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.

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.

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."[1] 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.[2] 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.[3] Given the recent development of the Russian invasion of Ukraine, oil prices could be driven even higher than initially anticipated.

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[1] National Venture Capital Association and PitchBook, Venture Monitor, 4th Quarter 2021

[2] U.S. Energy Information Administration, International Energy Statistics, Updated April 1, 2021

[3] U.S. Energy Information Administration, Short-Term Energy Outlook, February 2022

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 4th 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."[4]

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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4 The Conference Board, Consumer Confidence Survey, February 2022

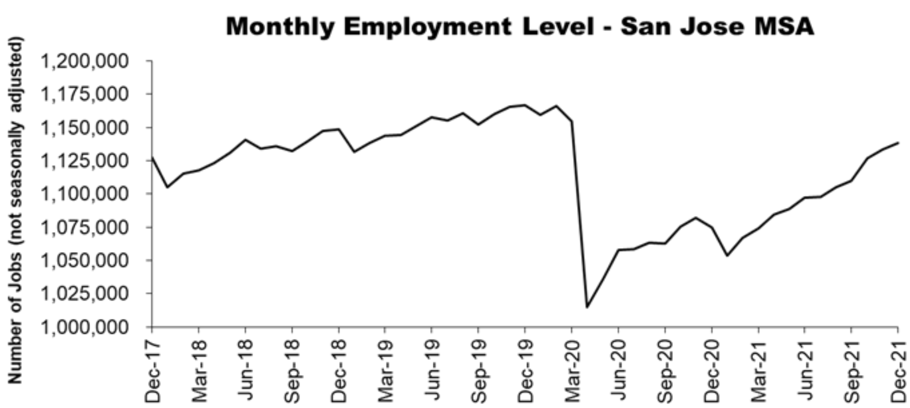
Assumptions Regarding the Economic Environment

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.[5]

Unemployment Rate (Unadjusted)				
	Feb. 2020	April 2020	Dec 2020	Dec. 2021**
San JoseMetropolitan 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.

[5] State of California Employment Development: Labor Market Information Division Press Release, January 21, 2022

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)

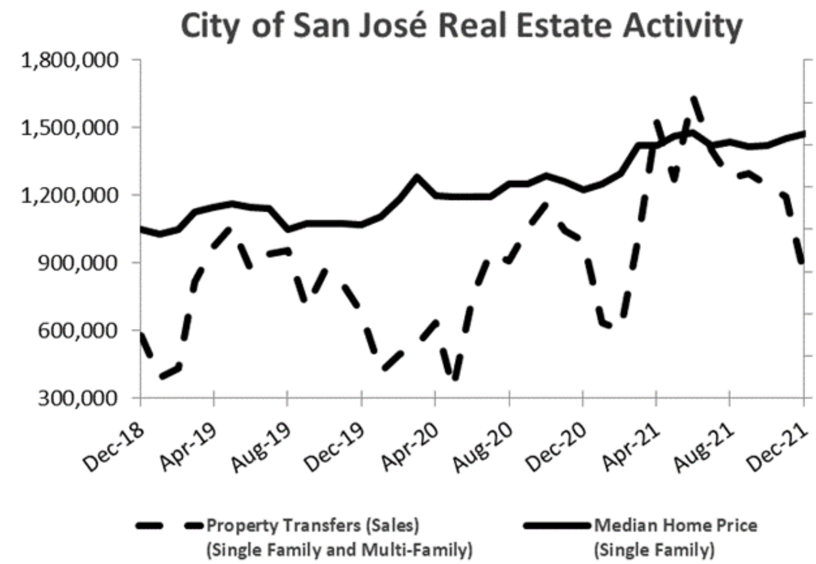
	YTD December 2020	YTD December 2021	% Increase
Residential	$ 203.6	$ 149.2	(26.7%)
Commercial	$ 921.7	$ 235.8	(74.4%)
Industrial	$ 278.6	$ 163.1	(41.5%)
TOTAL	$ 1,403.9	$ 548.1	(61.0%)

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.

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.

Assumptions Regarding the Economic Environment

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.

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.

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

	Modified Budget	Forecast				
General Fund Revenue Category	**2021-2022**	**2022-2023**	**2023-2024**	**2024-2025**	**2025-2026**	**2026-2027**
General Revenues						
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
Total General Revenues	**1,501,002,183**	**1,203,092,985**	**1,249,742,000**	**1,295,322,000**	**1,342,197,000**	**1,388,639,000**
Transfers & Reimbursements						
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
Total Transfers & Reimbursements	**154,655,334**	**105,794,164**	**107,516,000**	**109,340,000**	**111,522,000**	**113,741,000**
Total General Fund Revenues	**1,655,657,517**	**1,308,887,149**	**1,357,258,000**	**1,404,662,000**	**1,453,719,000**	**1,502,380,000**
Beginning Fund Balance	369,180,430	66,250,000	65,947,000	67,627,000	69,746,000	71,919,000
Grand Total Sources	**2,024,837,947**	**1,375,137,149**	**1,423,205,000**	**1,472,289,000**	**1,523,465,000**	**1,574,299,000**

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.

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.

Revenue Forecast

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.

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.

Agency	Distribution Percentage
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%
Total	**9.375%**

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.

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.

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

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.

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.

Revenue Forecast

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.

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.

Revenue Forecast

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.

Revenue Forecast

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.

Revenue Forecast

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.

Revenue Forecast

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.

Revenue Forecast

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.

Revenue Forecast

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.

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 2021-2022	2022-2023	2023-2024	Forecast 2024-2025	2025-2026	2026-2027
Personal Services						
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
	952,684,015	**970,801,523**	**989,962,713**	**1,000,500,094**	**1,016,790,493**	**1,032,847,694**
Non-Personal/Equipment	**153,609,811**	**128,962,000**	**129,616,000**	**132,434,000**	**133,495,000**	**135,631,000**
City-Wide, Capital, Transfers, Reserves						
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
	918,544,121	**246,669,521**	**246,860,857**	**250,594,056**	**254,003,567**	**257,051,129**
Committed Additions						
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
		992,000	**3,063,000**	**11,509,000**	**19,267,000**	**19,957,000**
Total Base Expenditures (w/ Committed Additions)	**2,024,837,947**	**1,347,425,044**	**1,369,502,570**	**1,395,037,150**	**1,423,556,060**	**1,445,486,823**
% Growth			***1.6%***	***1.9%***	***2.0%***	***1.5%***

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

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.

Expenditure Forecast

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.

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.

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.

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
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$14.0	$16.8	$17.4	$16.3	$15.4	$14.5
Tier 1 Pension (Normal Cost) Rate	*19.6%*	*19.6%*	*19.7%*	*19.8%*	*20.0%*	*20.3%*
Tier 2 Pension+	$8.5	$12.2	$15.3	$16.9	$18.6	$20.3
Tier 2 Pension Rate	*8.2%*	*8.2%*	*8.2%*	*8.3%*	*8.3%*	*8.4%*
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
Total Federated Contributions	**$106.0**	**$105.6**	**$105.4**	**$104.1**	**$103.4**	**$102.6**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$36.8	$24.3	$27.2	$25.9	$24.6	$23.3
Tier 1 Pension (Normal Cost) Rate	*31.4%*	*32.3%*	*32.6%*	*33.0%*	*33.7%*	*34.5%*
Tier 2 Pension+	$9.5	$10.7	$17.6	$20.8	$24.4	$28.2
Tier 2 Pension Rate	*14.4%*	*14.4%*	*14.2%*	*14.2%*	*14.2%*	*14.2%*
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
Total Police Contributions	**$141.9**	**$126.9**	**$126.3**	**$122.5**	**$118.4**	**$114.0**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$24.8	$24.5	$24.6	$23.8	$23.0	$22.2
Tier 1 Pension (Normal Cost) Rate	*32.6%*	*33.3%*	*33.5%*	*33.8%*	*34.0%*	*34.4%*
Tier 2 Pension+	$3.0	$3.8	$6.5	$8.7	$10.8	$13.1
Tier 2 Pension Rate	*15.3%*	*15.2%*	*15.1%*	*15.1%*	*15.1%*	*15.1%*
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
Total Fire Contributions	**$107.4**	**$107.0**	**$104.5**	**$96.8**	**$93.8**	**$90.1**
Other Retirement Contributions	**$0.9**	**$0.9**	**$0.9**	**$0.9**	**$0.9**	**$1.0**
Total General Fund	**$356.2**	**$340.4**	**$337.1**	**$324.3**	**$316.5**	**$307.6**
Total All Funds	**$485.6**	**$460.6**	**$452.6**	**$438.3**	**$429.5**	**$419.6**

+ 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).

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
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$26.9	$26.9	$24.9	$23.0	$21.3	$19.7
Tier 1 Pension (Normal Cost) Rate	*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
Tier 2 Pension Rate	*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
Total Federated Contributions	**$219.9**	**$227.1**	**$222.5**	**$217.5**	**$213.5**	**$209.1**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$26.5	$25.8	$23.6	$21.7	$19.9	$18.1
Tier 1 Pension (Normal Cost) Rate	*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
Tier 2 Pension Rate	*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
Total Police Contributions	**$131.8**	**$132.2**	**$120.8**	**$114.7**	**$107.9**	**$100.6**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$23.4	$23.6	$22.2	$20.8	$19.6	$18.4
Tier 1 Pension (Normal Cost) Rate	*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
Tier 2 Pension Rate	*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
Total Fire Contributions	**$106.7**	**$109.0**	**$103.2**	**$93.6**	**$89.0**	**$83.5**
Total City Contributions	**$458.4**	**$468.3**	**$446.5**	**$425.8**	**$410.4**	**$393.2**

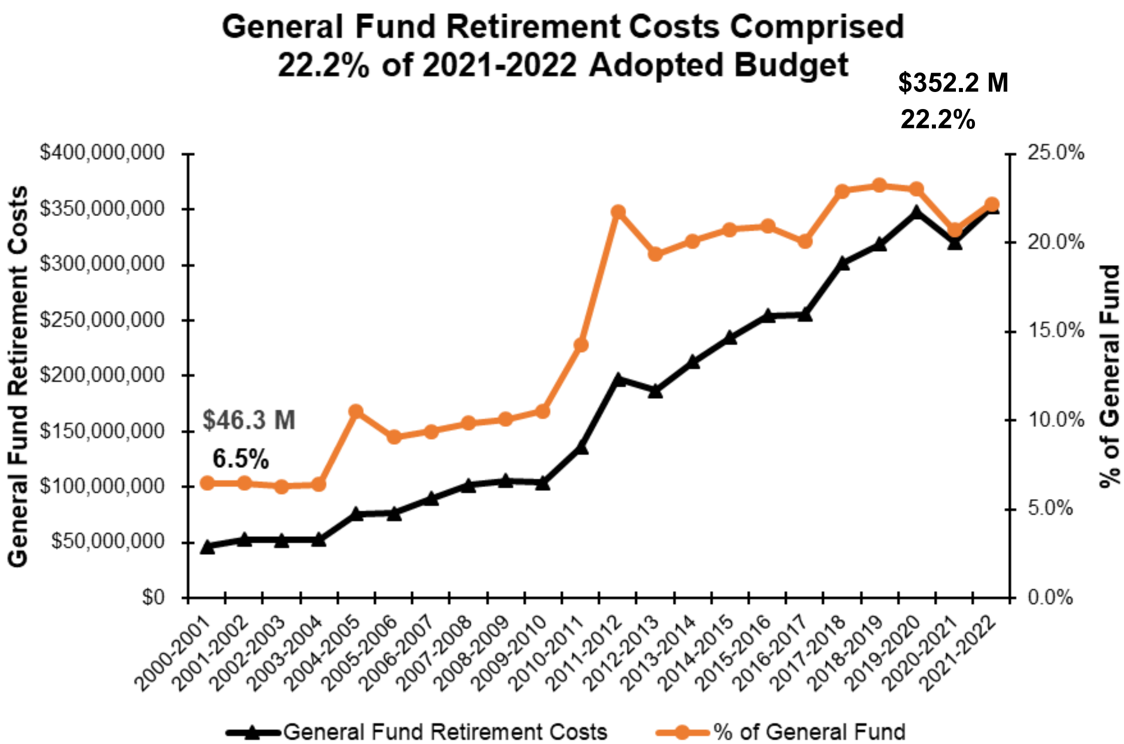
+ Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of Unfunded Actuarial Liability (UAL) related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

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

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.

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.

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).

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).

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.

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.

Expenditure Forecast

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.

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.

2023-2027 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
February 2021 Incremental Surplus/(Shortfall)	**$3.3**	**$0.2**	**$4.4**	**$1.9**	**N/A**
June 2021* Incremental Surplus/(Shortfall)	($31.6)	N/A	N/A	N/A	N/A
February 2022 Incremental Surplus/(Shortfall)	**$27.7**	**$26.0**	**$23.5**	**$22.7**	**$28.9**

* 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.

Operating Margin

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.