the previous production of 392 units representing an 18% increase year over year. ADUs are forecasted to continue the trend upward with 230 new units approved within the first 6 months of fiscal year 2021/2022. Residential alterations are also expected to increase as single-family homes renovate and convert to duplexes under recently adopted Senate Bill 9.

Overall, building permits for new construction of residential units is forecasted to significantly decline below the five-year average of 2,169 to 600 units for fiscal year 2021/2022 based on the first six months of multifamily residential permit data. Multifamily residential permits have slowed likely due to ongoing economic uncertainty concerns and supply disruptions from the pandemic. Residential new construction is expected to recover over time back to normal levels by fiscal year 2023/2024 as the economic outlook becomes clearer and the economy begins to return towards pre-pandemic levels. Despite a decrease in new construction, residential entitlement has remained stable. As of February 2022, approximately 16,449 new residential units have received entitlements but have not yet started construction. These units have all been identified as multifamily residential. Further, more affordable housing projects are seen on this list than past years with the passage of SB 35, AB 2162 and other affordable housing streamlining bills.

In Q4 of calendar year 2021, the average effective rent in San José has fully recovered from the steep decline in 2020. In 2020, following multiple years of steep increases, rents in Silicon Valley declined for the first time since 2010, with San José average

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<sup>1</sup> Matrix Multifamily San Jose Report-Fall 2021

<sup>2</sup> Note that in ADUs are counted under Single-Family in Table 2.

rents declining 7%. In 2021, the average effective rents rose to 9.4% to \$2,515<sup>3</sup> while the average vacancy rate in San José declined from 8.7% in 2020 to 6.1% in 2021.<sup>4</sup> The increase in average rent and decrease in vacancy is a positive indicator for demand for residential development in San José, however, for many Bay Area communities rents and housing costs are still unaffordable. The median income required for renters to afford the average effective monthly rent for a 2-bedroom apartment is \$54 per hour and buyers must earn \$123 per hour to afford a median-priced single-family home.<sup>5</sup>

## **Commercial and Industrial/Office Development**

The industrial construction category includes office buildings, industrial manufacturing buildings, and warehouse space, while new commercial construction incorporates other commercial types such as hotel and retail space. Revisions to how building permit data is collected this fiscal year may have resulted in commercial numbers that include industrial or office uses and vice versa. For a better comparison to past fiscal years, this report will combine commercial and industrial/office development production and valuation for fiscal year 2021/2022 and past years. A correction that reclassifies commercial and industrial/office projects correctly may be issued at a later date.

Likely due to the ongoing COVID-19 global pandemic and its economic impact, valuation of combined commercial and industrial/office new construction activity decreased in fiscal year 2020/2021 to \$1.11 billion, compared to the previous fiscal year of \$1.65 billion, however valuations are higher than the historical 5-year average of \$944 million. Through the first six months of the current fiscal year (2021/2022) valuation of new construction for combined commercial and industrial office was significantly lower than the previous five fiscal years at approximately \$123 million. With a forecasted valuation of \$300 million for fiscal year 2021/2022. A decline is forecasted for both the commercial and industrial/office sectors. Lack of available land for large retail centers and national retail trends for mobile services, may result in a decline for new commercial construction in the future. New industrial/office construction is challenged by the uncertainty of the pandemic and hybrid work models, which may result in lower class A office demand as companies right size office needs for their workforce. The combined commercial and industrial/office valuation is forecasted to decrease but stabilize in the next few years.

In fiscal year 2020/2021 the combined commercial and industrial/office yielded 5.0 million square feet of new construction, a 250,000 increase from the previous fiscal

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<sup>3</sup>Matrix Multifamily San Jose Report-Fall 2021, Fall 2020, Fall 2019 ~ Comparing year over year in the fourth quarter. Rent growth typically follows a seasonal pattern by recording a negative change at the end of the third or beginning of the fourth quarter, and rebounding by the middle of the first quarter of the following year.

<sup>4</sup> Costar Q4 2016 – Q4 2021. Effective rent is defined as asking rent less rent concessions, such as move-in specials, one month free, etc.

<sup>5</sup> Costar Q4 2021

year. The new construction of commercial and industrial/office square footage is projected to decrease even further to 1.5 million square feet in fiscal year 2021/2022 and then increase in the next 2 years before returning to the 5-year average levels of previous years.

Comparatively in fiscal year 2020/2021, commercial alterations remained stable at \$281 million while industrial/office alterations declined to approximately \$129 million, which is below the 5-year historic average of \$283 million, indicative of lower demand for renovations and remodels during the pandemic. However, through the first six months of the current fiscal year (2021/2022) commercial and industrial/office alterations have exceeded the past fiscal year and are anticipated to increase beyond the 5-year historic average signifying a change as more companies return to work. Higher commercial and industrial alterations maybe a result of companies returning to the office or adopting hybrid work models.

As of the fourth quarter of 2021, the overall retail vacancy rate in San José remained the same at approximately 5.4%.<sup>6</sup> San José and Silicon Valley continue to showcase resiliency and economic strength as unemployment continues to decline.

The ongoing pandemic continues to challenge Bay Area communities however the economy has recovered strongly over the past year as unemployment continues to decline and employment recovers. The demand for office space is reflected in the increase of overall office vacancy rates in Silicon Valley, rising during the fourth quarter of 2021 to 15.3%, an increase from the vacancy rate in 2020 of 10.9%.<sup>6</sup> Overall industrial warehouse vacancy rates have remained low and have decreased to 3.3% slightly down from 4.0% in the fourth quarter of 2020.<sup>6</sup>

The office vacancy rate in Downtown San José has increased from 16.2% in the fourth quarter of 2020 to 19% in the fourth quarter of 2021.<sup>6</sup> Despite the increased vacancy rates, two high-rise commercial projects, Adobe North Tower, an 18-story 700,000-square-foot office tower, and 200 Park Tower, a 19-story 857,000-square-foot office tower, broke ground in 2019 and continue their construction.

The availability and vacancy rate for Research & Development (R&D) in the North San José market slightly decreased for the fourth quarter of 2021 to 15.0% from 15.9% in the fourth quarter of 2020. Higher asking rates and BART's (Bay Area Rapid Transit) extension into Milpitas and North San José continues to create demand in the North San José area.

The most notable projects underway for commercial and industrial/office is Google's investment and proposed Downtown West Mixed-Use Project that includes construction of approximately 6,500,000 square feet of office (with a maximum of 7,300,000 square feet); approximately 3,000 to 5,000 units of housing (with a

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<sup>6</sup> Marketbeat Silicon Valley 2021, Cushman and Wakefield

maximum of 5,900 units); approximately 300,000 to 500,000 square feet of active uses, which may include retail, cultural, arts, etc.; approximately 100,000 square feet of event space; up to 300 hotel rooms and up to 800 rooms of limited-term corporate accommodations. The proposed project represents approximately 30% of all industrial square footage in the pipeline and 15% of all residential units in the development process. On May 25<sup>th</sup>, 2021 the City Council unanimously approved the Downtown West Mixed-Use Project. Additionally, in the fourth quarter, there was one significant completion, Santana West, a speculative office building totaling 375,000 square feet in West San José.

### **III. FIVE-YEAR FORECAST (2023-2027)**

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction valuation in fiscal year 2021/2022 is expected to decrease from fiscal year 2020/2021, as with overall lower residential, commercial and industrial construction activity than the previous fiscal year. Valuations of new residential construction have remained stable throughout fiscal years 2020/2021 and 2021/2022 but are significantly lower compared to pre-COVID-19 numbers. Construction activity is expected to recover slightly in fiscal year 2022/2023 and continue to improve in the next five years as ongoing pandemic concerns are alleviated. Despite the COVID-19 global pandemic and speculation on permanent remote working trends, San José continues to capitalize on the expansion of BART into San José and the continuing process of Google's Downtown West project. A recovery is anticipated as lower unemployment and positive economic indicators for the region are reported.



**Table 1**  
**Construction Valuation: FY 16/17 to FY 26/27**

Fiscal Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
	<u>Actual Valuation<sup>1</sup> (in millions)</u>					<u>Projected Valuation (in millions)</u>					
<b><u>New Construction</u></b>											
Residential	\$594	\$609	\$488	\$250	\$277	\$150	\$300	\$350	\$350	\$400	\$400
Commercial	\$468	\$449	\$398	\$929	\$847	\$200	\$250	\$250	\$325	\$325	\$325
Industrial	\$124	\$266	\$166	\$721	\$258	\$100	\$150	\$175	\$175	\$175	\$175
Subtotal	\$1186	\$1323	\$1050	\$1900	\$1381	\$450	\$700	\$775	\$850	\$900	\$900
<b><u>Alterations</u></b>											
Residential	\$126	\$129	\$147	\$134	\$114	\$150	\$100	\$100	\$100	\$100	\$100
Commercial	\$378	\$274	\$311	\$287	\$281	\$220	\$200	\$200	\$200	\$200	\$200
Industrial	\$567	\$228	\$443	\$246	\$129	\$300	\$150	\$150	\$150	\$150	\$150
Subtotal	\$1072	\$631	\$900	\$667	\$523	\$670	\$450	\$450	\$450	\$450	\$450
<b>Grand Total (Taxable)</b>	<b>\$2258</b>	<b>\$1954</b>	<b>\$1950</b>	<b>\$2567</b>	<b>\$1905</b>	<b>\$1120</b>	<b>\$1150</b>	<b>\$1225</b>	<b>\$1300</b>	<b>\$1350</b>	<b>\$1350</b>

<sup>1</sup>Valuation figures adjusted to 2021 dollars, per U.S. Bureau of Labor Statistics Consumer Price Index (CPI), San Francisco-Oakland-Hayward, all items index.

**Table 2**  
**Residential Units and Non-Residential Square Footage: FY 16/17 to FY 26/27**

Fiscal Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
	<u>Actual<sup>1</sup></u>					<u>Projected</u>					
<b><u>Residential (Units)</u></b>											
Single-Family*	201	250	495	501	577	550	450	400	400	400	400
Multi-Family	2,511	2,991	2,490	1,453	1,398	600	1,500	2,000	2,000	2,000	2,000
TOTAL	2,712	3,241	2,985	1,954	1,975	1,150	1,950	2,400	2,400	2,400	2,400
<b><u>Non-Residential (sq. ft., in thousands)</u></b>											
Commercial	1,911	3,235	2,397	3,982	4,118	1,000	2,000	2,000	2,500	2,500	2,500
Industrial	1,452	1,584	1,055	754	875	500	750	1,000	1,000	1,000	1,000
TOTAL	3,363	4,819	3,452	4,736	4,993	1,500	2,750	3,000	3,500	3,500	3,500

<sup>1</sup>NOTE: Data on residential units based on the Building Division's Permit Fee Activity Report. Data on non-residential square footage estimated based on construction valuation in the Building Division's Permit Fee Activity Report.

#### **IV. CONSTRUCTION TAXES**

The City of San José imposes a series of construction-related taxes that are generally used to finance the construction and improvement of facilities and infrastructure systems that provide capacity beyond the needs attributed to a particular development. These taxes are in addition to cost-recovery fees charged for processing and reviewing applications for development approvals and permits. The largest construction-related tax revenue sources are described below.

##### **Building and Structure Construction Tax**

The Building and Structure Construction Tax is imposed upon the construction, repair, or improvement of any building or structure where a building permit is required (except for authorized exemptions - see below). The proceeds from this tax are restricted in use to the provision of traffic capital improvements on major arterials and collectors, the acquisition of lands and interest in land, and the construction, reconstruction, replacement, widening, modification and alteration (but not maintenance) of City streets.

##### **Construction Excise Tax**

The Construction Excise Tax is imposed upon construction, alteration, repair, or improvement of any residential or commercial structure (except for authorized exemptions - see below). The tax does not apply to industrial development. This is a general purpose tax that may be used for any “usual current expenses” of the City. The City Council has historically used the majority of these funds for traffic infrastructure improvements.

##### **Residential Construction Tax**

The Residential Construction Tax is imposed upon any construction of a one-family dwelling unit or multifamily units or any mobile home lot in the City. This tax is collected and placed in a fund used to reimburse private entities that have constructed a portion of an arterial street that is wider than what is normally required in connection with residential development. The funds are also used to construct median landscaping and other street improvements.

## **V. MAJOR DEVELOPMENT ACTIVITY DATA**

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. This data focuses on recent “major” projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet.

The development activity data on the following pages is first divided into three major land use categories — residential, commercial, and industrial. Then, individual projects are divided into four subcategories based on project status — projects completed, projects under construction, approved projects (construction not yet commenced), and projects pending City approval.

**Major Residential Development Activity  
Projects of 50+ Dwelling Units**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Housing Type	No. of Units	Approval Date
<b>Projects Completed 2020 to 2021</b>								
PD12-039	10/11/12	South Village (Hitachi Condo's)	706-65-020	0 Raleigh Road	Edenvale	MF	83	12/20/12
PDA14-035-01	8/21/14	Communication Hill (Phase 1)	455-28-017	Junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	SF	314	3/18/15
PD16-025	8/16/16	The Orchard (Residential)	254-06-042	641 N. Capitol Avenue	Alum Rock	MF	188	1/24/17
SPA17-009-01	9/7/17	Miro (formerly SJSC Towers)	467-20-086	33 N. 5th Street	Central	MF	630	12/13/17
PD14-055	1/13/15	Leigh Ave Apartments	284-32-014	1030 Leigh Avenue	Willow Glen	MF	64	3/18/15
PD15-044	9/11/15	Sparta	467-16-076	525 E. Santa Clara Street	Central	MF	85	9/20/16
PD17-029	12/15/17	Julian/Stockton Mixed Use	261-01-030	715 W. Julian Street	Central	MF	228	10/23/18
CPA11-034-01	5/10/11	North San Pedro Apts	259-23-016	201 Bassett Street	Central	MF	135	7/23/14
PDA15-036-01	7/9/15	Ohlone Block B	264-14-024	345 Sunol Street	Central	MF	269	12/16/15
H13-041	10/31/13	Silvery Towers Apts	259-32-004	180 W. St. James Street	Central	MF	643	2/26/14
<b>Total</b>							<b>2,639</b>	
<b>Projects Under Construction</b>								
H12-020	1/16/13	San Pedro Square	259-32-044	195 W. Julian Street	Central	MF	406	2/24/14
PD15-013	4/3/15	Arcadia/Evergreen Part 1	670-29-002	2140 Quimby Road	Evergreen	SF	250	11/30/15
PD15-014	4/16/15	1807 Almaden Rd	455-21-050	1807 Almaden Road	South	MF	96	10/7/15
PD15-055	11/4/15	Shea Homes/ Japantown Corp. Yard	249-39-039	Bounded by N. Sixth Street, E. Taylor Street, N. Seventh Street, and Jackson Street	Central	MF	520	5/25/16
PD16-005	2/4/16	Istar/Great Oaks	706-08-008	West side of Great Oaks Blvd approx 1,000 feet northwesterly of Highway 85	Edenvale	MF	301	5/18/2016
H15-046	9/25/15	363 Delmas Avenue	264-26-006	341 Delmas Avenue	Central	MF	120	6/21/16
PDA14-035-04	4/9/17	Communication Hill Phase II	455-28-016	junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	486	7/26/17
SP17-037	9/1/17	Page Street Housing	277-20-044	329 Page Street	Central	MF	82	12/5/18
PD16-026	8/11/16	7th & Empire	249-38-042	535 N. 7th Street	Central	MF	92	4/11/17
PD15-066	12/21/15	Santana Row Lot 12	277-40-017	358 Hatton Street	West Valley	MF	258	8/16/16
SP17-016	4/24/17	425 Auzerais Avenue	264-26-017	425 Auzerais Avenue	Central	MF	130	6/19/17
PD15-068	12/22/15	Santana Row Lot 17	277-38-003	544 Dudley Avenue	West Valley	MF	110	5/25/16
HA14-023-02	12/6/17	Post & San Pedro Tower	259-40-088	171 Post Street	Central	MF	228	6/9/18
H17-019	4/25/17	Spartan Keyes Senior Housing	472-25-092	295 E. Virginia Street	Central	MF	301	1/9/19
H18-026	6/7/18	S. Market Mixed Use	264-30-034	477 S. Market Street	Central	MF	130	5/1/19
H18-057	5/3/18	Balbach Affordable Housing	264-31-109	South East corner of Balbach and South Almaden Blvd	Central	MF	87	1/30/19
CP18-022	6/26/18	Blossom Hill Affordable Apartments	690-25-021	397 Blossom Hill Road	Edenvale	MF	147	12/11/19
SP17-027	6/26/17	Roosevelt Park Apartments	467-12-001	21 N. 21st Street	Central	MF	80	2/6/19
SP18-033	6/28/18	Mitzi Place	299-16-001	4146 Mitzi Drive	West Valley	MF	50	10/7/20
PD18-043	10/17/18	Race Street Housing	261-42-058	253 Race Street	Central	MF	206	8/19/20
CP19-021	6/18/19	Bascom Residential Care	412-25-009	2375 South Bascom Avenue	Willow Glen	MF	138	9/29/20
H19-028	6/20/19	750 W San Carlos	264-15-003	750 W. San Carlos	Central	MF	80	1/13/21
H19-051	11/18/19	Eden Housing	264-26-088	425 Auzerais Avenue	Central	MF	130	9/18/20

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CP18-025	6/28/19	Union Assisted Living	421-20-010	0 Union Avenue	Cambrian/Pioneer	MF	152	11/18/19
H20-002	1/15/20	4th and Younger Apartments	235-09-020	1020 N. 4th Street	Central	MF	96	6/30/20
CP18-044	12/19/18	Affirmed housing	484-41-165	2348 Alum Rock Avenue	Alum Rock	MF	87	1/14/20
H19-054	12/18/19	Moorpark Supportive Housing	282-44-027	1710 Moorpark Avenue	Willow Glen	MF	108	9/11/20

**Total**

**4,871**

**Approved Projects (Construction Not Yet Commenced)**

PD12-013	3/29/12	Ohlone Mixed Use (Block A)	264-14-131	southwest corner of West San Carlos Street and Sunol Street	Central	MF	263	12/16/15
HA14-009-02	6/5/18	Parkview Towers	467-01-008	northeast corner of the intersection of 1st Street and St. James Street	Central	MF	220	5/13/15
H14-037	11/5/14	NSP3 Tower	259-24-008	201 W. Julian Street	Central	MF	313	8/5/15
PD15-042	9/11/15	Montgomery 7	259-47-068	565 Lorraine Avenue	Central	MF	54	6/21/16
H15-047	9/28/15	Gateway Tower	264-30-089	455 S. 1st Street	Central	MF	300	12/6/16
H15-055	11/17/15	6th Street Project	467-19-059	73 N. 6th Street	Central	MF	126	6/29/16
PD15-061	12/4/15	Diridon TOD	259-38-036	402 West Santa Clara	Central	MF	325	5/24/16
SP16-016	3/8/16	Park Delmas	259-46-040	201 Delmas Avenue	Central	MF	123	6/29/16
PD16-013	4/7/16	777 West San Carlos St	261-39-045	270 Sunol Street	Central	MF	149	6/21/16
SP16-021	4/11/16	Greyhound Residential	259-40-012	70 South Almaden Avenue	Central	MF	781	5/23/17
PD15-059	6/23/16	Volar (Residential)	277-33-003	350 S. Winchester Boulevard	West Valley	MF	330	6/13/17
PD16-031	9/27/16	750 West San Carlos	264-15-003	750 W. San Carlos Street	Central	MF	56	12/12/17
PD17-014	4/25/17	Stevens Creek Promenade	296-38-013	4360 Stevens Creek Boulevard	West Valley	MF	499	2/26/19
SP18-016	3/29/18	27 West	259-40-043	27 S. 1st Street	Central	MF	374	2/27/19
CP17-052	11/17/17	Alum Rock Mixed Use	481-19-003	1936 Alum Rock Avenue	Alum Rock	MF	94	3/27/19
PD17-027	12/14/17	Saratoga Ave Mixed Use	299-37-024	700 Saratoga Avenue	West Valley	MF	300	6/11/19
SP18-001	1/9/18	Garden Gate Tower	472-26-090	600 S. 1st Street	Central	MF	285	11/19/19
PD18-015	6/19/18	Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	MF	590	9/10/19
SP18-059	5/10/18	McEvoy Affordable Housing	261-38-004	699 W. San Carlos	Central	MF	365	2/11/20
SPA17-023-01	12/11/18	StarCity (Co-Living)	259-23-006	199 Bassett Street	Central	MF	800	5/29/19
PD19-019	6/4/19	Winchester Ranch	303-38-001	555 S. Winchester Boulevard	West Valley	MF	688	1/14/20
PD20-003	5/6/20	Tamien Station TOD	434-13-041	1197 Lick Avenue	Central	MF	569	12/9/20
SP20-020 (prev H18-02	6/5/18	Carlisle	259-35-033	51 Notre Dame Avenue	Central	MF	220	7/8/20
PD18-016	6/29/18	Little Portugal Gateway	481-12-069	1663 Alum Rock Avenue	East San José	MF	121	11/17/20
SP19-064	2/19/19	Roem Affordable Housing	284-03-015	961 Meridian Avenue	Willow Glen	MF	230	12/10/20
PD19-011	4/10/19	Meridian Mixed Use	274-14-152	259 Meridian Avenue	Central	MF	241	6/23/20
SP19-068	12/3/19	Hemlock Mixed Use Project	277-34-051	2881 Hemlock Avenue	West Valley	MF	51	2/10/21
H20-001	1/3/20	Dahlia Apartments	467-11-021	1135 E. Santa Clara Street	Central	MF	91	11/19/20
SP19-068	12/3/2019		277-34-051	2881 HEMLOCK AV	Central	MF	51	2/10/21
SP20-004	4/29/19	W. San Carlos Mixed Use	277-18-019	1530 West San Carlos	Central	MF	173	8/24/21
H19-019 (converted to I	5/6/19	Kelsey Ayer	259-20-015	447 North 1st Street	Central	MF	115	---
SP20-002	1/8/20	S. Winchester Mixed Use	299-25-038	1073 S. Winchester Boulevard	West Valley	MF	61	8/25/21
SP20-008	2/24/20	Baywood Mixed Use Project	419-48-014	375 South Baywood Ave	West Valley	MF	79	6/23/21
H20-007	3/26/20	3 St John Urban Residential Developm	467-17-046	95 N 11th St	Central	MF	33	---
SP20-013	4/16/20	Almaden Villas	259-41-070	1747 Almaden Rd	South	MF	62	8/25/21
CP20-015	4/30/20	Villa Del Sol Mixed Use Residential	421-07-029	1936 Alum Rock Ave	Alum Rock	MF	194	4/14/21
H20-013	6/9/20	3090 S Bascom	439-28-007	3090 South Bascom Ave	Willow Glen	MF	90	---
SP20-019	6/29/20	Madera Multifamily	439-05-007	486 West San Carlos	Central	MF	184	3/17/21
CP20-017	6/18/20	Alum Rock Multifamily	434-11-081	1860 Alum Rock Ave	Alum Rock	MF	65	---
SP20-021	6/29/20	The Mark	704-35-026	459 S 4th St	Central	MF	222	10/13/21
SPA18-001-01	6/29/20	Garden Gate	264-21-066	600 S 1st St	Central	MF	336	4/28/21
PD19-029	10/10/19	Google/ Downtown West	259-38-132	450 W. San Carlos	Central	MF	5,000	---
H20-024	7/15/20	Monterey Mixed Use	684-02-003	4300 Monterey Rd	Edenvale	MF	438	---

H20-028	8/5/20	605 Affordable	569-14-128	605 S 2nd St	Central	MF	345	---	
H20-030	9/1/20	777 West San Carlos Residential	244-17-048	270 Sunol St	Central	MF	154	---	
CP20-025	10/21/20	2880 Alum Rock	481-18-067	2880 Alum Rock Ave	Alum Rock	MF	166	---	
H21-004	2/10/2021		2880-50-45	2350 SOUTH BASCOM AV		MF	123	---	
<b>Total</b>								<b>16,449</b>	

**Projects Pending City Approval**

PDA14-035-05	4/10/17	Communication Hill Village Center	455-28-017	junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	490	---	
H19-021	1/30/19	4th Street Housing	467-20-019	100 N. 4th Street	Central	MF	298	---	
PDA15-066-01	6/5/18	Santana Row Lot 12	277-40-017	385 Hattton Street	West Valley	MF	300	---	
PDA14-035-06	4/2/19	Comm Hill Phase 3	455-28-017	0 Curtner Avenue	South	MF	798	---	
PD19-020	6/13/19	anta Clara University Mixed Use Housi	230-14-004	1202 Campbell Avenue	West Valley	MF	290	---	
SP20-012	4/15/20	VTA Blossom Hill Station TOD	486-41-033	605 Blossom Hill Rd	Edenvale	MF	328	---	
PD20-004	5/20/20	Japantown Mixed Use	684-22-022	653 N 7th St	Central	MF	65	---	
CP20-020	8/25/20	West San Carlos	442-34-059	17 BOSTON AV	Central	MF	61	---	
H20-026	7/27/20	Eterna Tower	254-32-065	17 East Santa Clara St	Central	MF	96	---	
PD20-006	8/18/20	seo & 1777 Saratoga Ave Mixed Use v	244-06-002	1312 El Paseo de Saratoga	West Valley	MF	741	---	
PD20-007	9/1/20	Cambrian Park Plaza	684-38-022	14200 Union Ave	Cambrian/Pioneer	MF	378	---	
H20-037	12/1/20	Fountain Alley	373-08-002	35 S 2nd St	Central	MF	194	---	
H20-038	12/2/20	BoTown Residential	676-15-039	409 S 2nd St	Central	MF	520	---	
H20-040 (converted to S	11/25/20	North 2nd Affordable Senior Housing	484-02-005	19 N 2nd St	Central	MF	210	---	
PD20-011	12/18/20	244 McEvoy	244-23-014	244 McEvoy St	Central	MF	695	---	
H20-046	1/8/21	2188 The Alameda Supportive Housing	575-25-043	2188 The Alameda	Central	MF	110	---	
H20-049	1/5/21	1050 St Elizabeth	665-63-013	1050 St Elizabeth Dr	Willow Glen	MF	150	---	
H21-002	1/29/21	551 Keyes Affordable Housing	447-12-057	551 Keyes St	Central	MF	78	---	
SP21-006	3/18/2021	S. Winchester Mixed Use	299-25-037	1065 South Winchester Blvd	West Valley	MF	61	---	
SP21-007	3/19/2021	1520 W. San Carlos Mixed Use	277-18-021	1520 West San Carlos St	Central	MF	202	---	
PDA12-013-02	3/29/2021	Auzerais Mixed Use	264-14-110	0 Auzerais Ave	Central	MF	263	---	
H21-014	4/9/2021	East Alma Residences	477-05-005	0 East Alma Ave	Central	MF	88	---	
H21-015	4/27/2021	North Capitol Residential Tower	254-29-028	905 North Capitol Ave	Berryessa	MF	383	---	
SP21-020	6/18/2021	3rd Street Mixed Use	467-47-048	420 South 3rd	Central	MF	152	---	
SP21-019	6/18/2021	2nd Street Mixed Use	467-47-024	420 South 2nd Street	Central	MF	254	---	
H21-027	7/14/2021	Lorraine Residential Towers	259-47-068	565 Lorraine Ave	Central	MF	126	---	
H21-028	7/15/2021	Lorraine Residential Towers	259-47-069	543 Lorraine Ave	Central	MF	264	---	
H21-031	7/19/2021	Affordable Tripp	249-66-051	1319 Tripp Ave	Central	MF	51	---	
PD21-011	8/11/2021	S. 1st Mixed Use	472-17-006	802 S. 1st	Central	MF	246	---	
SP21-031	7/23/2021	Urban Catalyst loon/Echo	467-20-079	147 East Santa Clara St	Central	MF	415	---	
PD21-015	8/19/2021	Bark Residential	372-24-011	7201 Bark Lane	West Valley	MF	85	---	
H21-044	10/12/2021	W. Julian Affordable	261-02-062	950 West Julian Street	Central	MF	300	---	
SP21-045	1/6/2022	West Bank Terraine	259-24-008	323 Terraine St	Central	MF	319	---	
PD22-002	1/21/2022	Seely Mixed Use	097-15-033	0 Seely Ave	North	MF	1,480	---	
<b>Total</b>								<b>10,491</b>	

**GRAND TOTAL**

**34,450**

**Major Commercial Development Activity  
Projects of 25,000+ Square Feet**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Approval Date
<b>Projects Completed 2020-2021</b>								
H15-023	5/4/2015	Holiday Inn Expansion	497-38-013	2660 Monterey Road	South	48,100	81	7/13/16
CP16-029	6/16/16	Oakmont Residential Care	659-04-015	easterly side of San Felipe Road approximately	Evergreen	91,714		4/26/17
PDA08-069-01	9/17/18	Market Park Shopping Center	254-17-084	1590 Berryessa Road	Alum Rock	101,000		5/8/19
PDA12-019-04	12/10/18	Coleman Hotel	230-46-093	1125 Coleman Avenue	North	115,392	175	6/26/19
<b>Total</b>						<b>356,206</b>	<b>256</b>	
<b>Projects Under Construction</b>								
HA06-027-02	6/10/2013	Valley Fair Expansion	274-43-035	2855 Stevens Creek Boulevard	West Valley	525,000		10/30/13
PDA12-031-01	11/13/2015	The Platform Retail	241-04-011	north side of Berryessa Road on the southern	Berryessa	37,000		4/13/16
SP17-009	2/22/17	Miro Retail/Office	467-20-086	39 N. 5th Street	Central	39,074		3/15/17
PD16-025	8/16/16	The Capitol (Formerly The Orchard)	254-06-042	641 N. Capitol Avenue	Alum Rock	38,000		1/24/17
PD16-034	4/14/17	Topgolf	015-39-026	4701 N. 1st Street	Alviso	182,000	200	12/13/17
CP17-046	10/26/17	Holden Assisted Living	282-11-014	1015 S. Bascom Avenue	Willow Glen	156,022		9/12/18
H17-044	9/2/17	Hilton Garden Inn	235-03-002	111 E. Gish Road	North	91,460	150	5/7/18
<b>Total</b>						<b>1,068,556</b>	<b>350</b>	
<b>Approved Projects (Construction Not Yet Commenced)</b>								
H16-010	2/29/2016	Cambria Hotel	277-34-014	2850 Stevens Creek Boulevard	West Valley	173,043	175	12/7/16
PD08-001	1/7/2008	Pepper Lane Mixed Use	254-15-072	southeast corner of Berryessa and Jackson On the hills from the junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	Alum Rock	30,000		10/10/08
PD14-035	3/15/2013	Communications Hill	455-09-040		South	68,000		11/21/14
CP17-047	10/20/17	Williams Rd Residential Care Facility	299-18-147	3924 Williams Road	West Valley	31,801		11/14/18
H17-023	5/18/17	AC Hotel Stevens Creek Blvd	375-12-017	5696 Stevens Creek Boulevard	West Valley	62,868	168	1/16/19
SP18-016	3/29/18	27 West (Retail Component)	259-40-043	27 South 1st Street	Central	35,712		2/27/18
SP18-048	3/27/18	Hotel Baywood	277-34-038	375 South Baywood Avenue	West Valley	123,120	105	2/27/18
CP17-052	11/17/17	Component)	481-19-003	1936 Alum Rock Avenue	Alum Rock	39,000		3/27/19
H18-002	1/9/18	Silver Creek Valley Rd Hotel	678-93-015	5952 Silver Creek Valley Road	Edenvale	73,862	127	5/1/19
SP18-005	2/1/18	Bark Lane Hotel	372-24-033	7285 Bark Lane	West Valley	45,306	126	6/4/19
H18-016	4/11/18	Piercy Hotel	678-93-040	469 Piercy Road	Edenvale	119,333	175	5/29/19
H18-033	7/24/18	2nd Street Hotel	472-26-070	605 S. 2nd Street	Central	90,263	106	10/2/19
PDA16-034-02	11/5/18	Shilla Stay Hotel	015-39-026	4701 N. 1st Street	Alviso	109,991	200	6/19/19
H18-038	8/28/18	Almaden Corner Hotel	259-35-055	8 N. Almaden Boulevard	Central	153,275	272	1/14/20
H17-059	10/28/17	Hotel Clariana Addition	467-23-088	10 S. 3rd Street	Central	51,573	63	3/11/20
SP18-008	1/30/18	Presentation High School Master Plan	446-38-035	2281 Plummer Avenue	Willow Glen	106,248		7/29/20

H16-042	10/18/16	Tribute Hotel	259-42-079	211 S. 1st Street	Central	186,426	279	1/28/20
SP19-063	8/7/18	Stockton Ave Hotel	259-28-028	292 Stockton Avenue	Central	356,470		3/13/20
CP18-034	9/4/18	995 Oakland Road Hotel	235-16-011	955 Oakland Road	Central	67,766	116	12/4/19
H15-014	3/30/15	Tropicana Shopping Center Expansion	486-10-091	1664 Story Road	Alum Rock	31,744		8/17/21
PD18-042	10/9/18	Oakland Road Comfort Suites	241-13-019	northeast corner of Oakland Road and Faulstich	Berryessa	38,400	61	3/1/22
PD19-029	10/10/19	Google - Downtown West Mixed Use	259-38-132	West of Downtown	Central	500,000	800	5/21/21
CP20-013	4/8/20	SRM San Jose Assisted Living	451-09-067	3315 Almaden Expressway	Cambrian/Pioneer	195,840	195*	5/12/21
CP20-019	6/26/20	Delmas Senior Living	264-20-088	323 Gifford Avenue	Central	185,054	116*	1/26/21
SP18-012	2/27/18	West San Carlos Hotel	277-20-035	1470 W. San Carlos Street	Central	64,262		4/24/21
CP19-031	10/10/19	Stevens Creek Fitness	303-25-016	3806 Stevens Creek boulevard	Central	150,000		3/9/21
PDA13-049-03	2/21/20	Bay 101 Hotel	235-01-019	1770 North 1st Street	North	94,040	171	2/23/22
<b>Total</b>						<b>3,183,397</b>	<b>2,944</b>	

**Projects Pending City Approval**

CP20-001	1/6/20	Sunset Mixed Use Complex	481-07-028	2101 Alum Rock Avenue	Alum Rock	28,690		---
H18-025	6/18/20	The Carlisle	259-35-033	51 Notre Dame Avenue	Central	131,082		---
CP20-020	8/25/20	West San Carlos	274-16-070	17 Boston Avenue	Central	107,013	157*	---
PD20-007	9/1/20	Cambrian Park Plaza	419-08-013	14200 Union Avenue	Cambrian/Pioneer	374,170	229	---
H20-040	11/25/20	North 2nd Affordable Senior Housing	467-21-028	19 North 2nd Street	Central	299,135	210*	---
CP21-022	11/17/21	Prospect Rd Costco	381-36-021	5287 Prospect Rd	West Valley	166,058		
PD22-002	1/21/22	Seely Mixed Use	097-15-033	0 Seely Avenue	North	54,000		
<b>Total</b>						<b>1,160,148</b>	<b>229</b>	

**GRAND TOTAL**

**5,768,307 3,779**

\* Residential Care Facility



**Major Industrial/ Office Development Activity  
Projects of 75,000+ Square Feet**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
<b>Projects Completed 2020-2021</b>							
H17-041	7/21/17	Knox Trojan Storage	481-39-003	1025 Knox Avenue	Alum Rock	139,615	2/28/2018
H17-058	11/2/17	970 McLaughlin Industrial	472-10-109	970 McLaughlin Avenue	Central	223,717	3/13/2019
PD18-045	10/26/18	Santana West Phase 1	303-40-010	3161 Olsen Drive	West Valley	376,250	5/29/2019
PD18-044	10/30/18	1605 Industrial Avenue Warehouse	237-30-015	1605 Industrial Avenue	Berryessa	180,500	8/13/2020
<b>Total</b>						<b>920,082</b>	
<b>Projects Under Construction</b>							
H15-058	11/23/2015	Senter/Alma Ministorage	477-38-014	Senter Road between E. Alma Avenue and Phelan Avenue	Central/South	91,885	3/15/2017
H16-035	9/27/16	Edenvale Self Storage Facility	678-93-005	5880 Hellyer Avenue	Edenvale	155,550	5/3/2017
PD13-012	3/20/2013	237 @ First Street (balance)	015-39-006	4353 N. 1st Street	Alviso	614,809	12/4/2013
PD16-016	4/28/2016	Winchester Ministorage	279-01-017	780 S. Winchester Boulevard	West Valley	84,000	11/9/2016
SPA15-031-01	7/1/2015	Equinix Data Center	706-02-053	123 Great Oaks Blvd	Edenvale	547,050	3/3/2020
H18-037	8/16/18	Adobe North Tower	259-39-116	333 W. San Fernando Street	Central	1,015,200	5/29/2019
H18-045	9/27/18	DiNapolo Office	259-43-076	200 Park Avenue	Central	717,246	10/9/2019
PD16-037	11/29/16	Self-storage (King Rd)	670-12-006	2905 South King Road	Evergreen	198,000	4/12/2017
SP18-020	12/15/17	Akatiff/Platform 16	259-29-104	440 W. Julian Street	Central	982,128	5/30/2018
PD16-027	8/29/16	Oakland Rd Self Storage	235-18-001	645 Horning Street	Central	91,875	5/8/2018
SP18-054	10/3/18	San Ignacio Data and Office	706-09-023	6320 San Ignacio Avenue	Edenvale	282,000	3/27/2019
H16-018	4/27/2016	335 West San Fernando St	259-39-116	333 W. San Fernando Street	Central	700,000	11/9/2016
H18-024	5/31/18	Winfield Self Storage	694-06-009	5775 Winfield Boulevard	Edenvale	109,527	9/4/2019
PDA18-045-01	3/9/20	Santana West Phase 2	429-09-045	3161 Olsen Drive		376,250	12/9/2020
<b>Total</b>						<b>5,965,520</b>	
<b>Approved Projects (Construction Not Yet Commenced)</b>							
H14-029	8/14/2014	The Station on North First	101-30-006	2890 N. 1st Street	North	1,653,731	12/10/2014
H15-037	8/25/2015	Broadcom expansion/Innovation Place	097-33-116	3130 Zanker Road	North	536,949	12/2/2015
PD15-053	10/29/2015	America Center (balance)	015-45-047	6250 America Center Drive	Alviso	192,350	1/23/2018
PD15-061	12/4/2015	Diridon TOD (Office)	259-38-036	402 W. Santa Clara Street	Central	1,040,000	5/24/2016
PD15-062	12/9/2015	Bay 101 Technology Place office (Phase II)	235-01-020	1740 N. 1st Street	North	234,192	12/7/2016
PD16-023	7/22/16	Samaritan Medical Phase 1	421-37-001	north of Samaritan Drive, approximately 700 feet east of S. Bascom Drive	Cambrian/Pioneer	350,000	8/2/2017
SP16-053	11/4/16	Microsoft data center/industrial	015-31-054	1657 Alviso-Milpitas Road	Alviso	426,093	10/24/2017
PDA14-005-10	5/3/18	Western Digital Great Oaks Campus	706-07-020	5601 Great Oaks Parkway	Edenvale	73,400	11/14/2018
PD17-014	4/25/17	Stevens Creek Promenade (Office)	296-38-013	4360 Stevens Creek Boulevard	West Valley	233,000	2/26/2019
PD18-015	6/19/18	South Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	213,500	9/10/2019
PD18-039	9/12/18	Cloud 10 Skyport Plaza	230-29-117	1601 Technology Drive	North	350,000	12/23/2019
CP20-003	1/21/20	Public Storage - 231 Capitol Expy	442-19-041	3911 Snell Ave		359,232	2/26/2020
H19-016	4/19/19	City View Plaza	259-41-068	150 Almaden Boulevard	Central	3,640,033	6/16/2020
H20-021	6/29/20	Almaden Tower	421-23-041	Southwest corner of S Almaden Avenue & Post Street		596,750	12/9/2020
SP18-049	9/5/18	335 Winchester Office	303-39-047	335 S. Winchester Boulevard	West Valley	94,996	11/19/2019
PD19-029	10/10/19	Google - Downtown West Mixed-Use Plan (Office)		Various locations within DSAP	Central	7,300,000	5/25/2021
CP20-003	10/11/18	231 Capitol Public Storage	462-19-013	231 W. Capitol Expressway	South	179,916	2/26/2020
SP20-032	10/31/18	Park habitat formerly Museum Place	259-42-023	180 Park Avenue	Central	1,241,820	11/1/2021

**Major Industrial/ Office Development Activity  
Projects of 75,000+ Square Feet**

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
H19-041	9/19/19	Fountain Alley Office	467-22-002	26 S. 1st Street	Central	90,829	8/12/2020
SP20-005	1/31/19	South Almaden Office	264-28-023	northwest corner of Almaden Boulevard and Woz Way	Central	1,952,045	9/14/2021
CP19-031	10/10/19	Stevens Creek Fitness	303-25-016	3806 Stevens Creek Boulevard	West Valley	260,000	3/9/2021
PDA16-027-02	1/9/20	645 Horning Self Storage	462-01-016	623 Horning Street	Central	152,512	3/10/2021
HA13-040-03	4/6/20	Brokaw Rd Office Parcel 3	414-22-028	1801 Bering Drive	North	1,297,000	11/18/2020
H20-004	4/9/20	Woz Way		276 Woz Way	Central	1,837,673	6/29/2021
PDA15-031-01	9/1/20	Bloom Energy at Equinix	647-25-043	5 Great Oaks Boulevard	Edenvale	92,350	5/26/2021
SP21-037	12/1/20	Westbank's The Arbor	299-32-033	255 West Julian Street	Central	512,031	11/21/2021
<b>Total</b>						<b>24,910,402</b>	
<b><u>Projects Pending City Approval</u></b>							
H20-015	6/19/20	350 Trimble	977-07-061	350 W. Trimble Road	North	124,992	---
PD20-006	8/18/20	El Paseo & 1777 Saratoga Ave Mixed Use Village	244-06-002	1312 El Paseo De Saratoga	West Valley	482,072	---
H20-033	10/13/20	1605 S 7th St	1-25-032, 472-28-	1605 S. 7th Street	Central	94,325	---

**Major Industrial/ Office Development Activity  
Projects of 75,000+ Square Feet**

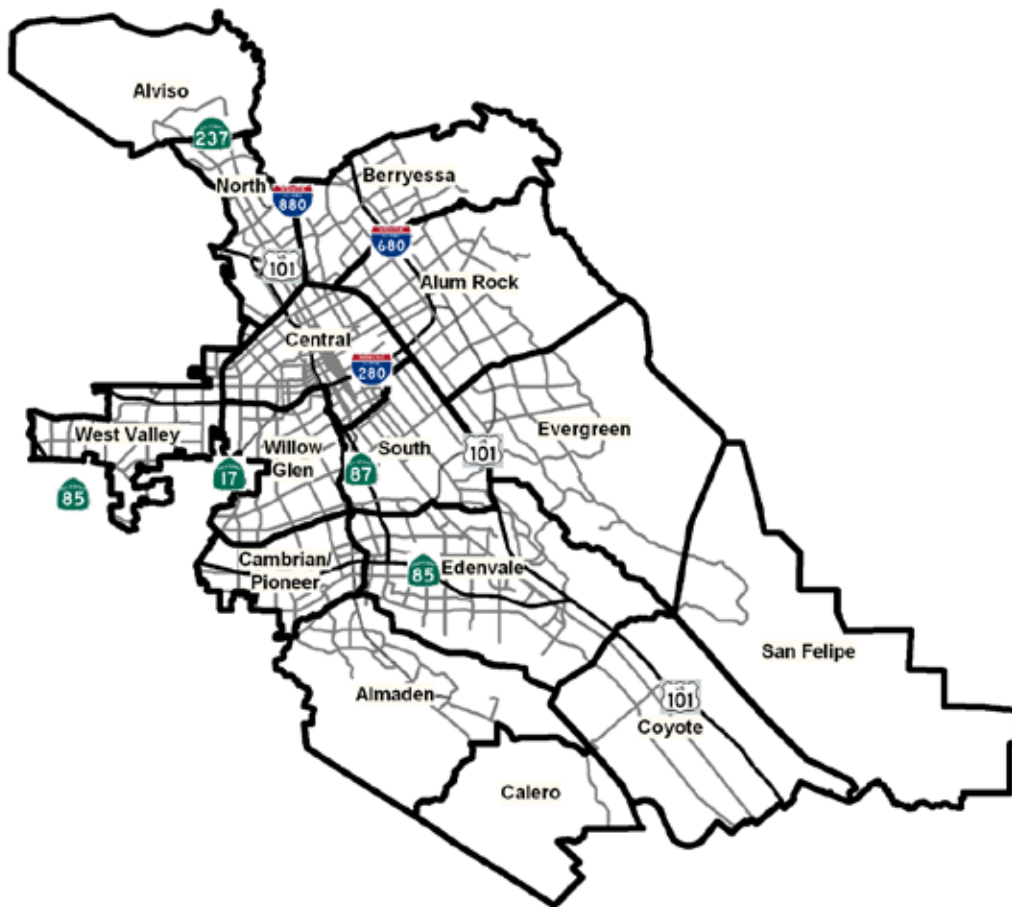
File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
H20-037	12/1/20	Fountain Alley	373-08-002	35 S. 2nd Street	Central	437,883	---
H21-003	2/5/21	1953 Concourse	467-47-053	1953 Concourse Drive	Berryessa	126,700	---
PD22-004	1/31/22	PD22-004 Coleman Highline	230-46-072	1185 Coleman Ave	North	288419	---
PD22-002	1/21/22	PD22-002	097-15-033	0 Seely Ave	North	54000	---
H21-052	12/15/21	H21-052	259-28-024	250 Stockton Ave	Central	1328970	---
PDA14-005-012	11/4/21	PDA14-005-012 Western Digital	706-07-020	5601 Great Oaks Pky Building 1	Edenvale	580000	---
H21-040	9/23/21	H21-040	244-15-030	2222 Qume Drive	Berryessa	714419	---
PD21-016	8/20/21	PD21-016 Second Harvest	015-39-056	4553 North 1st. Street	Alviso	249320	---
SP21-031	7/23/21	SP21-031 Urban Catalyst's Icon/Echo	467-20-079	147 East Santa Clara Street	Central	533500	---
Total						<b>5,014,600</b>	
<b>GRAND TOTAL</b>						<b>36,810,604</b>	

File Number Prefixes: PD= Planned Development Permit; SP= Special Use Permit; H= Site Development Permit; CP= Conditional Use Permit; HA, SPA, CPA, PDA = Amendment to Original Permit

## VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

San José is divided into a total of fifteen (15) planning areas (see Figure 1, below). The individual planning area maps (link below) include projects in all status categories. These maps can be used in conjunction with the data contained in Section V of this report to allow closer analysis of the rate, type, and location of major development activity in the City. (Note: map exhibits are not provided for the Calero and San Felipe planning areas, as no major development activity occurred there and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary).

Figure 1: San José Planning Areas



The Department of Planning, Building and Code Enforcement has shifted the static planning area maps to our web based GIS for better access and convenience. Please visit the City of San Jose's map galley located at the link below for access to the full map gallery and recent development projects. <https://gis.sanjoseca.gov/apps/mapsgallery/>

## **VII. APPENDIX: SOURCES**

The Department of Planning, Building and Code Enforcement utilized a variety of information sources in the preparation of this report. These sources are described below.

### **Data Collection and Analysis**

The Department's development project database was the primary initial resource for information on applications submitted to the City. Spreadsheets and Geographic Information Systems (GIS) were also used to manage and display this empirical information in a more readily comprehended format. Architectural drawings, aerial photographs, and fieldwork were also used to evaluate site-specific issues that could have affected the anticipated cost or timing of a project's construction.

Planning staff conducted and/or participated in a series of interviews/discussions with people with a variety of perspectives, including City staff processing development applications, developers or their representatives, and others working in the development industry or related fields.

### **Review of Publications**

Planning staff consulted several publications that made contributions to the preparation of this report, including: the Yardi Matrix Multi-family San José Report – Fall 2021, Colliers Silicon Valley 2021 Q4, CoStar Q4 2021, and Cushman & Wakefield's 2021 Q4 Marketbeat reports.

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## Appendix D - City Budget Program Guide

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The City Budget Program Guide contains 2022-2023 General Fund Base Budget expenditures<sup>1</sup> and position allocations by City Service Area, Core Service, and Budget Program for each department. This guide will be expanded as part of the 2022-2023 Proposed Budget development process to also incorporate allocations for all funds rather than just the General Fund, and will include budget proposals and direction contained within the City Council-approved Mayor's March Budget Message.

<sup>1</sup> *This guide does not include costs attributable to transfers, reserves and ending fund balance.*

**City Budget Program Guide**  
2022-2023 Base Budget - General Fund

February 28, 2022

CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support - Appointees	City Attorney	Legal Services	Legal Representation	Provides legal representation to advocate, defend, and prosecute matters on behalf of the City and the Successor Agency to the Redevelopment Agency. This involves a variety of activities including defense of lawsuits; general liability claims management; prosecution of municipal code violations; workers' compensation investigations and litigation; seeking injunctions for general nuisance, gang and drug abatements; alternative dispute resolution and contract dispute assistance; and initiation of litigation which can result in significant revenue collections.	26.87	7,952,655
Strategic Support - Appointees	City Attorney	Legal Services	Legal Transactions	Provides oral and written legal counsel and advice to the Mayor, City Council, Council Appointees, City departments, City boards, commissions and committees, and to the Successor Agency to the Redevelopment Agency, and is responsible for review and preparation of ordinances, resolutions, contracts, permits and other legal documents to implement official City and Agency actions.	22.66	6,861,150
Strategic Support - Appointees	City Attorney	Strategic Support	City Attorney Management and Administration	Provides administrative oversight for the department, including executive management, financial management, and human resources.	6.56	1,665,341
Strategic Support - Appointees	City Attorney	Strategic Support	City Attorney Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	6,000,000
Strategic Support - Appointees	City Auditor	Audit Services	Performance Audits	Identify ways to increase the economy, efficiency, effectiveness, equity, and accountability of City government and provide independent, reliable, accurate, and timely information to the City Council and other stakeholders.	12.00	3,002,005
Strategic Support - Appointees	City Auditor	Strategic Support	City Auditor Management and Administration	Provides administrative oversight for the department, including executive management, financial management, and human resources.	1.00	173,277
Strategic Support - Appointees	City Clerk	City Clerk Services	Facilitate the City's Legislative Process	Maximizes public access to the City's legislative process by administering the democratic processes such as elections, access to City records, and all legislative actions ensuring transparency to the public. Serves as a compliance officer for federal, State, and local statutes including the Political Reform Act, the Brown Act, and the Public Records Act.	12.00	2,464,006
Strategic Support - Appointees	City Clerk	Strategic Support	City Clerk Management and Administration	Provides administrative oversight for the department, including financial management, human resources, and analytical support.	2.00	308,740



### City Budget Program Guide 2022-2023 Base Budget - General Fund

CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support - Appointees	City Clerk	Strategic Support	Clerk Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	3,364,996
Public Safety	City Manager	City-Wide Emergency Management	Emergency Management	Oversees emergency management efforts throughout the City, including: preparedness, response, recovery, and mitigation; maintains a citywide Emergency Management Roadmap to address preparedness gaps; ensures comprehensive all hazards planning, exercises, and training complies with State and federal requirements; and, engages the community through public education and training to encourage preparation for the next emergency.	8.00	1,781,918
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	Administration, Policy, and Intergovernmental Relations	Supports city-wide leadership by resolving complex administrative matters, supporting City-wide policy analysis and implementation, and monitoring, analyzing, and supporting legislation from the federal, state, and local government arenas. Other services include agenda review and coordination and open government requests and initiatives.	11.00	2,838,420
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	Budget Office	Develops and monitors the City's operating and capital budgets that total \$5.1 billion annually; works with City departments to develop a budget that meets the highest priority community and organizational needs while maintaining fiscal integrity; responds to City Council direction, improves operational efficiency; and supports data-driven public service delivery.	19.00	4,333,392
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	Civic Innovation	Coordinates the development and implementation of the City's Smart City Vision; focuses the City to deliver on the most important innovation opportunities; empowers staff to dramatically improve services for customers in an equitable manner; and works with teams to address continuous process improvement and program evaluation.	4.50	1,524,966
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	Communications	Directs and implements the City's communications strategy to inform and engage San José residents. Provides strategic counsel to the City Manager and oversight of media relations; internal communications; emergency public information; and digital, social, and creative services.	3.50	1,008,222

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	Employee Relations	Represents the City Council and City Administration in various labor relations issues and negotiates on behalf of the City on wages, hours, and other terms and conditions of employment. Manages employee relations matters for the City and advises and assists departments regarding strategies and due process requirements when dealing with employee sub-performance or misconduct.	10.50	2,397,562
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	Executive Leadership/City Management	Provides strategic leadership that supports the Mayor and City Council in making public policy decisions and ensures the organization is delivering cost-effective services that meet the needs of our community with the highest standards of quality and customer service. Also guides fiscal and change management, the building and development of our workforce, and development of long term, data-driven strategies to invest in the City's future.	10.00	3,776,176
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	Racial Equity	Advances a city-wide equity framework to examine and improve San José's internal policies, practices and systems to eradicate structural and/or institutional racism that may exist in our City government and ultimately improve outcomes for Black, Indigenous, and People of Color (which includes, but is not limited to, Latino/a/x and Asian and Pacific Islander).	7.00	1,792,930
Strategic Support - Appointees	City Manager	Strategic Support	City Manager Management and Administration	Provides administrative oversight for the department, including financial management and human resources.	1.00	150,745
Strategic Support - Appointees	City Manager	Strategic Support	City Manager Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	271,000
Community and Economic Development	Economic Development and Cultural Affairs	Arts and Cultural Development	Cultural Facilities Operations and Maintenance	Provides stewardship of city-owned cultural facilities such as the Convention Center, the Hammer Theatre Center, and Mexican Heritage Plaza, including the management of operations and maintenance agreements with non-profit partners and the monitoring of those partners; coordinates with the Public Works Department on maintenance and capital needs of the cultural facilities; and manages legal agreements and the relationship with Team San José.	0.25	3,896,750

**City Budget Program Guide**  
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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Community and Economic Development	Economic Development and Cultural Affairs	Business Development and Economic Strategy	Business District Management	Manages relationships, legal agreements, joint projects and policy changes between the City and major downtown partners, including San José Downtown Association, San José Sports Authority, San José State University, San José Hotels, and Japantown and Downtown Business Improvement Districts; manages the City's free use program and plays a lead role in public space activation in the Downtown; supports the development of neighborhood business centers citywide; and increases retail amenities (in Neighborhood Business Districts and urban villages) including management of the wayfinding program, banner program.	3.00	990,187
Community and Economic Development	Economic Development and Cultural Affairs	Business Development and Economic Strategy	Business Outreach and Assistance	Works with existing and potential San José businesses and entrepreneurs to encourage business and job attraction, retention, expansion and creation including driving industry outreach, layoff prevention, small business assistance, and hiring and customized training; administers the Sister City and Foreign Trade Zone programs, and small business inter-departmental coordination.	5.15	1,644,801
Community and Economic Development	Economic Development and Cultural Affairs	Business Development and Economic Strategy	Economic Policy Analysis/Communications	Leads development of economic development-related strategies (e.g., the Economic Strategy and North San José Area Development Policy), performs economic and data analysis to support policy development, business intelligence activities, and decision making by numerous departments and City Council; collaborates and coordinates communications strategies with internal and external communications staff around shared projects/initiatives; and manages the development of public information collateral materials, graphic design and production, and audio-visual production in a variety of media.	2.68	644,284
Community and Economic Development	Economic Development and Cultural Affairs	Real Estate Services	City Lease Administration	Manages leasing with the City as a lessee or lessor for facilities and/or telecommunications, including maintenance of City owned properties that are being leased to other entities or are vacant.	-	1,934,151
Community and Economic Development	Economic Development and Cultural Affairs	Real Estate Services	City Property Acquisition and Sales	Works with real estate brokers, developers and property owners to encourage new leasing and development activity, including acquisition of temporary or permanent property rights for City projects and initiatives; manages the sale of surplus property.	3.10	777,840

**City Budget Program Guide**  
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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Community and Economic Development	Economic Development and Cultural Affairs	Regional Workforce Development	Workforce Development Services	Provides assessments, career counseling, workshops, training, supportive services and job development support to approximately 3,000 youth and adult clients annually, while at the same time supporting thousands of businesses with recruiting, on-the-job training, layoff avoidance, and technical assistance directly and through the BusinessOwnerSpace network.	2.00	1,647,000
Community and Economic Development	Economic Development and Cultural Affairs	Strategic Support	Economic Development Management and Administration	Provides administrative oversight for the office, including executive management, financial management, human resources, and analytical support.	6.85	2,208,007
Community and Economic Development	Economic Development and Cultural Affairs	Strategic Support	Economic Development Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	348,738
Environmental and Utility Services	Environmental Services	Potable Water Delivery	Municipal Water System Operations and Maintenance	Operates and maintains the Municipal Water System to ensure a reliable, safe, and potable water supply.	0.25	72,410
Environmental and Utility Services	Environmental Services	Recycling and Garbage Services	Civic/Other Solid Waste Collection Services	Provides management and oversight of all solid waste services generated from City facilities and right-of-way and includes funding from non-rate-payer funds to provide waste diversion services to restrict or redirect waste from entering local landfills.	0.44	1,377,564
Environmental and Utility Services	Environmental Services	Stormwater Management	Stormwater Administration	Provides executive-level management and administration of the Stormwater Management Core Service. Also provides mid-level and clerical administrative support.	-	101
Environmental and Utility Services	Environmental Services	Stormwater Management	Stormwater Enforcement	Educates and regulates approximately 10,000 businesses and construction sites in San José regarding stormwater practices to ensure compliance with federal and State requirements for the City's storm sewer system.	0.22	36,535
Environmental and Utility Services	Environmental Services	Stormwater Management	Stormwater Policy and Compliance	Facilitates City compliance with its Stormwater the National Pollutant Discharge Elimination Program (NPDES) permit for the storm sewer system, including requirements for municipal operations, new development and redevelopment requirements, and control programs for specific pollutants such as trash, PCBs, and mercury. Supports compliance with the requirements of the Baykeeper Consent Decree and other agreements.	2.77	766,745
Environmental and Utility Services	Environmental Services	Strategic Support	Environmental Services Information Technology	Provides information technology services, planning, system development and maintenance for the Department in coordination with the Information Technology Department.	0.09	22,891

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2022-2023 Base Budget - General Fund

CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Environmental and Utility Services	Environmental Services	Strategic Support	Environmental Services Management and Administration	Provides executive-level, analytical and administrative support to the department.	0.73	141,817
Environmental and Utility Services	Environmental Services	Strategic Support	Environmental Services Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	920,000
Environmental and Utility Services	Environmental Services	Sustainability and Environmental Health	Environmental Compliance and Safety	Provides oversight of ESD employee health and safety at all ESD facilities, as well as providing professional compliance services for City lands, including closed landfills, such that both aspects fully comply with all State and federal laws.	1.27	324,353
Environmental and Utility Services	Environmental Services	Sustainability and Environmental Health	Policy, Legislative Advocacy and Education	Leads the City's efforts to implement Climate Smart San Jose strategies that address the challenges of climate change for the City. Climate Smart San Jose has set multiple goals to take meaningful action to reduce carbon emissions through strategic planning, policy implementation, community outreach, and public/private partnerships. Coordinates the City's efforts related to energy efficiency, renewable energy, and Green House Gas reductions, including administration of the Silicon Valley Energy Watch and other programs. Environmental legislation advocacy and policy development is led from this group as well as external partner relationships for sustainability, water, and wastewater policy and projects.	4.25	853,340
Strategic Support	Finance	Debt and Treasury Management	Banking Management	Manages the City's centralized banking relationships and cash operations for multiple programs throughout the City. Oversees payments of various tender types processed on multiple billing systems, including Building Permits, Business Taxes, Utility Billing, Airport Fees, and Fire Citations.	-	750,950
Strategic Support	Finance	Debt and Treasury Management	Cashiering and Payment Processing	Manages over-the-counter payments made for various programs, including Business Tax, Transient Occupancy Tax and Hotel Business Improvement District, Utility Billing, Airport, and Utility Users Tax.	9.12	1,322,383

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support	Finance	Debt and Treasury Management	Debt Management	Responsible for City debt issuance, credit facilities and other borrowing, debt management projects and debt administration activities, including performing compliance activity related to statutory, regulatory, and contractual requirements for 90 different obligations, including bonds, commercial paper, credit facilities, a lease-purchase agreement and conduit bonds for affordable housing projects. Finances the construction of new facilities and improvements to existing city facilities through various bond measures and other financing tools. Public infrastructure and affordable housing are also facilitated through special taxes and various types of bonds.	5.04	1,453,952
Strategic Support	Finance	Debt and Treasury Management	Investment Management	Manages the City's cash flow and invests the City operating funds in accordance with the Investment Policy mandates of safety, liquidity, and yield. Responsible for cash flow forecasts, portfolio management, Investment Policy updates and compliance, interest earnings forecasts, and related reporting. Performs counterparty credit risk analysis of the City clean energy program.	4.98	1,099,990
Strategic Support	Finance	Disbursements	Accounts Payable	Facilitates timely and accurate payment of the City's non-payroll disbursements. Customers of this service include City departments, employees, government agencies, non-profit corporations, consultants, contractors, and vendors who provided goods and services to the City.	6.75	1,187,730
Strategic Support	Finance	Disbursements	Payroll	Facilitates timely and accurate payment of payroll to City employees and provides responses to information requests City-wide. The City has employees divided among many different bargaining units with various compensation requirements contained in each respective units' Memoranda of Agreement.	9.75	1,837,779
Strategic Support	Finance	Financial Reporting	General Accounting	Provides accurate and meaningful reporting on the City's financial condition and primarily responsible for the accounting of City-wide financial activity for all City funds, with services including management of the Financial Management System, preparation of the Comprehensive Annual Financial Report, preparation of various Cost Allocation Plans, capital assets accounting, monthly financial information publication, City-wide reports for audits purposes, and coordination of stand-alone audits.	10.35	2,018,458

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support	Finance	Financial Reporting	Special Accounting	Manages accounting responsibilities related to special facility districts, grant programs, assessment districts, loans, debt transactions, bank reconciliations, investments, deferred compensation; and prepares and submits legally mandated reports including the City's Federal Single Audit Report and State-mandated cost reimbursement claim reports.	7.28	1,276,012
Strategic Support	Finance	Purchasing and Risk Management	Purchasing	Following transparent and competitive procurement procedures, supports the operations of all City departments by ensuring the timely procurement and delivery of products and services other than construction and consulting services. Establishes City-wide procurement policies and procedures and provides City-wide training and guidance to departments to enable them to facilitate procurements that are decentralized. Manages the P-Card program to enable the procurement of small dollar purchase transactions.	16.75	2,915,884
Strategic Support	Finance	Purchasing and Risk Management	Risk Management	Ensures insurance coverage for City assets, establishes City-wide risk management policies and procedures, and provides City-wide training and guidance to departments on risk-related programs. Manages property and casualty claims from inception to conclusion and performs the centralized subrogation function to recapture losses resulting from third-party wrongdoing or negligence resulting in loss of or damage to City-owned property.	2.03	2,764,517
Strategic Support	Finance	Revenue Management	Accounts Receivable	Develops, maintains, and updates business systems and processes to support the delivery of City services through timely collection of payments due to the City, including services, taxes, fees, and other revenues.	8.70	1,454,710
Strategic Support	Finance	Revenue Management	Business Tax	Enforces the general business tax ordinance by ensuring that taxes and related fees are collected. Issues business tax certificates and processes applications for the following regulatory permits: amusement devices, carnivals/circuses, Christmas tree lots, flower vendors, handbills, pawnbrokers, pool and billiard rooms, pumpkin patches, and second-hand dealers.	12.30	2,255,326

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support	Finance	Revenue Management	Revenue Audit and Compliance	Monitors and conducts compliance reviews of various tax and fee programs related to the following: Transient Occupancy Tax, Convention Center Facility District Tax, Hotel Business Improvement District Fees, Utility Users Tax, Franchise Fees, Telephone Line Tax, Tow agreements, Solid Waste Enforcement Fees, Disposal Facility Tax, Cardroom Tax, Marijuana Business Tax, and Sales and Use Taxes.	8.69	2,070,317
Strategic Support	Finance	Strategic Support	Finance Funds Debt/Financing Costs	Provides for debt and financing costs associated with City debt issuance, credit facilities, and other borrowing.	-	2,409,000
Strategic Support	Finance	Strategic Support	Finance Management and Administration	Provides administrative oversight for the department, including executive management, financial management, human resources, and analytical support.	6.67	1,581,641
Strategic Support	Finance	Strategic Support	Finance Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	7,450,000
Public Safety	Fire	Emergency Response	Fire and Emergency Medical Services Dispatch	Receives calls from 9-1-1 call-takers and other sources, dispatches appropriate resources, triages calls using Medical Priority Dispatch System (MPDS) and Fire Priority Dispatch System (FPDS), relays critical information, provides detailed life safety assistance and instructions to callers (e.g. CPR, childbirth, choking), and provides critical communications support for Incident Commanders.	47.48	9,274,854
Public Safety	Fire	Emergency Response	Fire and Emergency Medical Services Response	Responds to fire, rescue, medical emergencies, and other public assist calls for service; implements appropriate mitigation efforts and incident command system (ICS) scaled to the needs of the emergency.	661.41	219,676,053
Public Safety	Fire	Emergency Response	Fire Stations/Apparatus Operations and Maintenance	Ensures availability of response-ready fire apparatus, tools and equipment, and personal protective equipment (PPE); maintains facilities including fire stations, training facilities, emergency generators, and fueling sites; provides necessary supplies, utilities, furnishings, and fuel.	4.76	7,887,850
Public Safety	Fire	Emergency Response	Fire Sworn Training	Ensures the response-readiness of all sworn fire personnel through comprehensive annual mandated training; provides initial required trainings through Fire Fighter and Fire Engineer Academies.	12.95	8,197,980



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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Public Safety	Fire	Emergency Response	Special Operations - Airport Rescue and Fire Fighting	Provides dedicated Aircraft Rescue and Fire Fighting (ARFF) certified Fire Captains, Engineers, and Fire Fighters as required by the Federal Aviation Administration at Norman Y. Mineta San José International Airport. (Program costs are offset by a transfer from the Airport.)	18.34	6,104,234
Public Safety	Fire	Emergency Response	Special Operations - Hazardous Incident Team	Provides Hazardous Materials specialist-level trained responders and equipment for response to incidents requiring technical expertise to comply with Title 8 CCR §5192: Hazardous Waste Operations and Emergency Response; reviews and inspects facilities with hazardous materials storage. (Majority of the budget and FTE for this program is displayed in Fire and Emergency Medical Services Response Program.)	5.13	2,029,703
Public Safety	Fire	Emergency Response	Special Operations - Urban Search and Rescue	Provides responses to incidents requiring technical expertise including confined space rescue, low/high angle (cliff) rescue, trench rescue, water rescue, structure collapse, and other technical rescue situations. (Majority of the budget and FTE for this program is displayed in Fire and Emergency Medical Services Response Program.)	5.13	2,100,902
Public Safety	Fire	Fire Prevention	Fire Cause Investigation	Investigates suspicious fires to determine the origin; collects and processes evidence, develops detailed reports to assist in criminal prosecution, and provides expert testimonies at court trials.	4.25	1,710,044
Public Safety	Fire	Fire Prevention	Fire Safety Education, Review, and Inspections	Provides fire safety inspections of permitted occupancies and provides Fire Watch and inspections during special events throughout the City. (Program costs are offset by revenues from the Fire Department Non-Development Fee Program.) Provides public safety information and education to the community through multiple education and awareness programs.	22.62	6,453,549
Public Safety	Fire	Strategic Support	Fire Capital - Public Safety	Provides support for the delivery of capital improvement projects for City-owned facilities, including recreational facilities, parks, trails, libraries, public safety facilities, transportation infrastructure, and various cultural and municipal facilities.	-	3,750,000
Public Safety	Fire	Strategic Support	Fire Workers' Compensation - Public Safety	Provides state-mandated benefits for employees injured on the job.	-	8,500,000

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Public Safety	Fire	Strategic Support - Public Safety	Fire Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	-	292,862
Public Safety	Fire	Strategic Support - Public Safety	Fire Information Technology	Provides information technology services, planning, and system development and maintenance for the department in coordination with the Information Technology Department.	8.65	1,839,943
Public Safety	Fire	Strategic Support - Public Safety	Fire Management and Administration	Provides executive-level, analytical, and administrative support to the department; manages the budget and all financial transactions for the department.	16.86	3,917,134
Community and Economic Development	Housing	Homelessness Interventions and Solutions	Joint Encampment Response Team	Provides outreach services and housing referrals to unhoused residents prior to an encampment abatement.	1.50	257,348
Community and Economic Development	Housing	Homelessness Interventions and Solutions	Tenant Based Rental Assistance and Rapid Rehousing	Provides short-term rental subsidies, with supportive services during the subsidy period, to help homeless residents obtain permanent housing as quickly as possible.	1.50	4,000,466
Community and Economic Development	Housing	Neighborhood Capital Investment and Public Services	Non-Profit Service Grants to Support Housing and Community Development Needs	Provides grants to non-profit organizations to support fair housing and tenant legal services, senior programs, and homeless programs.	0.25	39,166
Community and Economic Development	Housing	Neighborhood Capital Investment and Public Services	Place-Based Neighborhood Strategy	Provides community engagement and leadership development services in challenged neighborhoods.	-	9,500
Community and Economic Development	Housing	Strategic Support	Housing Management and Administration	Provides administrative oversight for the department, including executive management, financial management, human resources, and analytical support.	0.25	44,960
Community and Economic Development	Housing	Strategic Support	Housing Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	9.75	3,250,000
Community and Economic Development	Housing	Strategic Support	Housing Planning and Policy Development	Analyzes, develops and recommends public policy to strengthen affordable housing and community development programs. Provides research support for advancement of new and one-time programs. Tracks and coordinates the Department's legislative response to legislation and program regulations at both the State and Federal levels.	1.00	211,218

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support	Human Resources	Employee Benefits	Deferred Compensation	Manages the Voluntary and Non-Voluntary Employee Deferred Compensation contribution and related non-personal and personal administrative expenses.	1.55	373,146
Strategic Support	Human Resources	Employee Benefits	Other Benefits	Manages the other City benefits provided to City employees and their dependents, such as Life Insurance, Unemployment, Vision, etc.	2.21	553,199
Strategic Support	Human Resources	Employment Services	Classification Services	Ensures that positions are properly classified, described, and aligned to support organizational effectiveness and efficiency. In addition, this program determines appropriate salary ranges for new and existing classifications by conducting market and internal equity analyses.	1.00	206,560
Strategic Support	Human Resources	Employment Services	Recruiting/Hiring	Manages recruitment, assessment, and hiring processes to meet the City's staffing needs. In addition, this program is responsible for managing placements, bumping, redeployment, and layoffs, as necessary.	10.50	1,991,821
Strategic Support	Human Resources	Health and Safety	Employee Health Services	Provides occupational medical services, including pre-employment physicals, medical testing and surveillance, blood-borne pathogen testing, and general wellness screenings.	1.00	546,033
Strategic Support	Human Resources	Health and Safety	Employee Safety	Provides comprehensive safety services for 16 City Departments, various City-wide safety trainings, and analysis of work injury data for accident prevention.	2.25	678,551
Strategic Support	Human Resources	Health and Safety	Workers' Compensation Administration	Provides state-mandated benefits for employees injured on the job.	2.50	5,261,013
Strategic Support	Human Resources	Strategic Support	Human Resources Management and Administration	Provides city-wide Human Resources Systems Management and Records Management as well as administrative oversight for the department, including executive management, financial management, and human resources.	9.00	1,836,854
Strategic Support	Human Resources	Strategic Support	Human Resources Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	40,000
Strategic Support	Human Resources	Strategic Support	Workers' Compensation - Other Departments	Provides state-mandated benefits for employees injured on the job.	-	1,500,000
Strategic Support	Human Resources	Training and Development	Employee Training and Development	Provides training and development offerings for employees City-wide to develop essential skills like mentoring, coaching, writing, data visualization, analysis and reporting, and public presentations.	-	250,000

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Public Safety	Independent Police Auditor	Independent Police Oversight	Oversight of Police Misconduct Complaints and Public Outreach	Independent civilian oversight of the San José Police Department (SYPD) by taking in complaints from members of the public about San José police officers, auditing misconduct investigations, preparing annual public reports, making recommendations to improve SYPD policies, participating in the Department's review of officer-involved shooting incidents, and conducting community outreach and engagement.	6.50	1,477,351
Public Safety	Independent Police Auditor	Strategic Support	IPA Management and Administration	Provides administrative oversight for the department, including financial management, human resources, and analytical support.	0.50	122,623
Strategic Support	Information Technology	Business Solutions	Advanced Applications and Services	Develops, implements, and supports software applications and system integrations for multi-departmental to division level business solutions. These business solutions are required to directly support specific City operations.	0.36	602,661
Strategic Support	Information Technology	Business Solutions	Data Services	Enables data administration, use, analytics, transparency and reporting by staff and the public, through strong data platforms, tools, and support.	2.21	864,066
Strategic Support	Information Technology	Business Solutions	Enterprise Resource Management	Manages and supports use of Human Resources, Payroll, Talent, Financials, Budgeting, and Tax Systems impacting all City personnel and fiscal actions. Enables data transparency, analytics, decision-support, and reporting by staff and the public.	10.80	4,321,753
Strategic Support	Information Technology	Business Solutions	Productivity and Collaboration Applications	Administers and supports city-wide use of collaboration and productivity software that multiply the efficiency and effectiveness of City contributors. Collaboration tools enhance group performance through information access, tracking assignments through delivery, and in-group communications. Productivity solutions enable work with high efficiency through documents, spreadsheets, analytics, presentations, electronic messaging, and mobile work enhancement. Business process automation services digitize City workflows to process faster, with less staff time, and with auditability.	10.93	4,798,454

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Strategic Support	Information Technology	San José 311	City Customer Contact Center	Serves as the digital contact point for the large majority of non-emergency interactions with the City's residents and businesses as San José 311. Intakes and processes utility billing cases. Provides access to City information and offices via mobile, chat, online portal, and telephone means. Coordinates across departments to administer main call trees, the frequently asked questions manifest, and response scripts. Administers overflow vendor contract(s) for after-hours and special events call handling.	10.76	2,077,208
Strategic Support	Information Technology	Strategic Support	Information Technology Management and Administration	Provides strategic direction, analytical insights, and administrative support for departmental activities. Manages all fiscal activities, directs budget development and implementation, and administers IT-related policy adherence. Manages personnel functions for the department, including hiring, employee development, discipline, and personnel transactions, all in coordination with the Human Resources Department and Office of Employee Relations. Provides oversight and status reporting for strategic technology deployments in the City.	18.75	4,395,289
Strategic Support	Information Technology	Technology Infrastructure and Operations	Cybersecurity Office	Secures City information and systems assets to ensure business value, compliance, and resilience for all departments. Serves as incident response command for cyber disasters. Leads planning, testing, and attesting for City information and systems assurance activities.	5.00	2,967,466
Strategic Support	Information Technology	Technology Infrastructure and Operations	IT Customer Care	Supports the customer-side use of information and communications technologies by City staff across all departments, including computers and mobile devices. Resolves Help Desk service requests. Supports City employees and contractors in working remotely effectively.	9.08	2,258,108
Strategic Support	Information Technology	Technology Infrastructure and Operations	IT Systems and Operations	Administers and supports the underlying data/voice/video network, hardware systems, storage resources, virtualization, and cloud services fabric on which City software, communications, and collaboration solutions are built.	6.67	1,452,231
Strategic Support	Information Technology	Technology Infrastructure and Operations	Voice and Data Network Infrastructure	Manages city-wide telephone costs, charges/billing, procurement, enterprise voice, and data network infrastructure for quality voice and data communication abilities.	7.00	2,781,507

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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	Access and Borrower Services	Provides materials handling, materials delivery, and customer service at all Library branches and the Dr. Martin Luther King, Jr. Library, including fines and fees collections, check out, check in, hold processing, customer account maintenance, materials maintenance, shelving, and transport of library materials between the 25 library facilities including the Dr. Martin Luther King, Jr. Library, and Mt. Pleasant Neighborhood Library.	203.87	23,607,696
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	Electronic Resources Implementation and Maintenance	Applies the Library's e-Resources strategy, which includes the production and management of the Library's websites (sjpl.org, events.sjpl.org, and SharePoint), the management of the Library online catalog (sjpl.bibliocommons.com), and the management and curation of the all the Library's electronic resource platforms for eBooks, eMagazines, and databases.	8.86	1,390,007
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	Library Facilities and Security	Ensures residents have access to safe, welcoming, accessible, well-equipped, and well-maintained facilities; this includes management and implementation of facility improvements, maintenance, and patron security.	-	27,495
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	Main Library Operations	Ensures that Dr. Martin Luther King, Jr. Library remains fully operational and maintained, including ongoing support of the unique joint partnership with San José State University.	-	3,523,957
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	Materials Acquisition and Processing	Includes the selection, purchase, and processing of all Library materials to reflect the diversity and needs of the community.	16.25	2,119,448
Neighborhood Services	Library	Literacy and Learning, Formal and Lifelong Self-Directed Education	Early Education and Family Learning	With the Library's system-wide Early Education Strategy and nine branch Family Learning Centers, provides dedicated resources to young children (birth to kindergarten), parents, caregivers, and early educators in order to close opportunity gaps and ensure all children receive a strong start in learning and preparation for successful school experiences.	7.15	1,785,035

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Neighborhood Services	Library	Literacy and Learning, Formal and Lifelong Self-Directed Education	Partners in Reading/Adult Literacy	Provides free one-to-one and small group tutoring, by volunteers, for adults whose reading or writing skills are below the ninth-grade level.	4.50	729,602
Neighborhood Services	Library	Strategic Support	Library Capital	Provides support for the delivery of capital improvement projects for City-owned facilities, including recreational facilities, parks, trails, libraries, public safety facilities, transportation infrastructure, and various cultural and municipal facilities.	1.00	328,204
Neighborhood Services	Library	Strategic Support	Library Financial Management	Manages the budget, contracts and all financial transactions for the department; assists in annual budget development.	3.75	532,654
Neighborhood Services	Library	Strategic Support	Library Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	2.00	366,913
Neighborhood Services	Library	Strategic Support	Library Information Technology	Provides information technology services, planning, system development and maintenance for the department in coordination with the Information Technology Department.	8.50	1,389,336
Neighborhood Services	Library	Strategic Support	Library Management and Administration	Provides executive-level, analytical and administrative support to the department.	16.61	3,025,046
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council General	Provides central funding resources to the Office of the Mayor and City Council.	-	49,670
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #01	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	939,594
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #02	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	948,905
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #03	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	940,099
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #04	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	920,617

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Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #05	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	940,099
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #06	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	934,521
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #07	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	923,845
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #08	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	919,606
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #09	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	949,711
Strategic Support - Appointees	Mayor/City Council	Strategic Support	City Council Office - District #10	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	923,057
Strategic Support - Appointees	Mayor/City Council	Strategic Support	Mayor's Office	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	7.00	4,666,133
Neighborhood Services	Parks, Recreation and Neighborhood Services	Community Services	Anti-Graffiti and Anti-Litter	Provides support of litter cleanup and graffiti abatement efforts throughout the City by increasing community engagement and coordinating with neighborhoods, partners, and businesses to address issues of blight.	16.50	3,274,916
Neighborhood Services	Parks, Recreation and Neighborhood Services	Community Services	Illegal Dumping and Homeless Encampment Trash Collection and Abatement Services	In partnership with neighborhoods, businesses, and non-profit partners, provides neighborhood and environmental beautification and cleanup services by eliminating blight caused illegal dumping and homeless encampment trash accumulation throughout the City.	9.75	2,673,418



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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Neighborhood Services	Parks, Recreation and Neighborhood Services	Community Services	Youth Gang Prevention and Intervention	Comprised of a broad coalition of local residents, school officials, community and faith-based organizations, local law enforcement representatives and agencies, and, City, County and State government leaders, leverages each group's expertise as part of a coordinated, interagency effort to curb gang related activity.	46.98	9,628,427
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	Family Camp	Provides campers with reservable wood-framed canvas tents, a dining hall and food services, recreation programs, a swimming area, and a nature center at an all-inclusive, 51.2-acre campground located in the Sierra Nevada wilderness.	7.83	917,902
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	Happy Hollow Park & Zoo	Focuses on conservation, education, animal welfare, and fun by providing animal exhibits and interactive, multi-generational attractions that create connections that inspire a strong sense of community.	96.58	9,543,254
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	Neighborhood Parks and Regional Parks	Maintains and operates nearly 200 neighborhood parks and many other civic spaces as well as nine regional parks to provide safe, clean, and green public spaces for the community to live and play.	170.62	30,090,127
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	Park Rangers	Protect, preserve, and enhance the natural and cultural resources of the City's parks, trails, and open spaces.	21.98	3,163,078
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	Parks Administration	Provides the central management of nearly 200 neighborhood parks and many other civic spaces, including nine regional parks; 61 miles of trails; San José Family Camp; Special Parks Use and facility rentals; City-Wide Sports; the Volunteer Management Unit; Community Gardens; and Happy Hollow Park & Zoo.	8.89	2,419,761
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	Sports Fields Maintenance and Reservations	Provides community access to outdoor play and recreation at 83 sports fields in 47 parks; also known as "City-Wide Sports."	17.98	2,432,401
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	Volunteer, Adopt a Park, and Community Gardens	Includes the Volunteer Corporate Connections and promotes community engagement by working directly with the community members and organizations to supplement park maintenance and keep San José clean and beautiful.	3.79	672,553
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	Aquatics	Offers San José residents and surrounding communities access to pools for swim lessons and recreational swim at affordable costs.	12.91	1,059,047

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Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	Community Center Operations	Offers a multi-service Community Center Hub model in order to improve all residents' health and quality of life through dynamic recreational opportunities and high-quality facilities.	196.39	20,494,733
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	Neighborhood Center Partners Program (formerly PRNS Re-Use)	Allows community-based nonprofits, neighborhood associations, school districts, and other government agencies or community service providers to use City-owned facilities in exchange for providing San José residents with low or no-cost services.	17.82	2,459,430
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	Park Activation/Placemaking	Repurposes and reimagines underused public space through creative and innovative programming, utilizing the City of San José assets, community inspiration, and resident potential to create public life that promotes health, happiness, and well-being in San José.	1.30	202,349
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	RNS Administration	Oversees and manages recreation programs and facilities that are used to promote play and health; strengthen communities and enrich lives throughout San José in an effort to foster healthier lifestyles; improve quality of living; and connect, inform and engage residents.	5.74	1,510,382
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	Senior Services	Strives to decrease social isolation, encourage healthy aging, provide nutritional meals, and offer additional resource connections for older adults through wrap-around services provided at City of San José community centers.	2.50	2,352,782
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PRNS Financial Management	Manages the budget and all financial transactions for the department; assists in annual budget development.	16.15	2,956,118
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PRNS Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	6.73	713,461
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PRNS Management and Administration	Provides executive-level, analytical and administrative support to the department.	5.23	1,559,342
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PRNS Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	239,000

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Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PRNS Workers' Compensation	Provides state-mandated benefits for employees injured on the job.	-	1,700,000
Community and Economic Development	Planning, Building and Code Enforcement	Citywide Land Use Planning	Citywide Planning	Guides the physical design and development of San José by maintaining and updating the Envision San José 2040 General Plan; preparing and updating Urban Village Plans, Area Development Policies, and Specific Plans; conducting long range planning studies and participating with local partners on regional planning; updating City ordinances and policies as they relate to land use and development; and conducting data analysis.	13.29	2,575,355
Community and Economic Development	Planning, Building and Code Enforcement	Citywide Land Use Planning	Planning Administration	Provides administrative support to Planning Development Services for preparation of public hearings and land use entitlement documents.	1.32	450,508
Community and Economic Development	Planning, Building and Code Enforcement	Citywide Land Use Planning	Planning Environmental Review and Historic Preservation	Ensures environmental protection is included in San José's land use planning decision-making process. The Historic Preservation Program seeks to preserve buildings of historical significance in San José.	-	1,500
Community and Economic Development	Planning, Building and Code Enforcement	Strategic Support	PBCE Other Departmental - Grants - Community and Economic Development	Provides oversight and management of federal, State and local grants.	1.00	221,559
Community and Economic Development	Planning, Building and Code Enforcement	Strategic Support - Community and Economic Development	PBCE Management and Administration	Provides administrative oversight for the department, including executive management, employee services, human resources, grant tracking/reconciliation, contract management and analytical support.	1.47	471,281
Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	Code Enforcement Administration	Provides management and oversight to the Code Enforcement Division along with administrative and analytical support, budget preparation, billing, and monitoring.	1.89	334,277
Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	Community Code Enforcement	Ensures the health and safety and quality of life for San José residents and businesses by enforcing the municipal code and land use requirements.	29.17	5,220,717
Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	Multiple Housing Code Enforcement	Ensures multi-family buildings are maintained in safe, decent, and sanitary conditions by conducting proactive, routine, and complaint-based inspections under the Multiple Housing Residential Occupancy Permit Program.	23.00	4,193,677

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Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	Solid Waste Code Enforcement	Regulates and inspects solid waste facilities to ensure that each permitted facility is in full compliance with federal, state, and local regulations governing health and operational standards.	6.95	1,353,931
Neighborhood Services	Planning, Building and Code Enforcement	Strategic Support - Neighborhood Services	PBCE Management and Administration	Provides administrative oversight for the department, including executive management, employee services, human resources, grant tracking/reconciliation, contract management and analytical support.	3.81	631,179
Public Safety	Police	Crime Prevention and Community Education	Crime Prevention	Provides community-oriented policing, community education programs, and problem-solving support for the Police Department and the community.	13.00	2,066,635
Public Safety	Police	Crime Prevention and Community Education	School Liaison/Truancy Abatement	Develops and maintains positive communications and relationships between the Police Department and the school districts within the city; supports truancy abatement services.	6.00	2,106,124
Public Safety	Police	Crime Prevention and Community Education	School Safety	Provides for the safety of school age children as they travel to and from school.	49.67	3,302,082
Public Safety	Police	Investigative Services	Assaults	Investigates assault cases, hate crimes, criminal threats, and brandishing weapons cases.	15.00	3,962,689
Public Safety	Police	Investigative Services	Court Liaison	Liaisons with the District Attorney's Office, seeks and processes criminal citations, and coordinates witnesses.	12.00	1,971,760
Public Safety	Police	Investigative Services	Crime Analysis	Identifies crime trends and crime patterns through analysis of crime data.	17.00	2,753,998
Public Safety	Police	Investigative Services	Family Violence	Uses a collaborative approach to provide a secure, comfortable and convenient location for victims of family violence in order to facilitate the investigation of their cases and seek the services necessary to ensure their continued safety and well-being.	21.00	5,920,218
Public Safety	Police	Investigative Services	Financial Crimes/Burglary	Provides police services to the community by providing investigations of economic crimes.	21.00	5,603,740
Public Safety	Police	Investigative Services	Gang Investigations	Investigates gang-related crimes committed by members of criminal street gangs.	21.00	5,911,654
Public Safety	Police	Investigative Services	Homicide/Crime Scene	Provides for the investigation of all homicides, suspicious deaths, child deaths, in-custody deaths, and officer involved fatal incidents.	34.00	11,012,217
Public Safety	Police	Investigative Services	Internal Affairs	Responsible for receiving, documenting, and investigating all citizen complaints, as well as Department-initiated investigations involving Department members.	18.00	6,049,898

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Public Safety	Police	Investigative Services	Investigations Administration	Provides leadership and management for investigative services.	27.00	11,002,616
Public Safety	Police	Investigative Services	Juvenile/Missing Persons	Responsible for investigating a wide variety of cases involving juvenile offenders and for locating persons who are formally reported as missing from within the city.	5.50	1,453,119
Public Safety	Police	Investigative Services	Robbery	Conducts investigations of robberies, extortions, kidnappings, grand theft "purse snatch" cases, and other robbery-related crimes.	14.00	4,279,624
Public Safety	Police	Investigative Services	Sexual Assaults	Investigates sex offenses reported in the city.	57.00	16,958,309
Public Safety	Police	Investigative Services	Special Investigations	Collects, analyzes, and disseminates information on the criminal activities of organized crime groups, emerging criminal groups, public disorder and terrorist groups, and threats to public officials or private citizens.	53.00	15,905,133
Public Safety	Police	Regulatory Services	Cannabis Regulation	Maintains regulatory oversight for cannabis collectives including site inspections, background investigations on collective's employees, investigation of Municipal Code violations, and conducting analysis of criminal activity related to cannabis operations.	6.00	1,444,536
Public Safety	Police	Regulatory Services	Gaming Control	Maintains regulatory oversight for cardrooms including site inspections, background investigations on cardroom's employees, investigation of Municipal Code violations, and conducting analysis of criminal activity relating to cardroom operations.	7.00	1,628,506
Public Safety	Police	Regulatory Services	Permits	Maintains regulatory oversight for business permits such as taxi companies, tow companies, massage parlors, entertainment venues, gaming establishments, bingo parlors, and peddlers in accordance with the Municipal Code.	10.00	1,909,566
Public Safety	Police	Respond to Calls for Service and Patrol Support	9-1-1 Call Taking & Police Dispatch	Serve as the vital link between public safety and those who need assistance by answering and dispatching emergency and non-emergency calls in a timely, precise, and skilled manner.	163.80	30,085,032
Public Safety	Police	Respond to Calls for Service and Patrol Support	Air Support	Provides aerial support for police ground units on matters relating to public and officer safety.	7.00	2,677,287
Public Safety	Police	Respond to Calls for Service and Patrol Support	Airport Division	Provides basic police services as well as coordinates with partners to enforce the Airport Security Plan and ensure compliance with all FAA and TSA security directives, existing regulations, and emergency amendments at Norman Y. Mineta San José International Airport.	11.00	9,034,978

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Public Safety	Police	Respond to Calls for Service and Patrol Support	Downtown Services	Manages policing activities for events associated with the Downtown Entertainment Zone, including regulatory enforcement of the City's Entertainment and Conditional Use Permits at nightclubs and bars, enforcement of Alcoholic Beverage Control violations, cruise management traffic diversion, and patrol checks at parking garages in the Entertainment Zone.	7.00	2,791,345
Public Safety	Police	Respond to Calls for Service and Patrol Support	Field Operations Administration	Provides leadership and management for field operations.	18.00	4,509,981
Public Safety	Police	Respond to Calls for Service and Patrol Support	Field Patrol	Performs continuous patrol and response to calls for service to ensure immediate public safety.	746.00	216,977,632
Public Safety	Police	Respond to Calls for Service and Patrol Support	Metro	Performs a variety of functions, including street level narcotics enforcement, prostitution enforcement, tactical support for the MERGE Unit, augmenting the VCET Unit during upticks in violent gang crime, and various special assignments as needed.	29.00	8,739,484
Public Safety	Police	Respond to Calls for Service and Patrol Support	Reserves/Volunteers	Manages volunteers who assist the Department for relief, special functions and community events.	5.00	1,266,539
Public Safety	Police	Respond to Calls for Service and Patrol Support	Special Operations	Responds to high-risk incidents, including hostage/barricade situations, with specially trained and equipped staff.	54.00	17,385,291
Public Safety	Police	Respond to Calls for Service and Patrol Support	Traffic Enforcement	Enforces traffic laws in order to reduce traffic collisions, their resulting injuries, and facilitates the safe and expedient flow of vehicular and pedestrian traffic.	30.00	8,899,717
Public Safety	Police	Respond to Calls for Service and Patrol Support	Violent Crimes Enforcement	With a highly skilled and trained team, provides enforcement of crimes associated with violence related to criminal gang activity in an effort to reduce and prevent youth crime and violence.	16.00	4,967,848
Public Safety	Police	Strategic Support	Police Department Management and Administration	Provides executive-level, analytical and administrative support to the department.	11.00	7,638,052
Public Safety	Police	Strategic Support	Police Financial Management	Manages the budget and all financial transactions for the department; assists in annual budget development.	15.00	2,500,415
Public Safety	Police	Strategic Support	Police Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	28.00	7,837,855

**City Budget Program Guide**  
2022-2023 Base Budget - General Fund

CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Public Safety	Police	Strategic Support	Police Information Technology	Provides information technology services, planning, system development and maintenance for the department in coordination with the Information Technology Department.	23.00	8,390,586
Public Safety	Police	Strategic Support	Police Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	143,085
Public Safety	Police	Strategic Support	Police Other Departmental - Grants	Provides oversight and management of federal, State and local grants.	-	65,504
Public Safety	Police	Strategic Support	Police Records	Manages and maintains local, state and federal databases in order to assist in the identification, apprehension and prosecution of criminal offenders, and to ensure officer and public safety.	80.50	10,548,930
Public Safety	Police	Strategic Support	Police Research and Development	Performs research and preparation of complex reports and projects involving inter-departmental issues and intergovernmental topics as well as coordinates release of information in accordance with the California Public Records Act.	18.00	4,018,187
Public Safety	Police	Strategic Support	Police Training and Academy	Delivers constantly updated training programs that support the Department's commitment to excellence, reflecting the highest professional standards in managerial, operational, and personal performance.	40.00	13,160,084
Public Safety	Police	Strategic Support	Police Workers' Compensation	Provides state-mandated benefits for employees injured on the job.	-	8,950,000
Community and Economic Development	Public Works	Regulate / Facilitate Private Development	Public Works Development Services	Provides support to ensure new development projects comply with applicable regulations and provide the necessary public infrastructure including, but not limited to: streets, sidewalks, storm and sanitary sewers, streetlights, landscaping in frontages and street islands, and traffic signals.	6.32	1,192,486
Community and Economic Development	Public Works	Strategic Support	Public Works Other Departmental - City-Wide - Community and Economic Development	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	593,950
Neighborhood Services	Public Works	Animal Care and Services	Animal Licensing and Customer Services	Provides licensing, adoption and customer service support, such as spay and neuter, quarantine, and owner surrender for customers at the Animal Services Center.	51.57	6,100,006
Neighborhood Services	Public Works	Animal Care and Services	Animal Services Field Operations	Provides field services to ensure the health, safety and welfare of animals and people in the City.	24.00	3,354,547

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Neighborhood Services	Public Works	Strategic Support	Public Works Management and Administration - Neighborhood Services	Provides administrative oversight for the department, including executive management, financial management, human resources, and analytical support.	2.50	868,975
Strategic Support	Public Works	Facilities Management	City Facilities Repairs and Minor Capital Improvements	Addresses City facility needs, including tracking and conducting repairs and minor capital improvements, managing improvement and remodel projects, performing building system repairs and improvements, and maintaining the work order database.	2.50	703,665
Strategic Support	Public Works	Facilities Management	Facility Maintenance and Operations – City Hall	Provides maintenance, event services and security for City Hall; maintenance includes programmed preventive maintenance and corrective maintenance.	24.00	8,826,535
Strategic Support	Public Works	Facilities Management	Facility Maintenance and Operations – Non City Hall	Provides maintenance for City-owned facilities (not City Hall), including programmed preventive maintenance and corrective maintenance through requests and building assessments, and repairs in areas such as locksmith work, carpentry, electrical, HVAC, painting, and plumbing.	34.70	15,932,509
Strategic Support	Public Works	Fleet and Equipment Services	Radio Communication	Provides reliable, necessary public and non-public safety-related communications equipment, maintains existing radio equipment and ensures optimal functionality, strategically plans for future upgrades and technology changes while supporting the Silicon Valley Regional Interoperability Authority.	6.25	1,199,634
Strategic Support	Public Works	Plan, Design, and Construct Public Facilities and Infrastructure	City Facilities Engineering and Inspection Services	Provides engineering and surveying services to determine roadway pavement sections and develop topographic map; provides quality assurance during construction to ensure compliance with the contract documents, the California Building Standard Code, and industry standards of care.	1.13	207,517
Strategic Support	Public Works	Plan, Design, and Construct Public Facilities and Infrastructure	Transportation, Sanitary and Storm Sewer Capital	Supports the design and construction of right-of-way capital infrastructure projects, general engineering plan review for regional projects, and electrical engineering review for projects constructed by private developers.	-	38,000
Strategic Support	Public Works	Strategic Support	Public Works Capital - Strategic Support	Provides support for the delivery of capital improvement projects for City-owned facilities, including recreational facilities, parks, trails, libraries, public safety facilities, transportation infrastructure, and various cultural and municipal facilities.	4.75	1,800,000
Strategic Support	Public Works	Strategic Support	Public Works Information Technology - Strategic Support	Provides administrative oversight for the department's technology needs.	2.55	443,939



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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Strategic Support	Public Works	Strategic Support	Public Works Management and Administration	Provides administrative oversight for the department, including executive management, financial management, information technology support, human resources, and analytical support.	9.30	2,612,016
Strategic Support	Public Works	Strategic Support	Public Works Other Departmental - City-Wide - Strategic Support	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	1.00	2,197,879
Strategic Support	Public Works	Strategic Support	Public Works Workers' Compensation - Strategic Support	Provides state-mandated benefits for employees injured on the job.	-	350,000
Strategic Support - Appointees	Retirement Services	Retirement Plan Administration	Retirement Benefits	Provides retirement planning and counseling services to plan members and administers health care and other benefits for retirees and beneficiaries.	-	85,000
Strategic Support - Appointees	Retirement Services	Strategic Support	Retirement Services Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	32,000
Environmental and Utility Services	Transportation	Sanitary Sewer Maintenance	Sanitary Sewer System Maintenance	Provides maintenance and engineering services for the 2,000+ mile sanitary sewer system.	0.25	34,283
Environmental and Utility Services	Transportation	Storm Sewer Maintenance	Storm Sewer Operation and Maintenance	Provides maintenance and engineering services for the City's 1,250+ mile storm sewer system and interdepartmental coordination on water quality issues and storm response.	0.15	474,626
Environmental and Utility Services	Transportation	Storm Sewer Maintenance	Street Sweeping	Provides in-house street sweeping on the City's streets; inspects street sweeping and performs related parking enforcement.	-	1,060
Transportation and Aviation Services	Transportation	Parking Services	Off-Street Parking	Manages the City's public parking facilities including planning, maintenance, security, and operations of parking facilities, and implementation of the annual capital improvement program.	0.15	200,062
Transportation and Aviation Services	Transportation	Parking Services	On-Street Downtown Operations	Provides transportation planning and operations support for special events in the Downtown area and City-wide, including developing and implementing event transportation and parking management plans.	3.20	652,322
Transportation and Aviation Services	Transportation	Parking Services	On-Street Parking	Provides on-street parking compliance services Downtown, in metered zones, around school zones, and in neighborhoods with posted residential permit parking requirements; revenue collection for parking fees and fines; and meter maintenance.	48.89	9,234,376
Transportation and Aviation Services	Transportation	Pavement Maintenance	Corrective Pavement Repair	Responds to urgent service requests and complaints to repair potholes and other minor damage to the pavement network.	1.90	279,066

**City Budget Program Guide**  
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CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Transportation and Aviation Services	Transportation	Pavement Maintenance	Pavement Maintenance Administration and Capital Project Delivery	Assesses and manages the City's 2,400+ mile pavement network, including planning and delivering the annual pavement maintenance projects, managing and developing the capital pavement budget, installing ADA curb ramps and maintaining the City's bridges.	-	32,856
Transportation and Aviation Services	Transportation	Strategic Support	Transportation Financial Management	Manages the budget and all financial transactions for the department; assists in annual budget development.	3.30	627,335
Transportation and Aviation Services	Transportation	Strategic Support	Transportation Workers' Compensation - Transportation and Aviation	Provides state-mandated benefits for employees injured on the job.	-	500,000
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	Transportation Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	1.75	327,140
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	Transportation Information Technology	Provides information technology services, planning, system development and maintenance for the department in coordination with the Information Technology Department.	0.40	502,293
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	Transportation Management and Administration	Provides executive-level, analytical and administrative support to the department. Performs community outreach, marketing, and media relations to advance priorities.	1.80	591,350
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	Transportation Other Departmental - City-Wide - Transportation and Aviation	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	413,000
Transportation and Aviation Services	Transportation	Street Landscape Maintenance	Streetscape Services	Provides in-house and contractual landscape maintenance on City-owned median islands and frontage properties, tree and sidewalk inspections and repair, special event support, and roadway illegal dumping response for street and traffic safety.	26.87	9,250,558
Transportation and Aviation Services	Transportation	Traffic Maintenance	Traffic Signal Maintenance	Performs maintenance and repairs on the City's 950+ traffic signals, maintains communications between traffic infrastructure and the centralized traffic management system, and performs special project work for traffic signal infrastructure upgrades in addition to funding utility costs for signals city-wide.	9.20	3,537,550
Transportation and Aviation Services	Transportation	Traffic Maintenance	Traffic Signs and Markings Maintenance	Performs preventive and corrective maintenance on traffic signs and roadway markings and performs banner installations; installs and repairs traffic safety and traffic calming improvements.	13.50	2,730,559

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February 28, 2022

CSA	Department	Core Service	Budget Program	Budget Program Description	FTE	General Fund Budget
Transportation and Aviation Services	Transportation	Traffic Maintenance	Traffic Streetlights Maintenance	Performs maintenance and repairs on the City's 64,400+ streetlights in addition to funding utility costs for streetlights city-wide.	7.45	7,589,934
Transportation and Aviation Services	Transportation	Transportation Planning and Project Delivery	Transportation Capital Project Delivery	Manages the development of major local street improvement and regional transit and highway projects throughout the City including grant management, policy review, General Plan analysis, CEQA review, engineering and design, roadway geometric design, and construction.	1.01	195,737
Transportation and Aviation Services	Transportation	Transportation Planning and Project Delivery	Transportation Multi-Modal Alternatives	Performs planning, engineering, and project delivery for all transportation modes (pedestrians, bicycle, transit, and carpool) to increase multi-modal travel as described in the transportation element of the General Plan.	1.00	175,329
Transportation and Aviation Services	Transportation	Transportation Planning and Project Delivery	Transportation Planning and Policy	Manages the transportation elements of the General Plan, coordinates transportation and land use planning studies, manages issues related to private development, analyzes the performance of the transportation system, supports policy and technical committees for regional transportation organizations, and reviews and advocates for transportation legislation serving San José interests.	-	51,628
Transportation and Aviation Services	Transportation	Transportation Safety and Operations	Neighborhood Traffic	Responds to an average of 1,300 traffic safety service requests annually. Services include traffic studies which result in changes to roadway signage, pavement striping, and/or pavement markings. Reviews parking requests to support residential and business needs to achieve economic and mobility goals.	9.40	1,947,041
Transportation and Aviation Services	Transportation	Transportation Safety and Operations	Traffic Safety	Constructs traffic safety improvement projects for pedestrian safety and traffic calming. Provides traffic safety education to children, adults, and older adults. Implements the Vision Zero Action Plan to build a culture of safety through community outreach and engagement, data analytics, quick build data-driven safety improvements and prioritizing resources on high corridors and districts with high fatal and severe injury crashes.	1.30	188,452
Transportation and Aviation Services	Transportation	Transportation Safety and Operations	Traffic Signals and Systems Management	Operates the City's 950+ traffic signal system using the Traffic Management Center, manages associated traffic systems (communication and video network) to reduce travel delays and congestion, and plans and improves the traffic signal system.	4.05	1,031,824



**2022-2023 City Manager's Budget Request  
&  
2023-2027 Five-Year Forecast  
and Revenue Projections  
For the  
General Fund and Capital Improvement Program**