

An overview of the City's finances

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

CITY FINANCES

UNDERSTANDING CITY FINANCES

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

CITY REVENUES

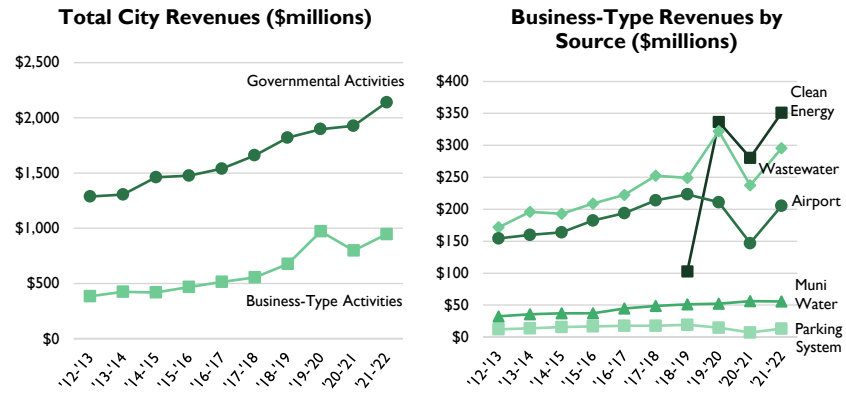
The City received \$3.09 billion in revenues in 2021-22. Governmental activity revenue totaled \$2.14 billion, an 11 percent increase from 2020-21. This was due to in part to increases in property, sales, and other taxes as well as increases in charges for housing inclusionary in-lieu fees and for recycling collections. Business-type activities generated \$947 million, a 19 percent increase from the prior year. Revenues at the Mineta San José International Airport increased in part due to higher passenger activity after a decline last year due to COVID-19 travel restrictions. Wastewater Treatment System revenues increased with higher contributions from tributary agencies. San José Clean Energy increased rates to customers, which impacted revenues.

Cities generate revenues from a variety of sources. Most California cities generate the majority of their revenue from taxes and fees. Grants made up a larger portion of the City's revenues than before the COVID-19 pandemic. Fines, fees, utilities, and user charges made up a smaller portion than a decade ago.

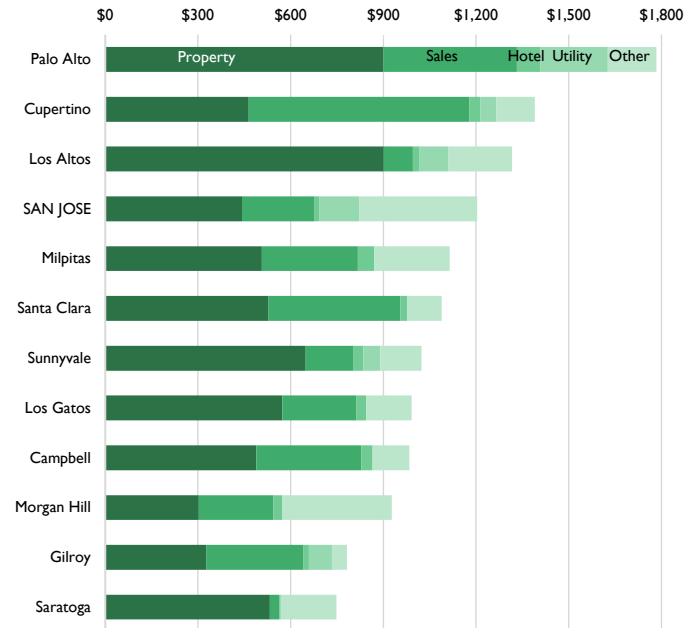
REVENUE PER CAPITA

In 2021-22, the City's governmental activity revenues per capita increased. Governmental activity revenues per capita totaled \$2,191 in 2021-22.

The City's tax revenues were \$1,204 per capita in 2020-21. Of that, property tax was \$442 and sales tax was only \$236. In contrast, Palo Alto received \$1,784 in taxes per capita, of which \$901 was from property tax and \$432 was from sales taxes.



City Comparison of Tax Revenues Per Capita (2020-21)



Source: 2020-21 State Controller's City Data and California Department of Finance population estimates.

CITY EXPENSES

The City’s total expenses decreased slightly in 2021-22 to \$2.82 billion. These expenses include non-cash expenses such as depreciation (see “City Capital Assets and Spending” later in this chapter). Revenue sources are often restricted in how they can be spent. As a result, reducing expenses for one service does not necessarily mean that expenses can be increased for another service, because the revenue may not be transferable.

Governmental activity expenditures per capita were \$2,046 in 2021-22. Last year, they were \$2,128. Governmental activity expenses, which make up the majority of City expenses, decreased by 9 percent from the prior year. This was due in part to a decrease in recognized pension expenses after last year's earnings were significantly higher than expected.

Business-type activities expenses increased by 6 percent from last year. This was partly due to the effect of higher prices in the California energy markets on San José Clean Energy.

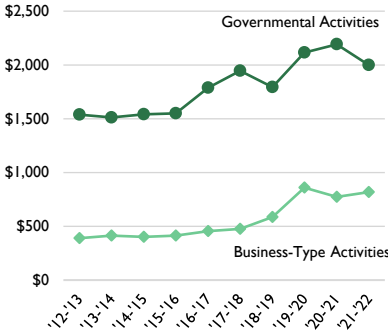
CITY RESERVES

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

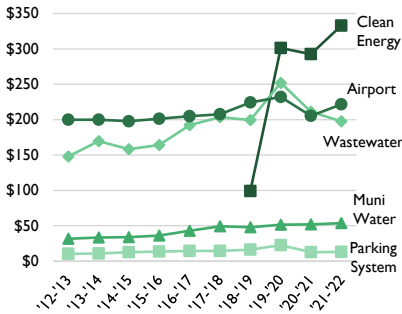
- **Nonspendable:** Amounts not in a spendable form, such as inventories, or that are legally or contractually required to be maintained intact or required to be retained in perpetuity.
- **Restricted:** Amounts with either external constraints (such as from creditors) or legal constraints on their usage.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

In 2021-22, the overall General Fund balance increased to \$573 million, including an increase in the unassigned fund balance from \$8 million to \$226 million. General Fund revenues increased by 17 percent, in part due to higher real property transfer tax revenues, while expenditures only increased 2 percent.

Total City Expenses (\$millions)

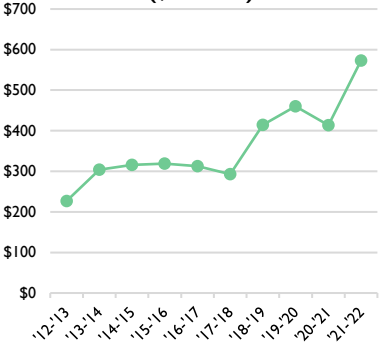


Business-Type Expenses by Source (\$millions)

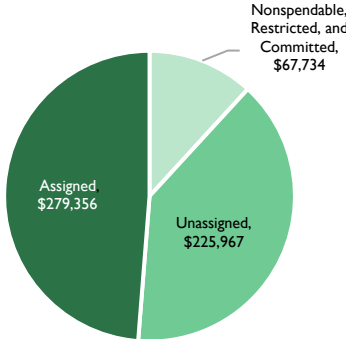


Note: In 2017-18, San José Clean Energy had \$1 million of expenses.

General Fund Balances (\$millions)



General Fund Balances (\$thousands)



CITY FINANCES

CITY OBLIGATIONS AND DEBT

In total, the City had \$6.8 billion in obligations as of June 30, 2022. Of this, \$613 million was for short-term obligations and \$6.2 billion was for long-term obligations. Obligations decreased from last year primarily due to a decrease in pension liabilities.

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

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

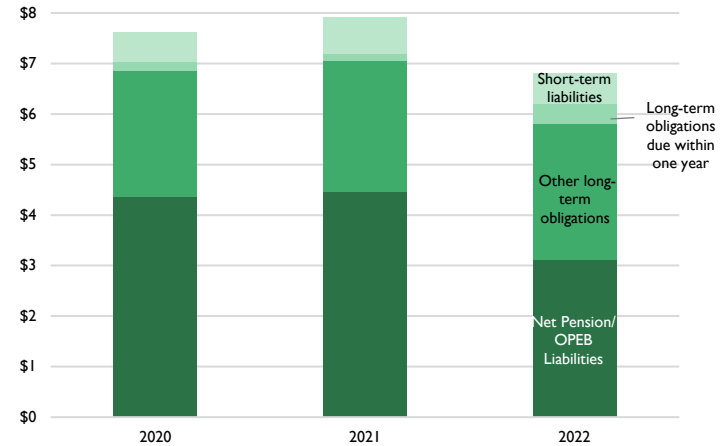
- The accrued vacation and sick leave that employees have earned but haven't taken.
- Bonds that the City has issued to finance the purchase, construction, and renovation of City-owned facilities and infrastructure. The payment of bond debt, called debt service, includes payment of principal and interest.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

AMOUNT BORROWED PER CAPITA

The amount borrowed per capita increased in 2021-22, primarily resulting from the issuance of Lease Revenue Bonds to pay for City projects and to refund previous bonds. In July 2021, the City issued a second round of bonds relating to Measure T. San José residents passed Measure T in November 2018, authorizing the City to issue up to \$650 million of general obligation bonds for various public improvements.

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

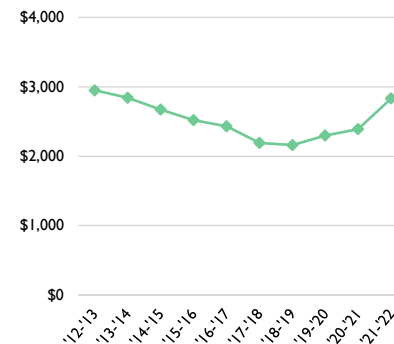
City Obligations by Type (\$billions)



Who has to pay the City's debt?

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

Debt Burden per Capita



CAPITAL ASSETS AND SPENDING

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

At the end of 2021-22, the City owned \$7.4 billion of capital assets. This figure represents the historical purchase or constructed cost less normal wear and tear from regular use (referred to as *depreciation*).

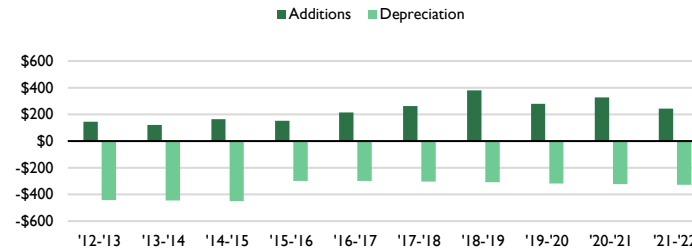
Capital assets used for governmental activities totaled \$4.9 billion. Assets used in business-type activities such as the Airport and wastewater treatment totaled \$2.5 billion.

In 2021-22, the City added \$244 million in capital assets; however, these were offset by \$327 million in depreciation. Including transfers and deletions, the overall value of the City’s capital assets decreased slightly over the year. Among the additions were capital projects at the Regional Wastewater Facility and the Airport.

INFRASTRUCTURE AND MAINTENANCE

On an annual basis, the City Administration prepares a status report on the deferred maintenance and infrastructure backlog. In March 2022, staff reported that the City faced an estimated \$1.7 billion backlog, with an estimated additional \$91 million needed annually to sustain the City’s infrastructure in a functional condition. The transportation system (e.g., streets, street lighting) is most affected by the backlog.

Capital Asset Additions and Depreciation (\$millions)



Note: Capital additions do not include transfers.

Infrastructure Backlog (all funds as of March 2022) (\$millions)

	Current Backlog of Deferred Needs	Annual Ongoing Unfunded Needs
Airport	none	none
Building Facilities*	\$246.5	\$20.1
City Facilities Operated by Others	\$13.8	\$6.8
Sports Facilities	none	TBD
Convention Center/Cultural Facilities	\$73.5	TBD
Fleet	\$7.7	\$1.4
Parks, Pools, and Open Space	\$284.4	\$36.5
Sanitary Sewer	\$50.0	\$0.9
Service Yards	\$14.1	\$0.7
Storm Sewer	\$180.0	\$5.0
Technology**	\$47.5	\$5.7
Radio Communications	\$3.8	\$0.4
Transportation Infrastructure	\$736.9	\$14.0
Regional Wastewater Facility	none	none
Water Utility	none	none
Total	\$1,658.2	\$91.5

Source: [Status Report on Deferred Maintenance and Infrastructure Backlog, 2022](#)

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

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

