

CITY OF SAN JOSE
2022-2023 ADOPTED OPERATING BUDGET
GENERAL FUND REVENUE OVERVIEW

Introduction

For 2022-2023, General Fund revenue estimates (excluding Fund Balance) total \$1.35 billion, representing an 11.0% increase from the 2021-2022 Adopted Budget level. When the Fund Balance-Carryover is included, General Fund resources total \$1.86 billion, which is 20.8% above the prior year.

Estimates for the 2022-2023 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2023-2027 Five-Year Forecast that was released at the end of February 2022. These estimates have been reviewed continually since the Forecast document was released and have been revised, as appropriate, in the Adopted Budget based on updated information. Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2021-2022; and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for 2022-2023. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2022-2023 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2020-2021 Actuals	2 2021-2022 Adopted	3 2022-2023 Forecast	4 2022-2023 Adopted	2 to 4 % Change	% of Total
Property Tax	\$ 390,896,950	\$ 395,500,000	\$ 427,000,000	\$ 427,000,000	8.0%	23.0%
Sales Tax	284,020,471	280,200,000	325,000,000	331,000,000	18.1%	17.8%
Transient Occupancy Tax	5,409,142	10,000,000	11,000,000	11,000,000	10.0%	0.6%
Franchise Fees	45,628,289	44,651,652	48,585,652	49,168,393	10.1%	2.6%
Utility Taxes	106,970,843	97,060,000	107,450,000	107,450,000	10.7%	5.8%
Business Taxes	70,035,779	74,500,000	86,000,000	86,000,000	15.4%	4.6%
Real Property Transfer Tax	50,530,828	40,000,000	65,000,000	65,000,000	62.5%	3.5%
Telephone Line Tax	20,872,785	20,000,000	20,000,000	20,000,000	0.0%	1.1%
Licenses and Permits	19,388,370	21,002,985	21,703,636	20,993,100	(0.0%)	1.1%
Fees, Rates, and Charges	7,442,173	14,832,684	23,853,718	23,914,232	61.2%	1.3%
Fines, Forfeitures and Penalties	9,760,327	8,676,000	12,232,000	12,232,000	41.0%	0.7%
Rev. from Money and Property	8,778,301	9,304,000	8,688,000	8,779,000	(5.6%)	0.5%
Rev. from Local Agencies	20,411,974	18,784,335	16,277,711	17,107,945	(8.9%)	0.9%
Rev. from State of California	20,734,690	13,247,111	13,700,000	26,889,687	103.0%	1.4%
Rev. from Federal Government	3,733,619	3,684,826	0	7,111,452	93.0%	0.4%
Other Revenue	166,871,618	9,242,806	8,652,035	16,823,368	82.0%	0.9%
Transfers and Reimbursements	123,957,878	157,956,656	116,824,956	122,058,848	(22.7%)	6.6%
Subtotal	\$ 1,355,444,037	\$ 1,218,643,055	\$ 1,311,967,708	\$ 1,352,528,025	11.0%	72.8%
Fund Balance-Carryover ⁽¹⁾	369,180,430	321,188,401	66,250,000	507,133,721	57.9%	27.2%
Total General Fund Sources	\$ 1,724,624,467	\$ 1,539,831,456	\$ 1,378,217,708	\$ 1,859,661,746	20.8%	100.0%

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

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The following is a discussion of both the national and local economic outlooks used to develop the 2022-2023 revenue estimates. Various economic forecasts and models were reviewed in the development of the 2022-2023 revenue estimates. The City also uses an economic forecasting consultant and consultants that focus on particular revenue categories, such as Sales Tax and Transient Occupancy Tax, to assist in the development of the revenue estimates and provide information on the future outlook in these areas. A more detailed discussion on forecasted economic conditions can be found in the 2023-2027 Five-Year General Fund Forecast

National Outlook

Prior to the pandemic that began in late February/early March 2020, the United States economy had been steadily expanding for almost a decade. The pandemic created not only a public health crisis, but an economic crisis as well. As a result of the pandemic, employment levels fell 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 continued 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

⁴ The Conference Board, Consumer Confidence Survey, February 2022

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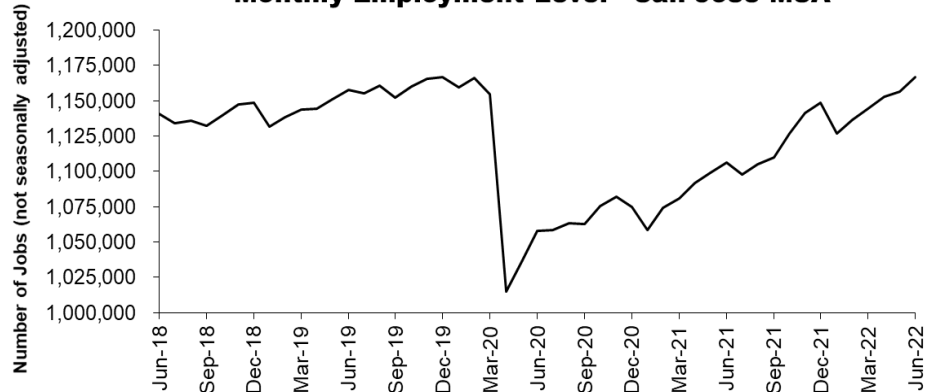
As of February 2022, inflation is running at a decades high rate of over 7%, as measured by the Consumer Price Index. The extremely high inflation rate has likely occurred as a result of labor shortages, a breakdown in the global supply chain, surging energy prices, and expansive Federal Reserve monetary policies that were designed to prevent overly severe negative economic impacts related to the pandemic. In order to restrain the extremely high inflation rate being experienced in the United States, the Federal Reserve is expected to raise interest rates several times in 2022, the first of which occurred in March 2022. By raising interest rates, borrowing money becomes more expensive, which should reduce spending and curb inflation.

City of San José Outlook

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 June 2022 employment level of 1.17 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 60,400 jobs, or 5.5%, from the June 2021 level of 1.11 million. This increase includes leisure and hospitality adding 19,200 jobs; professional and business services increasing 13,900 jobs; and the private educational and health services growing by 7,000 jobs.¹

Monthly Employment Level - San Jose MSA



After topping over 12% near the beginning of the pandemic in April 2020, the local unemployment rate has significantly dropped and as of April 2022, the unemployment rate has fallen below pre-pandemic levels. In June 2022, the local unemployment rate was 2.3%, which

Unemployment Rate (Unadjusted)				
	Feb. 2020	April 2020	June 2021	June 2022**
San Jose Metropolitan Statistical Area*	2.6%	12.4%	5.5%	2.3%
State of California	4.3%	16.0%	8.2%	4.0%
United States	3.8%	14.4%	6.1%	3.8%
* San Benito and Santa Clara Counties Source: California Employment Development Department. ** June 2022 estimates are preliminary and may be updated.				

¹ State of California Employment Development: Labor Market Information Division Press Release, July 22, 2022

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Is lower than the June 2021 rate (5.5%) and the pre-pandemic level of 2.6%. Additionally, in this region, the June 2022 unemployment rate continues to be lower than the unadjusted unemployment rate for the State (4.0%) and the nation (3.8%).

Overall construction activity through June 2022 decreased 20.5% 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. Development activity has been on a downward trend since 2019-2020 (\$2,499.7) and will continue to be closely monitored.

Through June 2022, residential permit valuations decreased 5.8% from the prior year (\$367.4 million through June 2022; \$390.1 million through June 2021). Overall valuation for the year was moderately higher for new construction at 58% than alterations at 42%. However, for the last quarter, a large majority of the permit activity was from alterations. Residential activity through June included 1,279 multi-family units and 608 units for single-family construction for a total of 1,887 units. A major project for May and June included permits for two nine-unit condominium buildings.

Private Sector Construction Activity (Valuation in \$ Millions)			
	YTD June 2021	YTD June 2022	% Increase
Residential	\$ 390.1	\$ 367.4	(5.8%)
Commercial	\$ 1,128.0	\$ 821.7	(27.2%)
Industrial	\$ 386.6	\$ 325.9	(15.7%)
TOTAL	\$ 1,904.7	\$ 1,515.0	(20.5%)

Commercial valuation through June 2022 experienced a decrease of 27.2% from the prior year level (\$821.7 million through June 2022; \$1,128.0 million through June 2021). Most of the activity for the year was from additions/alterations at about 68% of the total, with approximately 32% for new construction. A major project for May and June included a permit for a new assisted living facility located on Almaden Expressway south of Hillsdale Avenue.

Industrial construction valuation through June 2022 was 15.7% lower than the prior year levels (\$325.9 million through June 2022; \$386.6 million through June 2021). Most of the valuation for the year was from alteration. Alterations accounted for all the activity from February through June.

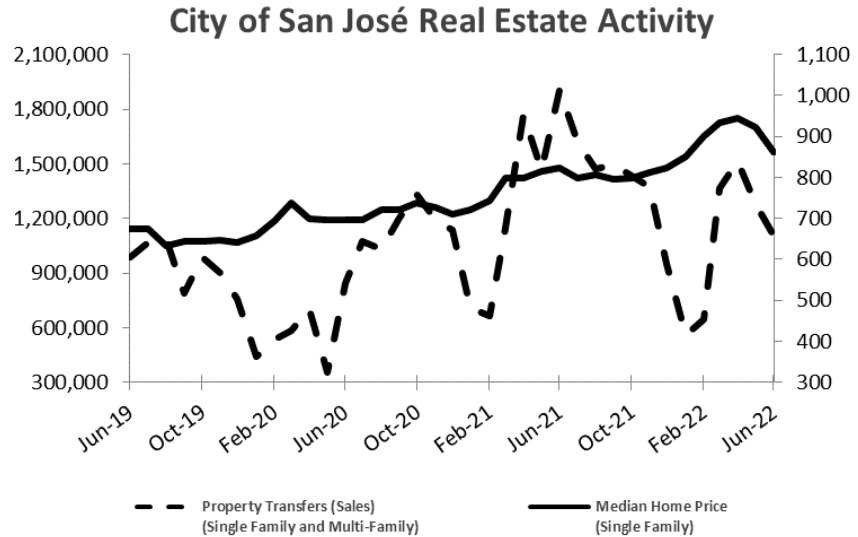
The local real estate market has continued to perform strongly through 2021-2022, recording record high median single home prices. However, sales activity has begun to slow down, which may be indicative of a cooling market. According to data from the Santa Clara County Association of Realtors, the number 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.

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However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains. As of June 2022, the median single-family home price totaled \$1.6 million, which is 5.6% above the June 2021 price of \$1.5 million. Additionally, it is taking less time to sell these more expensive houses. The average days-on-market through June 2022 totaled 14 days,



which is significantly below the average of 23 days experienced year-to-date through June 2021. Property Sales, however, have begun to slow down. In the first half of 2021-2022, Property Sales for single family and multi-dwelling homes grew 15% compared to the prior year. However, total sales for January-June 2022 dropped 12% compared to the same time period in 2021. Property Sales, as well as its possible impact on home prices will continue to be closely monitored.

Economically Sensitive and Non-Economically Sensitive Revenue Drivers

Economic conditions are the primary drivers for a number of the City's revenues, with the most significant impacts in the Property Tax, Sales Tax, Business Taxes, Real Property Transfer Tax, and Transient Occupancy Tax revenue categories. Collectively, in 2022-2023 these revenue sources constitute almost 70% of total total General Fund revenue. Although the economically sensitive revenues make up a large portion of the General Fund, there are also many revenue categories that are considered non-economically sensitive and are typically driven by outside factors. For example, the Utility Tax and Franchise Fees categories have historically been more heavily impacted by utility rate changes, energy prices, and weather-based consumption levels. As a result, in the past these General Fund revenues have experienced no significant net gain or loss in times of an economic expansion or slowdown.

Revised General Fund Forecast

Between the issuance of the Five-Year Forecast in February 2022 and the adoption of the budget in June 2022, revenue collections for 2022-2023 continued to be reviewed and updated. Based on this analysis, several of the revenue estimates presented in the February Forecast were revised in this budget to reflect more recent information. These adjustments resulted in a \$3.1 million net increase to the General Fund Forecast, increasing the revenue estimate from \$1.375 billion to \$1.378 billion (including fund balance). Below is a summary table of the changes incorporated into the Revised Forecast, which were used as the starting point in preparing the 2022-2023 Adopted Budget.

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Revised General Fund Forecast

Category	\$ Change	Description
Sales Tax	\$ 5,000,000	Increase of \$5.0 million as a result of further analysis of the second quarter Sales Tax receipts that were received in February 2022 and updated information being received from the City's Sales Tax consultant, which resulted in an \$5.0 increase to the 2022-2023 Sales Tax estimate (from \$320.0 million to \$325.0 million).
Revenue from the State of California	1,600,000	Increase of \$1.6 million reflects updated information from the State of California regarding Tobacco Settlement funds.
Franchise Fees	600,000	Increase of \$600,000 reflects updated information received in April 2022, which increases the 2022-2023 estimate for Electric Franchise Fees by \$600,000.
Other Revenue	319,424	Net increase of \$319,424 aligns revenues with the estimated base costs and activity levels for Transportation Department revenues.
Fines, Forfeitures, and Penalties	100,000	Increase of \$100,000 aligns revenues with estimated base costs and activity levels for Public Works Department fines.
Licenses and Permits	83,805	Net increase of \$83,805 aligns revenues with estimated base costs and activity levels for Public Works Department permits (\$52,845), Police Department permits (\$21,948), Planning Building and Code Enforcement permits (\$6,820), and Transportation Department permits (\$2,192).
Transfers and Reimbursements	(4,469,208)	Net decrease of -\$4.5 million reflects updated overhead reimbursements from capital and operating funds based on the final 2022-2023 base budget and overhead rates (-\$4.3 million) and lower transfers and reimbursements to the General Fund (-\$187,943).
Fees, Rates, and Charges	(153,462)	Net decrease of -\$153,462 aligns revenues with estimated base costs and activity levels for Police Department fees (\$96,324), Miscellaneous fees (-\$43,867), and Transportation Department fees (-\$205,919).
Total	\$ 3,080,559	

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Changes from Revised Forecast to Adopted Budget

From the Revised Forecast of \$1.38 billion, a net increase of \$481.4 million to the General Fund revenue estimates are included in the Adopted Budget, bringing the 2022-2023 revenue estimate to \$1.86 billion (including fund balance). The components of this change include an increase to the estimate for 2021-2022 Ending Fund Balance/2022-2023 Beginning Fund Balance (\$440.9 million) and an increase to various revenue categories (\$40.6 million). The revenue changes are summarized in the table below.

Category	\$ Change	Description
Beginning Fund Balance	\$440,883,721	Net increase of \$440.9 million reflects: the rebudget of 2021-2022 funds for expenditure-related items and unexpended reserves (\$376.8 million); the liquidation of various reserves (\$33.1 million), the largest of which include the 2022-2023 Future Deficit Reserve (\$28.3 million), Sick Leave Payments Upon Retirement Reserve (\$2.0 million), and Pest and Turf Management Team Reserve (\$1.0 million); and fund balance from additional revenue and expenditure savings that is anticipated to be received in 2021-2022 and be available for use in 2022-2023 (\$31.0 million).
Revenue from the State of California	13,189,687	Increase of \$13.2 million primarily reflects eight new State grants (\$10.5 million), the largest of which is for the CaliforniansForAll Youth Workforce Program (\$9.2 million). In addition, State grant funding and reimbursements were rebudgeted from 2021-2022 to 2022-2023 for various programs (\$2.7 million), the largest of which includes Mobile Operations and Satellite Expeditionary System (MOSES; \$2.2 million).
Other Revenue	8,171,333	Net increase of \$8.2 million primarily reflects three new grants (\$7.6 million), including two grants for Diridon Station (\$7.4 million) and a grant from Destination Home Silicon Valley (\$178,820). In addition, grant funding was rebudgeted from 2021-2022 to 2022-2023 for various programs (\$570,000) and various Transportation Department fee changes have been made to align revenues with estimated activity levels (-\$19,268).
Revenue from Federal Government	7,111,452	Increase of \$7.1 million primarily reflects rebudgeted federal grant funding from 2021-2022 to 2022-2023 for various programs (\$6.1 million), the largest of which includes a Hazard Mitigation grant (\$1.1 million). In addition, five new federal grants are anticipated to be received in 2022-2023 (\$985,474), the largest of which is for Urban Areas Security Initiative (UASI) – Office of Emergency Management (\$470,714).
Sales Tax	6,000,000	Increase of \$6.0 million as the result of higher than anticipated General Sales Tax collections that were received in May 2022 and are anticipated to continue ongoing. This action increases the 2022-2023 Sales Tax budgeted estimate from \$325.0 million to \$331.0 million.

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Changes from Revised Forecast to Adopted Budget

Category	\$ Change	Description
Transfers and Reimbursements	\$ 5,233,892	Net increase of \$5.2 million reflects three transfers to the General Fund (\$3.7 million) and additional overhead from the budget actions that change the staffing levels funded by special and capital funds (\$1.5 million). Transfers to the General Fund include \$3.5 million from the American Rescue Plan Fund to partially reimburse the City for revenue losses resulting from the pandemic and \$200,000 from the General Purpose Parking Fund for Downtown Ice.
Revenue from Local Agencies	830,234	Increase of \$830,234 primarily reflects rebudgeted local agency grants and reimbursements from 2021-2022 to 2022-2023 for various programs (\$540,960), the largest of which includes the Coyote Creek Trail Patrol grant (\$331,933). In addition, four new local agency grants and reimbursements are anticipated to be received in 2022-2023, the largest of which is for the Child Interview Center (\$124,274).
Franchise Fees	582,741	Increase of \$582,741 reflects an increase in the Commercial Solid Waste fees by 4.70% based on the change in the Consumer Price Index.
Revenue from the Use of Money and Property	91,000	Increase of \$91,000 to reflect new lease revenue related to a property on Alma Avenue.
Fees, Rates, and Charges	60,514	Net increase of \$60,514 reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Parks, Recreation, and Neighborhood Services Department fee revenue (\$283,879), Transportation Department fee revenue (\$2,333), Police Department fee revenue (\$1,325), and miscellaneous fee revenue (-\$213,023). In addition, as directed in the Mayor's June Budget Message for Fiscal Year 2022-2023, as approved by the City Council, three General Fund related fees were reduced in 2022-2023 totaling -\$14,000, including library fines for seniors (-\$5,000), community room rentals at libraires (-\$5,000), and park event permits (-\$4,000).
Licenses and Permits	(710,536)	Net decrease of \$710,536 reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Public Works Department (Animal Care Services; \$110,000), Planning, Building, and Code Enforcement (Multi-Housing; -\$408,313), Police Department, including the elimination of the fee for the temporary street closure permit (-\$303,202), Fire Department (-\$105,000), Transportation Department (-\$3,072), and Finance Department (-\$949).
Total	\$ 481,444,038	