ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2023-2024 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.

- **Base Case** – The Base Case Forecast is built on the assumption of a moderate recession beginning in summer 2023, which impacts several economically sensitive categories. The local region is anticipated to weaken considerably in the next few quarters, continuing into 2023-2024. Inflation rates are anticipated to remain elevated in the near-term as the Federal Reserve continues to rise interest rates to combat the elevated inflation. Unemployment rates, which have been significantly low, are projected to rise slightly. In addition, the real estate market, which has been declining, will continue to post low property sales and median home prices. This will impact the Real Property Transfer Tax beginning in 2023-2024; however, due to the lag in Property Tax revenue, those receipts are not anticipated to be significantly impacted until 2024-2025. Other economically sensitive revenue categories, such as Sales Tax and Transient Occupancy Tax revenue are anticipated to either decline or have no growth in 2023-2024, then experience moderate growth in the out-years of the forecast.

- **Optimistic Case** – The Optimistic Case Forecast assumes that the key indicators for inflation show signs of decreases which causes interest rates to lower earlier than anticipated in the Base Case. Venture capital investments, the key driver of the technology sector of the economy, start rising again in each year of the forecast period in the Optimistic Case. As a result, the largest local technology employers begin to perform 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 rise to higher levels through the entire forecast period. Higher inflation for a longer period of time is also expected in the Optimistic Case. These growth factors result in increased collections in the economically sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax.

- **Pessimistic Case** – The Pessimistic Case Forecast assumes a longer period of increasing interest rates with a corresponding lowering of inflation rates that occurs much earlier than the Base Case. Decreases are assumed for several of the key determinants of the City's revenues, including home prices, property sales, and venture capital investments. These factors further decrease employment levels, which deepens the anticipated recession. 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.

Elements of The General Fund Forecast

Assumptions Regarding the Economic Environment

Base Case Forecast

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 2023-2024 Proposed Operating Budget, scheduled for release on May 1, 2023.

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

As of the timing of this Forecast being released, the United Stated appears to be entering recessionary conditions in the near future. However, as several economic indicators have just recently started to weaken, it is very difficult to forecast the length and severity of a possible looming recession.

During the pandemic, the Federal Reserve undertook exceptional efforts to keep the economy afloat while the world navigated its way through the crisis. The Federal Reserve accomplished this goal of supporting the economy largely by keeping interest rates lower than they otherwise would have been. These lower interest rates strengthened the economy, specifically the housing sector, which was the greatest beneficiary. However, inflation, which is measured by the Consumer Price Index, began to soar over 18 months ago, and continues to remain extremely high at over 6%. Therefore, in an effort to reign in surging inflation rate, the Federal Reserve adopted economically restrictive policies, mostly centered on raising interest rates. As can be expected, continuously rising interest rates has impacted many areas of the economy, most significantly the housing market.

Housing is one of the most critical sectors in the United States economy. Both home construction and home price levels accelerated briskly through much of 2021 and the first half of 2022. However, as interest rates began to rise, both property sales and home prices have been significantly declining. According to the real estate brokerage Redfin, between June 2022 and December 2022, the total value of U.S. homes declined almost 5%. This is the biggest six-month percentage drop since the 2008 financial crisis, when values plunged 5.8%. Additionally, there are a large number of housing units currently under construction in the U.S. Once these housing units are completed, there will be a considerable amount of new housing inventory available for sale. This high inventory, coupled with high mortgage rates, would likely put further downward pressure on home prices. The Federal Reserve has recently indicated that additional interest rate increases may be forthcoming, therefore, the housing sector will likely continue to see declines.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

The technology sector is another critical sector in the United States economy. Venture Capital (VC), the driving force of the technology sector, had a record-setting year in 2021 with investments doubling the previous record that was set in 2020. However, the lingering impacts of the pandemic, rising U.S. interest rates, and global conflicts have begun to significantly impact VC investments. While 2022 was overall a great year for the VC industry, activity dropped off steeply between the first and last quarters of the year. However, while deal counts and deal values in 2022 are below 2021 levels, they remain higher than 2020. Therefore, uncertainty remains whether the decrease in activity during 2022 was just the lingering effects of a very robust 2021 wearing off, or if it is an indicator of a continuous downward slide for the VC industry.[1]

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 14.5% of the world's crude oil production in 2021. The second largest producer is Russia, who produces 13% of the world's crude oil, and Saudi Arabia, who produces 12.1% of the world's crude oil.[2] As Russia's war on Ukraine continues, there is an 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 rose as a result of a faster increase in global oil demand than growth in supply. The average per barrel price of $71 was the highest in over three years. In early February 2023, the United States Energy Information Administration stated the Brent crude oil price averaged $82 per barrel in January 2023, and forecasted the remainder of the calendar year would average between $82 - $85 per barrel and fall to $78 per barrel in 2024 as global oil inventories build, putting downward pressure on crude oil prices,[3] which will have a dampening effect on domestic economic growth.

National Economic Outlook

Prior to the pandemic, 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. Beginning in mid-2022, discussion began about the possibility of a looming recession due to prolonged soaring inflation rates, coupled with high interest rates that had begun to impact some sectors of the economy, including housing. However, while a recession is possible to occur in 2023, it is important to note that as of early 2023, many economic indicators remain positive, with very little economic data showing any significant signs of decline, with the exception of the housing market data.

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[1] National Venture Capital Association and PitchBook, Venture Monitor, 4th Quarter 2022
[2] U.S. Energy Information Administration, Independent Statistics and Analysis, Updated September 16, 2022
[3] U.S. Energy Information Administration, Short-Term Energy Outlook, February 2023

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

The United States economy ended 2022 with the Gross Domestic Product (GDP) reaching an annualized growth rate of 2.9% in the 4th quarter. The increase in GDP reflected increases in consumer spending, private inventory investment, and federal, state, and local government spending. While the 4th quarter growth was slightly higher than anticipated, due to a looming mild recession, the GDP is estimated to have three quarters of negative growth in 2023-2024 before the economy recovers and grows again beginning in 2024-2025.

As of January 2023, per the U.S. Bureau of Labor Statistics, the national unemployment rate of 3.4% has shown little net movement since early 2022. If a recession does occur, unemployment is forecasted to hit 5.5% in 2022-2023 and 6.0% in 2023-2024 on a national level. High unemployment rates would impact the economy as personal consumption, which is a driving force of the economy, would likely decrease.

On a national level, consumer confidence dropped in both January and February 2023. According to Lynn Franco, Senior Director of Economic Indicators at The Conference Board, "While consumers' view of current business conditions worsened in February, the Present Situation Index (consumers' assessment of current business and labor market conditions) still ticked up slightly based on a more favorable view of the availability of jobs. In fact, the proportion of consumers saying jobs are 'plentiful' climbed to 52.0% – back to levels seen in the spring of last year. However, the outlook appears considerably more pessimistic when looking ahead. And, while 12-month inflation expectations improved (falling to 6.3% from 6.7% last month) consumers may be showing early sighs of pulling back spending in the face of high prices and rising interest rates"[4]

In order to continue combatting soaring inflation rates being experienced in the United States, the Federal Reserve is expected to continue raising interest rates in 2023. By continuing to raising interest rates, borrowing money becomes even more expensive, which should reduce spending and curb inflation.

Current City of San José Economic Conditions

Despite recent well-publicized layoff notices in the technology sector that is a potential indicator of future economic weakening, Silicon Valley continues to show overall positive economic performance through the first half of the fiscal year. Key economic areas remain strong, including robust employment figures, rebounding hotel occupancy and room rates, and growing sales tax activity levels. However, while many local economic indicators remain positive, the local real estate market has continued to falter. In addition, employment information was last updated by the State of California as of December 2022. The impact of layoffs at local companies, which began in the fall of 2022, are anticipated to impact employment data in the second half of 2022-2023.

[4] The Conference Board, Consumer Confidence Survey, February 28, 2023

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

The December 2022 employment level of 1.20 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 47,100 jobs, or 4.1%, from the December 2021 level of 1.15 million. This increase includes professional and business services adding 12,200 jobs; private educational and health services growing by 9,800 jobs; leisure and hospitality increasing by 8,600 jobs; and the information sector adding 6,800 jobs.[4]

Unemployment Rate (Unadjusted)			
	Dec. 2021	Nov. 2022	Dec. 2022**
San José Metropolitan Statistical Area*	2.9%	2.4%	2.1%
State of California	4.8%	4.0%	3.7%
United States	3.7%	3.4%	3.3%
* San Benito and Santa Clara Counties Source: California Employment Development Department. ** December 2022 estimates are preliminary and may be updated.			

The local unemployment rate for December 2022 was 2.1%, which is slightly lower than the November 2022 rate of 2.4% and is below the prior year unemployment rate of 2.9%. Additionally, the December 2022 San José Metropolitan Statistical Area unemployment rate continues to be lower than the unadjusted unemployment rate for the State (3.7%) and the nation (3.3%). As previously mentioned, unemployment information has not been received by the State of California since December 2022. Updated information will be received in March 2023, which will reflect updated unemployment rates for January 2023.

Overall construction activity through December 2022 increased 22.2% from prior-year levels, primarily due to activity for the commercial and industrial land use categories. The 2022-2023 Adopted Budget was developed with the expectation that development activity would increase slightly from the levels experienced in 2021-2022. If current trends continue, construction activity would moderately outperform the activity projected by the Planning, Building and Code Enforcement Department in the 2023-2027 Five-Year Forecast, which was released in February 2022. The Planning, Building and Code Enforcement Department has updated development activity outlook with further modest increases anticipated through 2027-2028, as included in *Appendix D, Development Activity Highlights*.

[4] State of California Employment Development: Labor Market Information Division Press Release, January 20, 2023

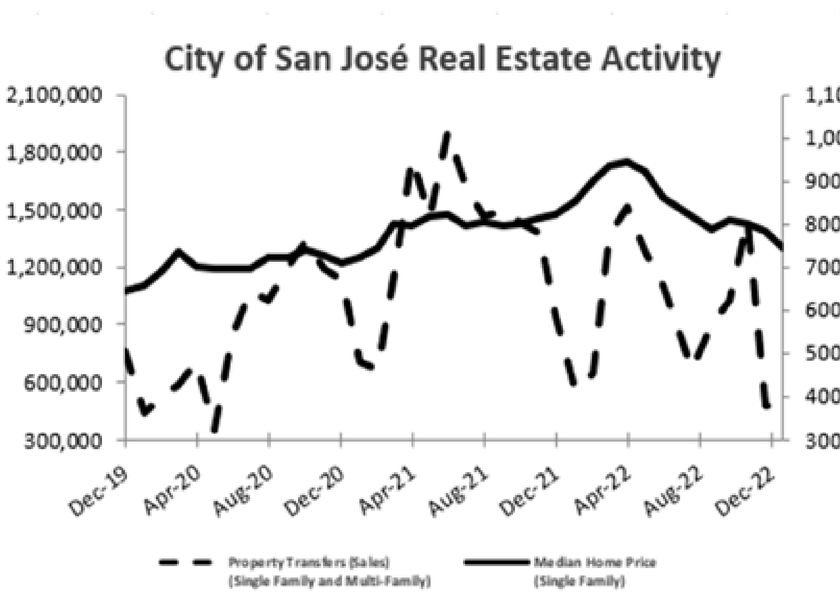
ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Private Sector Construction Activity (Valuation in $ Millions)			
	YTD December 2021	**YTD December 2022**	**% Increase**
Residential	$ 149.2	$ 121.4	(18.6%)
Commercial	$ 235.8	$ 363.6	54.2%
Industrial	$ 163.1	$ 184.7	13.3%
	$ 548.1	**$ 669.8**	**22.2%**

Through December, residential permit valuation has decreased 18.6% from prior-year levels ($121.4 million in 2022-2023 from $149.2 million in 2021-2022). Residential activity through December included 461 multi-family units and 216 units of single-family construction for a total of 677 units. Commercial valuation through December 2022 was 54.2% higher than the 2021-2022 level ($363.6 million in 2022-2023 from $235.8 million in 2021-2022). New construction accounted for almost 75% of the commercial activity for November and December ($133.1 million) due to an especially high value of commercial permits in December ($98.3 million). A notable project for November and December includes a permit issued for the finished interior of a 199,125 square foot office building located on Orchard Parkway.

Industrial construction valuation through December was 13.3% higher than prior-year levels, with receipts totaling $184.7 million in 2022-2023 and $163.1 million in 2021-2022. Alterations accounted for almost 50% of all the industrial activity in November and all the activity in December. A notable project for November and December includes a permit issued for a new 225,000 square foot warehouse located on King Road.



According to data from the Santa Clara County Association of Realtors, in December 2022, the median single-family home price totaled $1.3 million, which is 11.9% lower than the December 2021 price of $1.5 million. Homes are also staying on the market for longer periods of time before selling: the average days-on-market through December 2022 totaled 25 days, which is significantly above the average of 16 days experienced year-to-date through December 2021. In addition, property sales activity has been declining. Property sales for the first half of the fiscal year dropped almost 32% compared to the prior-year sales. Local real estate activity will continue to be closely monitored with updates being provided in future bi-monthly financial reports.

Elements of The General Fund Forecast

Assumptions Regarding the Economic Environment

Base Case Forecast

City of San José Economic Outlook

Similar to the outlook regarding the national economy, the local economy is anticipated to weaken near the end of 2022-2023 and leading into 2023-2024, before rebounding in the outyears of the five-year forecast. As mentioned earlier in this document, unemployment levels are very low in the local area as of December 2022; however, information regarding lay-offs at local companies from previous months may be reflected later this spring and unemployment rates may climb over the next 6-12 months as companies continue preparing for economic weakness in the coming quarters. As discussed, the local real estate market has already been weakening with declines in both property sales and home prices. The declining local real estate market is anticipated to continue through 2023-2024 before rebounding in the out-years of the forecast. Property Tax revenue is impacted by the local real estate market, however, there is a delayed impact, therefore, tax revenue is not anticipated to be impacted from the declining real estate market until 2024-2025.

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 continue raising interest rates – which may further impact the local real estate market – in order to lessen overall economic activity.

Taken together, the City of San José is anticipated to grow moderately 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 recent signs of slowing inflation causes interest rate decreases and an economy that, while still slowing down through the rest of 2022-2023 and halfway through 2023-2024, does not enter into recession. The Federal Reserve has an incentive to start reducing interest rates to stimulate the economy enough to avoid entering a recession because of key inflation indicators showing signs of downward trends. With this slight incentive, inflation will remain elevated for a prolonged period as interest rates decrease. As a result, almost all tax revenues will increase to a greater extent.

With Congress passing two large spending bills; Inflation Reduction Act and the Infrastructure Bill in 2022, the Consumer Price Index (CPI) rising, and the country maintaining a close to full employment, the Optimistic Case assumes there will be additional spending, putting significantly more upward pressure on prices than the Base Case.

Sales Tax revenues benefit greatly from both employment levels being higher and inflation being at higher levels, as higher prices at the retail level translates directly into higher tax collections. Revenue from the Transient Occupancy Tax continue to marginally rise in the Optimistic Case. The higher inflation assumption promotes increases in room rates while the increased levels of

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Optimistic Case Forecast

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 progressively rise. 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.

Pessimistic Case Forecast

The Pessimistic Case Forecast assumes a longer period of increasing interest rates with a corresponding lowering of inflation that occurs much earlier than in the Base Case Forecast. The Federal Reserve continues to increase interest rates which causes a greater slowdown in interest rate sensitive sectors of the economy that deepens the anticipated recession. Among those sensitive sectors are venture capital investments and the housing market, which have both steadily declined since the beginning of 2022-2023. In the Pessimistic Case, the housing market will show a further and more significant drop of new and existing home prices, as well as sales activity. Venture capital investments experience a more significant decline. These slowing economic activities will have a compounding impact on other revenues in the Pessimistic Case.

Revenue from Property Tax experiences a prolonged period of lower growth in 2024-2025 and 2025-2026 before slowly rebounding in the final two years of the Forecast. 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. Sales Tax revenue is also lower in the Pessimistic Case due to a combination of lower economic activity and significant reduction in inflation.

In the Pessimistic Case, the Transient Occupancy Tax revenues fall through 2024-2025 with slower growth in out-years than it does in the Base Case. This relatively uncertain recovery reflects a weaker economic activity pattern, 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 also show lower growth than the Base Case. These taxes, particularly for electricity, decline with the lower levels of economic activity expected in this scenario. 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 to greater quantities of gasoline consumption in this scenario. The Gas Tax is collected on a per gallon basis, so more gallons sold translates to higher tax collections.

Elements of The General Fund Forecast

Assumptions Regarding the Economic Environment

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, energy prices, and weather-related consumption. 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 2023-2024 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2022-2023 and build upon those projections to develop the 2023-2024 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 2023-2024 Proposed Operating Budget scheduled to be released on May 1, 2023.

Elements of The General Fund Forecast

Revenue Forecast

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown from $1.4 billion in 2023-2024 to $1.6 billion in 2027-2028.

General Fund 2024-2028 Forecast
Revenue Summary

	Modified Budget	Forecast				
General Fund Revenue Category	**2022-2023**	**2023-2024**	**2024-2025**	**2025-2026**	**2026-2027**	**2027-2028**
General Revenues						
Property Tax	437,000,000	458,700,000	468,379,000	489,034,000	516,420,000	546,269,000
Sales Tax	331,000,000	336,400,000	343,734,000	355,558,000	366,402,000	379,410,000
Transient Occupancy Tax	11,000,000	16,000,000	17,000,000	18,000,000	19,999,000	20,999,000
Real Property Transfer Tax	65,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Franchise Fees	49,168,393	50,808,393	51,774,000	53,146,000	54,974,000	57,404,000
Utility Tax	114,450,000	126,550,000	131,068,000	136,311,000	142,554,000	150,194,000
Telephone Line Tax	20,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000
Business Tax	86,000,000	87,500,000	88,874,000	90,287,000	91,749,000	92,254,000
Licenses and Permits	20,778,200	20,225,561	20,734,000	21,414,000	22,081,000	22,947,000
Fees, Rates, and Charges	23,914,232	22,323,728	22,885,000	23,636,000	24,372,000	25,328,000
Fines, Forfeitures and Penalties	12,232,000	15,130,000	15,012,000	14,926,000	14,703,000	14,601,000
Revenue from Money and Property	13,279,000	14,864,000	15,236,000	15,540,000	15,851,000	16,168,000
Revenue from Local Agencies	20,414,379	16,921,171	17,186,000	17,646,000	18,244,000	18,893,000
Revenue from the State	30,999,693	13,800,000	13,800,000	13,800,000	13,800,000	13,800,000
Revenue from Federal	11,599,714	0	0	0	0	0
Other Revenue	293,133,446	9,770,264	9,800,000	9,843,000	9,901,000	9,978,000
Gas Tax	15,500,000	17,000,000	17,235,000	17,302,000	17,259,000	17,013,000
Total General Revenues	**1,555,469,057**	**1,277,993,117**	**1,304,717,000**	**1,348,443,000**	**1,400,309,000**	**1,457,258,000**
Transfers & Reimbursements						
Overhead Reimbursements	73,800,407	79,530,463	81,529,000	84,205,000	86,827,000	90,232,000
Transfers	34,509,356	29,773,924	30,571,000	31,775,000	32,462,000	33,595,000
Reimbursements for Services	796,377	831,102	852,000	880,000	907,000	943,000
Total Transfers & Reimbursements	**109,106,140**	**110,135,489**	**112,952,000**	**116,860,000**	**120,196,000**	**124,770,000**
Total General Fund Revenues	**1,664,575,197**	**1,388,128,606**	**1,417,669,000**	**1,465,303,000**	**1,520,505,000**	**1,582,028,000**
Beginning Fund Balance	558,987,400	76,000,000	77,627,000	79,390,000	81,397,000	83,466,000
Grand Total Sources	**2,223,562,597**	**1,464,128,606**	**1,495,296,000**	**1,544,693,000**	**1,601,902,000**	**1,665,494,000**

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 2024-2028 General Fund Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. In 2022-2023 Property Tax receipts of $440.7 million are projected, which is slightly above the modified budget estimate of $437.0 million, and is $26.6 million (6.4%) above the 2021-2022 actual collection level of $414.1 million. In 2023-2024, Property Tax receipts are anticipated to total $458.7 million, which reflects overall growth of 4.1% from estimated 2022-2023 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 2022-2023, Secured Property Tax receipts are anticipated to total $411.9 million, including $355.3 million in general Secured Property Taxes, $35.2 million in ERAF revenue, and $21.3 million from SARA Residual Property Tax receipts. In 2023-2024, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2023, are expected to increase by 5.2% to $433.3 million.

The general Secured Property Tax receipts are estimated at $355.3 million in 2022-2023, which is 7.4% above the 2021-2022 collection level. This growth reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2%, 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 2022-2023 roll growth was driven primarily by changes in ownership (57.0%), changes in the CCPI (25.1%), and new construction (13.7%).

In 2023-2024, the general Secured Property Tax receipts are estimated to grow by 5.5%, reflecting a 2.0% CCPI and 3.5% increased valuation. The CCPI adjustment for the 2023-2024 tax roll is 2%, which is consistent with the prior year level. In addition, even though the local real estate market has begun to cool down, sales prices continue to be high, which will continue to be a positive factor driving growth in this category, albeit at a more moderate level. In calendar year 2022 the median single-family home price in the City of San José totaled $1.5 million, which was 17.5% above the calendar year 2021 median single-family home price of $1.3 million. Further, the number of single-family and multi-family sales transactions grew 1.0% in calendar year 2022, up by 84 sales from 2021's level of 8,504 sales. As mentioned, significant growth in the local real estate market is not expected to continue in calendar year 2023. While property sales have begun to experience year-over-year declines, home prices are likely to remain high, resulting in the real estate market continuing to be 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 2022-2023 and 2023-2024, ERAF receipts are estimated at approximately $35 million, which is slightly below the 2021-2022 collection level of $39 million. After the City receives an official ERAF estimate from the County in March, these figures may be revised with the release of the 2023-2024 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 2022-2023, SARA Residual Property Tax receipts are estimated to total $21.3 million, which is $3.0 million above the 2021-2022 receipts. In 2023-2024, SARA Residual Property Tax receipts are anticipated to grow approximately 10% from 2022-2023 collections and total $23.0 million.

It should be noted that final data on the actual tax levy for 2022-2023 is not yet available as adjustments are made through June 30, 2023. 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 2023-2024 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 $15.5 million in 2022-2023, which is 4.5% above the prior year collection level of $14.8 million. In 2023-2024 Unsecured Property Taxes are estimated to remain fairly consistent and total $15.0 million.

For the other Property Tax categories, collections are estimated at $13.4 million in 2022-2023 and $10.4 million in 2023-2024. **SB 813 Property Tax** receipts are estimated at $8.6 million in 2022-2023 and $6.0 million in 2023-2024; **Aircraft Property Tax** receipts are estimated at $3.9 million in 2022-2023 and $3.5 million in 2023-2024; and **Homeowners Property Tax Relief** revenue are anticipated to total approximately $900,000 in 2022-2023 and 2023-2024.

In the out-years of the Forecast, Property Tax receipts are projected to increase by 2.1% to 5.8% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

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 2023 (which reflects two quarters of Sales Tax activity; from July 2022 through December 2022), it is anticipated that 2022-2023 Sales Tax revenue will total $346.4 million. This robust growth parallels the strong economy through the first half of the fiscal year and high inflation rates that are driving up the prices of goods. As the economy is expected to slow down, and threats of a recession are looming, Sales Tax revenue is anticipated to be impacted. In 2022-2023, growth is anticipated to slow significantly in the spring and early summer of 2023. Further, in 2023-2024, Sales Tax is anticipated to decline in the first quarter (representing July-September 2023 activity), then flatten for a few quarters before resuming very slight growth of 1% at the end of 2023-2024. Overall, in 2023-2024, Sales Tax revenue is estimated at $336.4 million; reflecting a decline of approximately 3%. 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 2022 and February 2023 and continue to reflect strong growth (11% and 15%, respectively). Due to the anticipation of a slowing economy, third quarter receipts (which will be received in May 2023) are estimated to show growth of only 5%, and the final quarter of 2022-2023 is anticipated to be consistent with the 2021-2022 collection level. Based on these assumptions, General Sales Tax collections are anticipated to total $279.0 million in 2022-2023, which reflects an overall increase of 7.4% from the 2021-2022 collection level.

All General Sales Tax categories have experienced year-over-year growth in 2022-2023 through December 2022 collections resulting from the strong local economy in the first half of the fiscal year and high inflation rates. In the first quarter of 2022-2023, the largest year-over-year growth was experienced in the following categories: Business-to-Business (28.4%); Construction (13.2%); Food Products (12.1%); and Transportation (8.7%). In addition, the County Pool, which is where the majority of online transactions are captured, has continued to grow (5.4%). The recent growth in County Pool receipts has been fueled by online purchases 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 45% - 50% of the total County Pool. In 2023-2024, it is anticipated the County Pool receipts will continue to remain strong.

In 2023-2024, General Sales Tax revenue is anticipated to decline by 10% in the first quarter, then remain flat for two quarters before growing slightly (1%) in the final quarter of the fiscal year. Based on these assumptions, 2023-2024 General Sales Tax revenue is estimated at $271.0 million, which reflects a decline of approximately 3% from the estimated 2022-2023 collection level.

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 45% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

Elements of The General Fund Forecast

Revenue Forecast

Sales Tax

Similar to General Sales Tax, Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and for the second quarter (sales tax activity from October-December) were received in November 2022 and February 2023 and continue to reflect strong year-over-year growth of approximately 10% per quarter. Due to a slowing economy, third quarter receipts (which will be received in May 2023) are estimated to show growth of only 3%, and the final quarter of 2022-2023 is anticipated to be consistent with the 2021-2022 collection level. Based on these assumptions, Local Sales Tax collections are anticipated to total $59.0 million in 2022-2023, which reflects an overall increase of 7.5% from the 2021-2022 collection level. In 2023-2024, Local Sales Tax revenue is anticipated to decline by 7% in the first quarter, then remain flat for two quarters before growing slightly (1%) in the final quarter of the fiscal year. Based on these assumptions, 2023-2024 Local Sales Tax revenue is estimated at $57.0 million, which reflects a decline of approximately 3.5% from the estimated 2022-2023 collection level.

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 $8.4 million in 2022-2023 and 2023-2024.

In the out-years of the Forecast, Sales Tax receipts are projected to increase by 2.2% to 3.6% annually over the five-year period.

Transient Occupancy Tax

In 2022-2023, Transient Occupancy Tax (TOT) receipts in the General Fund (which represent 40% of the total tax) are estimated to reach $16.0 million, reflecting a 52.2% increase from the 2021-2022 collection level of $10.5 million, but is still below the pre-pandemic level of approximately $20 million annually.

Overall room demand and revenues exhibited consistent, incremental gains throughout 2021-2022, with typical seasonal contraction over the holidays and winter months. Cumulative average occupancy peaked as of June 2022 at 58%, along with the average room rate of $132.01. This growth pattern has continued into 2022-2023, with occupancy and room rates peaking at 68.81% and $160.77 in August 2022 – the second highest monthly performance levels to date since April 2020 and the height of the pandemic's impacts, only surpassed by June 2022 performance of 72.35% and $162.92. Performance has since declined in November and December, following the normal holiday and seasonal pattern, after which rebounds are typically experienced into late winter/early spring (February - March). Through December 2022, the average hotel occupancy rate reported for the San José market was 64.01%, compared to 56.21% through December 2021. Additionally, the average room rates increased by 31.9%, from $120.33 to $158.67, and the year-to-date average revenue-per-available room (RevPAR) increased by 50.17%, from $67.64 to $101.57, relative to the same period in 2021-2022.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Transient Occupancy Tax

Reported gross hotel revenue performance for the first half of 2022-2023 highlights a consistent growth pattern, building on the gains seen during 2021-2022. However, impacts related to a possible upcoming recession introduces new uncertainty into this already volatile revenue source.

The 2024-2028 General Fund Forecast assumes TOT receipts will total $16.0 million in 2023-2024 and increase by 5.0% to 11.1% annually in the out-years of the Forecast. 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.

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 relatively 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 accordance with City Policy 1-18, Section 22, this tax revenue is allocated for the development of new affordable housing, homeless prevention, and homelessness support programs.

In 2022-2023 collections are projected at $65.0 million, which is significantly below the prior year collections of $110.0 million. The high 2021-2022 collection level is due to several factors. First, due to the timing of when a payment from Santa Clara County was processed, funding of $9.7 million was reflected in 2021-2022 but was attributable to 2020-2021 activity. In addition, in comparison to the currently constrained real estate market, a larger amount of high-value property transfers occurred in the prior year. In 2023-2024 Real Property Transfer Tax collections are anticipated to further drop to $50.0 million, due to the continued slow-down in the local real estate market. As this revenue source is significantly impacted by high dollar commercial property transactions, if those sales decrease, the tax revenue will be impacted. Real Property Transfer Tax collections began in 2020, therefore limited historical collection information is known. As a result, a conservative estimate of annual collections is anticipated in 2023-2024 and the out-years of the Forecast. As Real Property Transfer Tax revenues are solely allocated for affordable housing and homelessness-related programming, taking a modestly conservative approach in the forecasting of this category helps ensure a predictable baseline funding source for this important work.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, City-Generated Tow, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at $40.8 million in 2022-2023, which are approximately 16% below the prior year receipts of $48.4 million. PG&E recently notified the City that they are changing their timing of Electric and Gas Franchise Fee payments, which will impact 2022-2023 receipts. Previously, PG&E provided 3 advance payments and then a clean-up payment for these franchise fees; however, under the new system PG&E will only provide one payment per year, based on the calendar year. As a result of this timing change, the April 2023 payment will only include a clean-up payment for the 2022 calendar year and no quarterly progress payment will be received in June 2023; instead, the next payment received by the City after April 2023 will not be until April 2024, which will be attributable to activity levels for the 2023 calendar year. In 2023-2024, Franchise Fees are expected to return to normal levels and total $50.8 million.

In the **Electricity Franchise Fee** category, collections in 2022-2023 are anticipated to reach $15.0 million, which is significantly below the prior year receipt of $20.8 million. This decrease is due to the changing of the timing of PG&E's franchise fee payments. In 2023-2024, the Electricity Franchise Fee category is estimated to return to a normal level and total $22.0 million.

In the **Gas Franchise Fee** category, collections in 2022-2023 are anticipated to reach $4.5 million, which is significantly below the prior year receipt of $6.6 million. This decrease is due to the changing of the timing of PG&E's franchise fee payments. In 2023-2024, the Gas Franchise Fee category is estimated to return to a normal level and total $7.5 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 $13.0 million in 2022-2023, 4.7% above the prior year collections, which is primarily due to the 2022-2023 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 2023-2024 estimate of $13.0 million is consistent with the 2022-2023 estimate and does not automatically assume a CPI adjustment. This adjustment will be brought forward as a proposed change in the 2023-2024 Proposed Operating Budget.

In the **Cable** Franchise Fee category, collections in 2022-2023 and 2023-2024 are estimated at $8.0 million, which is slightly below the $8.2 million received in the prior year.

REVENUE FORECAST

Franchise Fees

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 2022-2023 and 2023-2024, Great Oaks Water receipts are estimated at $230,000 in 2022-2023 and $240,000 in 2023-2024, and Nitrogen Gas Pipeline receipts are estimated at $65,000 in 2022-2023 and 2023-2024.

In the out-years of the Forecast, Franchise Fee receipts are projected to increase by 1.9% to 4.4% annually over the five-year period. 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 2022-2023 are anticipated to total $121.0 million, which is significantly above the 2021-2022 collection level of $103.6 million. This increase is due to higher usage and increased rates, primarily related to the Electricity and Gas Utility Tax categories. In 2023-2024, Utility Tax collections are projected at $126.6 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 $66.0 million in 2022-2023 and grow by approximately 6.0% to $70.0 million in 2023-2024. This increase is anticipated due to electricity rate increases and higher anticipated usage activity, which will drive up Electricity Utility Tax receipts.

The **Gas Utility Tax** is anticipated to generate $18.0 million in 2022-2023 and grow by approximately 5.0% to $19.0 million in 2023-2024. This increase is anticipated due to gas rate increases and higher anticipated usage activity, which will drive up Gas Utility Tax receipts.

Based on current year collection levels, **Water Utility Tax** receipts of $18.0 million are anticipated to be received in 2022-2023. In 2023-2024, water rates are anticipated to rise, therefore Water Utility Tax receipts are estimated at $19.0 million, which reflects a 5.0% increase from the 2022-2023 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 2022-2023 are projected at $19.0 million, a 1.5% drop from the 2021-2022 collection level. In 2023-2024, receipts are projected to drop slightly and total $18.6 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.

REVENUE FORECAST

Utility Tax

In the out-years of the Forecast, Utility Tax receipts are projected to increase by 3.6% to 5.4% annually over the five-year period. 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 2022-2023 and 2023-2024 are estimated to total $22.0 million, which is consistent with the 2021-2022 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 Taxes

This category includes Cannabis Business Tax, Cardroom Business Tax, Disposal Facility Tax, and General Business Tax. Business Taxes are estimated to reach $87.8 million in 2022-2023, a 2.8% increase from prior year levels, which is primarily due to increased Cardroom Business Tax revenues, partially offset by lower Cannabis Business Tax receipts. In 2023-2024, Business Taxes revenues are anticipated to remain fairly consistent and total $87.5 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 $15.8 million in 2022-2023, which is 12.5% below the prior year level. In 2023-2024 receipts are projected to remain fairly consistent and total $15.0 million.

Cardroom Business Tax receipts are estimated at $32.0 million in 2022-2023 and 2023-2024, a 10.9% increase from prior year collections of $28.9 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, 2022-2023 DFT collections are estimated at $13.0 million, which is slightly above the 2021-2022 collection level of $12.7 million. In 2023-2024, receipts are anticipated to remain consistent at $13.0 million.

Elements of The General Fund Forecast

Revenue Forecast

Business Taxes

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 2022-2023, General Business Tax proceeds are anticipated to reach $27.0 million, which is 5.0% above the 2021-2022 collection level of $25.7 million. In 2023-2024, General Business Tax revenue is anticipated to grow slightly (1%) to $27.5 million.

In the out-years of the forecast, Business Tax receipts are projected to increase by 0.6% to 1.6% annually over the five-year period.

Licenses and Permits and Fees, Rates, and Charges

The Licenses and Permits and Fees, Rates, and Charges categories contain non-development fees and charges collected by various departments. These 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 $19.7 million in 2022-2023 and grow slightly to $20.2 million in 2023-2024. The Fees, Rates, and Charges category is estimated to total $21.0 million in 2022-2023 and grow slightly to $22.3 million in 2023-2024, which is primarily due to growth related to Parks, Recreation, and Neighborhood Services (PRNS) Department Fee revenue. 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 2.5% to 3.9%. 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 $15.0 million in 2022-2023 and $15.1 million in 2023-2024. The largest component of this revenue category is Parking Fines, which are expected to generate approximately $9.5 million in 2022-2023 and $9.8 million in 2023-2024. These levels are below historical Parking Fine collections of approximately $11 million - $12 million annually, due to parking fine activity being impacted by lower post-pandemic activity levels and staffing vacancies. In the out-years of the Forecast, Fines, Forfeitures and Penalties receipts are projected to decrease by -0.6% to -1.5% annually over the five-year period.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

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 $13.8 million in 2022-2023 and grow to $14.9 million in 2023-2024, primarily due to higher interest earnings on the General Fund. In the out-years of the Forecast, Revenue from the Use of Money and Property receipts are projected to increase by 2.0% to 2.5% annually over the five-year period.

Revenue from Local Agencies

In 2022-2023, revenue of $21.3 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 2023-2024, revenue in this category is projected at $16.9 million, which is $4.4 million below the 2021-2022 estimate. The decrease in 2023-2024 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 $9.2 million are anticipated in 2022-2023 and payments of $9.4 million are anticipated in 2023-2024.

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 2023-2024. 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 $2.2 million in 2023-2024.

In the out-years of the Forecast, Revenue from Local Agencies receipts are projected to increase by 1.6% to 3.6% annually over the five-year period.

Elements of The General Fund Forecast

Revenue Forecast

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 $13.8 million in 2023-2024 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 $11.8 million in 2023-2024, which is consistent with the amount projected for 2022-2023. The remaining State grants and reimbursements total $2.0 million in 2023-2024, with the largest reimbursements for the Vehicle License Fees Collection in Excess ($800,000), Auto Theft program ($600,000), 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 from the Federal Government

The Revenue from the Federal Government category consists of grant revenues. In 2023-2024 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 2022-2023, this category is expected to generate $290.7 million, which includes one-time revenue of $275.0 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.

In 2023-2024, the Other Revenue estimate of $9.8 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2023-2024 costs or agreements and the elimination of one-time funding sources. In 2023-2024, payments from Comcast and AT&T are estimated at $1.6 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 $2.5 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, Other Revenue receipts are projected to increase by 0.3% to 0.8% annually over the five-year period.

Elements of The General Fund Forecast

Revenue Forecast

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2022-2023 are projected to reach $17.4 million, which is 10% above the prior year actuals. Several factors impact collections, including declining gas prices that may increase consumption and more people are returning to their offices rather than fully working at home. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In 2023-2024, collections are estimated at $17.0 million, which reflects higher unemployment offset partially by the continuation of workers returning to their offices. 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, collections are expected to experience changes ranging from -1.4% to 1.4% annually over the five-year period.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2023-2024, a total of $79.5 million in overhead reimbursements are projected based on 2023-2024 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2023-2024 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual growth ranging from 2.6% to 3.8% 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 $29.8 million in 2023-2024. 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 ($20.0 million). Additional large transfers programmed for 2023-2024 include the Construction and Conveyance Tax Fund transfer ($3.9 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 ($601,000); and the transfer from the Convention and Cultural Affairs Fund ($256,000) for reimbursement of City oversight of the fund. In the remaining years of the Forecast, annual increases range from 2.6% to 3.8%. 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 2023-2024 of $831,000. In the remaining years of the Forecast, annual growth ranging from 2.6% to 3.8% is anticipated to recover the projected costs.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Beginning Fund Balance

The $76.0 million forecast estimate of available 2023-2024 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of $46.0 million is carried forward at the current level based on the assumption that this amount will not be used in 2022-2023 and will be available for use in 2023-2024. 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 $47.0 million in 2023-2024 and increases in the out-years of the forecast to $52.0 million by 2027-2028 to comply with the City Council policy to set aside at least 3% of General Fund operating expenditures in this Reserve.

- A total of $30.0 million in fund balance will be achieved in 2022-2023 for use in 2023-2024 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.

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 $29.6 million in 2024-2025 to $31.5 million in 2027-2028. In addition, it is assumed that the Contingency Reserve will be carried over each year and will grow slightly from $47.0 million in 2023-2024 to $52.0 million in 2027-2028. In total, the Beginning Fund Balance totals $76.0 million in 2023-2024 and $83.5 million in 2027-2028.

EXPENDITURE FORECAST

General Fund expenditure categories were analyzed in depth to develop the 2023-2024 expenditure estimates in this Forecast. These estimates will be re-examined and updated during the preparation of the 2023-2024 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $1.43 billion in 2023-2024 to $1.65 billion in 2027-2028, representing an average annual growth rate of 3.5%.

2024-2028 General Fund Forecast Expenditure Summary

EXPENDITURE SUMMARY	MODIFIED BUDGET 2022-2023	FORECAST PERIOD 2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Personal Services (Departmental)						
Salaries and Other Compensation	593,607,014	615,044,920	638,271,492	660,610,994	683,732,379	707,663,013
Retirement	348,705,286	347,863,809	357,682,640	368,475,181	377,187,087	402,802,568
Health and Other Fringe Benefits	70,587,449	78,128,665	81,041,894	84,063,751	87,198,286	90,449,700
Total Personal Services	**1,012,899,749**	**1,041,037,394**	**1,076,996,027**	**1,113,149,927**	**1,148,117,752**	**1,200,915,280**
Non-Personal/Equipment (Departmental)	**160,451,827**	**147,126,000**	**149,833,000**	**152,580,000**	**155,369,000**	**158,199,000**
City-Wide, Capital, Transfers and Reserves						
City-Wide Expenses	596,414,172	81,077,796	79,269,651	80,225,198	80,290,621	81,927,286
Capital Contributions	56,991,022	5,832,000	5,832,000	5,832,000	5,832,000	5,832,000
Transfers to Other Funds	37,810,639	26,841,041	27,298,368	25,107,297	25,209,261	25,331,765
Earmarked Reserves	312,995,188	82,200,000	80,200,000	80,200,000	80,200,000	80,200,000
Contingency Reserve	46,000,000	47,000,000	48,000,000	49,000,000	50,000,000	52,000,000
Total City-Wide, Capital, Transfers and Reserves	**1,050,211,021**	**242,950,837**	**240,600,019**	**240,364,495**	**241,531,882**	**245,291,051**
Committed Additions						
Police Staffing Addition	0	2,400,000	4,944,000	7,638,000	10,490,000	13,506,000
New Parks and Recreation Facilities Maintenance and Operations	0	58,000	371,000	1,868,000	2,024,000	2,251,000
New Traffic Infrastructure Assets Maintenance and Operations	0	169,000	269,000	339,000	364,000	384,000
New Public Safety Facilities Maintenance and Operations	0	0	0	271,000	2,661,000	2,819,000
Measure T (City Facility LED Conversion (Controllers))	0	13,000	13,000	18,000	18,000	18,000
Measure T - Clean Water Projects (River Oaks Stormwater Capture)	0	0	163,000	173,000	183,000	194,000
Measure T (Emergency Operations Center)	0	450,000	550,000	572,000	595,000	619,000
Measure T (911 Call Center Expansion)	0	0	30,000	124,000	136,000	141,000
Measure T (Fire Station 8 Relocation)	0	0	132,000	175,000	181,000	188,000
Measure T (Fire Station 32)	0	0	9,212,000	11,378,000	11,720,000	12,074,000
Measure T (Fire Station 36)	0	0	0	2,928,000	5,963,000	6,143,000
Measure T (Police Training Center Relocation)	0	0	1,038,000	2,053,000	2,121,000	2,191,000
Measure T (Police Air Support Hangar)	0	0	67,000	93,000	95,000	98,000
Total Committed Additions	**0**	**3,090,000**	**16,789,000**	**27,630,000**	**36,551,000**	**40,626,000**
Total Forecast Expenditures (inc. Committed Additions)	**2,223,562,597**	**1,434,204,231**	**1,484,218,046**	**1,533,724,422**	**1,581,569,634**	**1,645,031,331**
			3.49%	**3.34%**	**3.12%**	**4.01%**

Adjustments are made to this Forecast to account for one-time additions/deletions included in the 2022-2023 Adopted Budget, and to annualize partial-year allocations. Various one-time additions totaling over $15 million – excluding funding committed for capital projects, equipment, purchases that are truly one-time in nature – are scheduled to expire in June 2023 and will be re-evaluated for inclusion in 2023-2024. Notable one-time allocations included the following: Police Sworn Hire Ahead Program, Police Recruiting and Backgrounding, Coyote Creek and Guadalupe River Trail Patrol, Climate Smart Plan Implementation, Cannabis Equity Program, Storefront Activation Grant Program, Urban Areas Security Initiative Grant Staffing, Police Public Records Team Staffing, Automatic Public Toilets, and Body Worn Camera Review. Many of these programs and services will be re-evaluated for continued funding beyond the 2022-2023 fiscal year, with recommendations included in the 2023-2024 Proposed Operating Budget as appropriate, and in the context of other budgetary needs.

EXPENDITURE FORECAST

In addition, the City has committed the remaining $56.6 million of federal funding from the American Rescue Plan Act to augment and continue critical pandemic response and recovery programs in 2022-2023, including Emergency Interim Housing Construction and Operation, child and youth services investments, contractual services for Beautify San José Consolidated Model, SOAR Expansion, and Digital Equity, which will also be re-evaluated for continuation in 2023-2024 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 (2023-2024) projection for personal services costs in this Forecast has been calculated at a detailed level, using a February 2023 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, 2022-2023 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 2023-2024 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 $1.04 billion projected personal services total for 2023-2024, salaries and other compensation costs amount to $615.0 million (59.1% of projected personal services), retirement costs amount to $347.9 million (33.4% of projected personal services), and health and other fringe benefits costs amount to $78.1 million (7.5% 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 3.6%.

Salaries and Other Compensation:

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

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Personal Services

Salaries and Other Compensation:

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), Municipal Employees' Federation (MEF), Peace Officer Park Ranger Association (POPRA), and San Jose Police Dispatchers Association (SJPDA). The following bargaining units have agreements that will expire on June 30, 2024: Association of Legal Professionals (ALP), International Association of Firefighters (IAFF), International Brotherhood of Electrical Workers (IBEW), International Union of Operating Engineers (OE#3), and executive management and professional employees in Unit 99 and other unrepresented employees in Unit 81/82. The agreement with the San Jose Police Officers' Association (SJPOA) will expire on June 30, 2025.

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 2023-2024, this reserve totals $18.4 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 $36.3 million for 2023-2024, with most of these funds allocated to Police Department ($23.0 million) and Fire Department ($11.4 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.

Included in this Forecast is the elimination of the Voluntary Furlough/Reduced Work Week Program. The program allows employees to take unpaid time off (up to 45 hours) without the loss of accrued benefits (vacation, sick leave, and seniority) or reduce their weekly scheduled hours by as much as eight hours per week during the year, which would generate savings and was assumed as part of previous Forecasts. While previous Forecasts had assumed General Fund savings of approximately $100,000 from this program, actual savings generated from the program have been minimal.

Elements of The General Fund Forecast

Expenditure Forecast

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.

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 2023-2024, retirement costs total $347.9 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 Police and Fire Department Retirement Plan. For 2023-2024, 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 $4.3 million in the General Fund. 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 ($36.7 million in the General Fund and $47.1 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. 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 the period in this Forecast, the General Fund retirement costs are expected to increase from $347.9 million ($479.1 million in all funds) in 2023-2024 to $402.8 million ($549.0 million in all funds) in 2027-2028.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution amounts for 2023-2024 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 – 2024-2028 CITY RETIREMENT BUDGETED CONTRIBUTION AMOUNTS
GENERAL FUND
($ in Millions)*

Retirement Plan	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$16.8	$22.5	$20.6	$21.8	$22.9	$24.4
Tier 1 Pension (Normal Cost) Rate	*19.6%*	*20.2%*	*20.3%*	*20.4%*	*20.7%*	*21.0%*
Tier 2 Pension⁺	$12.2	$14.8	$14.9	$14.9	$15.0	$15.1
Tier 2 Pension Rate	*8.2%*	*8.0%*	*8.0%*	*7.9%*	*7.9%*	*8.0%*
Unfunded Actuarial Liability	$68.6	$68.7	$70.3	$71.5	$72.5	$76.8
Retiree Health Care	$8.0	$8.0	$8.1	$8.7	$8.8	$8.9
Total Federated Contributions	**$105.6**	**$114.0**	**$113.9**	**$116.9**	**$119.2**	**$125.2**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$24.3	$24.4	$31.1	$33.4	$36.1	$39.3
Tier 1 Pension (Normal Cost) Rate	*32.3%*	*32.8%*	*33.4%*	*34.2%*	*35.4%*	*36.8%*
Tier 2 Pension⁺	$10.7	$13.7	$13.7	$13.8	$13.9	$14.0
Tier 2 Pension Rate	*14.4%*	*14.4%*	*14.4%*	*14.5%*	*14.5%*	*14.7%*
Unfunded Actuarial Liability	$73.9	$69.8	$71.5	$71.5	$70.3	$75.3
Retiree Health Care	$18.0	$17.6	$17.6	$18.4	$19.1	$19.8
Total Police Contributions	**$126.9**	**$125.5**	**$133.9**	**$137.1**	**$139.4**	**$148.4**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$24.5	$24.9	$28.2	$29.8	$31.6	$33.4
Tier 1 Pension (Normal Cost) Rate	*33.3%*	*33.2%*	*33.6%*	*34.0%*	*34.6%*	*35.3%*
Tier 2 Pension⁺	$3.8	$4.5	$4.5	$4.5	$4.5	$4.6
Tier 2 Pension Rate	*15.2%*	*15.1%*	*15.2%*	*15.2%*	*15.3%*	*15.3%*
Unfunded Actuarial Liability	$67.5	$67.0	$65.3	$67.9	$69.8	$78.0
Retiree Health Care	$11.2	$11.0	$11.0	$11.4	$11.8	$12.2
Total Fire Contributions	**$107.0**	**$107.4**	**$109.0**	**$113.6**	**$117.7**	**$128.2**
Other Retirement Contributions	**$0.9**	**$1.0**	**$0.9**	**$0.9**	**$0.9**	**$1.0**
Total General Fund	**$340.4**	**$347.9**	**$357.7**	**$368.5**	**$377.2**	**$402.8**
Total All Funds	**$460.6**	**$479.1**	**$490.0**	**$504.4**	**$515.9**	**$549.0**

⁺ 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 2022-2023 are from the 2022-2023 Forecast and are provided only for reference; these amounts differ from the adjusted amounts currently included in the 2022-2023 Modified Budget.

Source: Cheiron Valuation Results approved by the Boards on December 1, 2022 (Police and Fire) and December 15, 2022 (Federated).

TABLE 2 – 2024-2028 BOARD APPROVED CITY CONTRIBUTION AMOUNTS ALL FUNDS ($ in Millions)

Retirement Plan	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$26.9	$26.0	$24.0	$22.2	$20.4	$18.8
Tier 1 Pension (Normal Cost) Rate	*18.2%*	*20.2%*	*20.3%*	*20.4%*	*20.7%*	*21.0%*
Tier 2 Pension+	$19.3	$21.4	$23.0	$24.7	$26.4	$28.5
Tier 2 Pension Rate	*8.2%*	*8.0%*	*8.0%*	*7.9%*	*7.9%*	*8.0%*
Unfunded Actuarial Liability	$162.6	$168.8	$172.6	$175.6	$178.0	$188.5
Retiree Health Care	$18.3	$19.1	$19.2	$20.6	$20.9	$21.2
Total Federated Contributions	**$227.1**	**$235.3**	**$238.8**	**$243.1**	**$245.7**	**$257.0**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$25.8	$24.7	$22.9	$21.1	$19.3	$17.8
Tier 1 Pension (Normal Cost) Rate	*33.2%*	*33.8%*	*34.5%*	*35.4%*	*36.6%*	*38.0%*
Tier 2 Pension+	$12.1	$14.0	$15.7	$17.5	$19.4	$21.3
Tier 2 Pension Rate	*14.4%*	*14.4%*	*14.4%*	*14.5%*	*14.5%*	*14.7%*
Unfunded Actuarial Liability	$76.3	$69.8	$71.5	$71.5	$70.3	$75.3
Retiree Health Care	$18.0	$17.6	$17.6	$18.4	$19.1	$19.8
Total Police Contributions	**$132.2**	**$126.1**	**$127.7**	**$128.5**	**$128.1**	**$134.2**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$23.6	$22.3	$21.1	$20.0	$18.9	$17.7
Tier 1 Pension (Normal Cost) Rate	*34.3%*	*34.2%*	*34.7%*	*35.2%*	*35.8%*	*36.5%*
Tier 2 Pension+	$4.5	$4.5	$5.6	$6.8	$7.8	$8.9
Tier 2 Pension Rate	*15.2%*	*15.1%*	*15.2%*	*15.2%*	*15.3%*	*15.3%*
Unfunded Actuarial Liability	$69.7	$67.0	$65.3	$67.9	$69.8	$78.0
Retiree Health Care	$11.2	$11.0	$11.0	$11.4	$11.8	$12.2
Total Fire Contributions	**$109.0**	**$104.8**	**$103.0**	**$106.1**	**$108.3**	**$116.8**
Total City Contributions	**$468.3**	**$466.2**	**$469.5**	**$477.7**	**$482.1**	**$508.0**

+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 Valuation Results approved by the Boards on December 1, 2022 (Police and Fire) and December 15, 2022 (Federated).

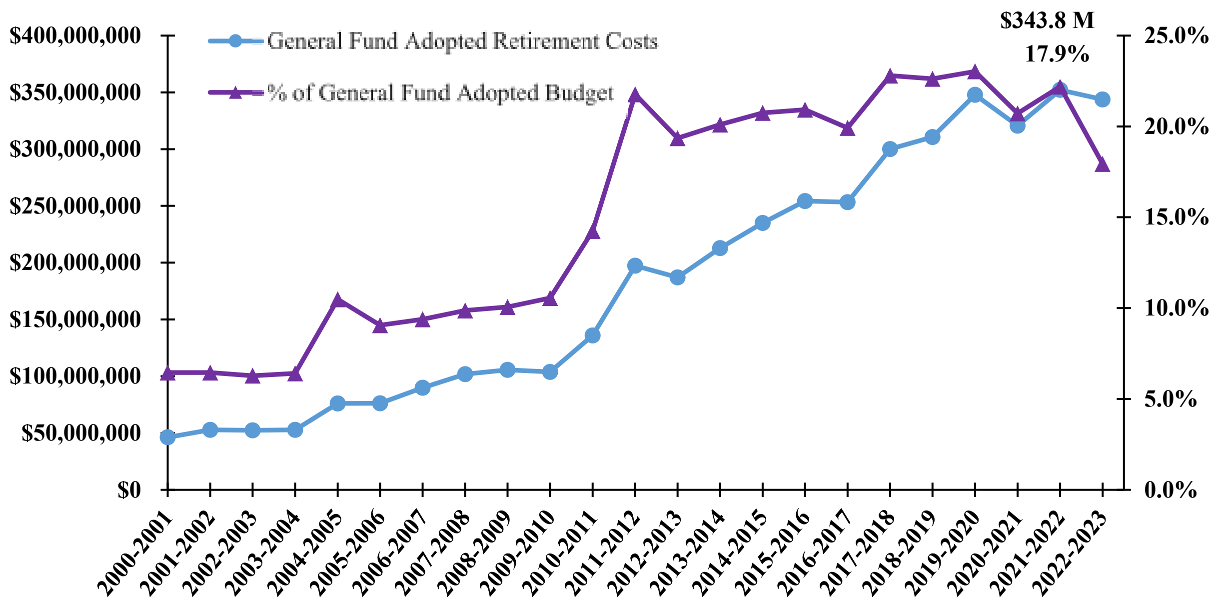
ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Personal Services

The chart below describes the history of retirement costs as a share of the total General Fund Adopted Budget. In 2001-2002, retirement costs of $46.3 million accounted for 6.5% of the General Fund, while in 2022-2023, those costs totaled 17.9% 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 24% reflected in the Forecast.

General Fund Retirement Costs Comprised 17.9% of 2022-2023 Adopted Budget



Health and Other Fringe:

A projected health rate increase of 8.0% is included in the 2023-2024 Forecast effective January 2024 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, no change in dental rates are assumed in 2023-2024 to spend down savings from previously accumulated fund balance in the Dental Insurance Fund. 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:

There are no changes to the unemployment insurance rate and life insurance rates in this Forecast based on projected expenditures.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total $147.1 million in 2023-2024. To determine this ongoing funding level, the City Manager's Budget Office: comprehensively reviews all budgetary actions approved for funding solely in 2022-2023 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 2022-2023; 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 2023-2024 estimate represents a decrease of $13.3 million (8.3%) from the 2022-2023 Modified Budget level of $160.5 million, primarily due to the removal of rebudgeted funds for initiatives or projects continuing into 2022-2023 from the prior year.

Departmental funding levels for utilities ($27.2 million), including gas, electricity, and water, increased by $3.2 million in 2023-2024 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 $2.6 million, primarily due to increased fuel prices and parts costs for the maintenance of vehicles in the City's fleet. The 2023-2024 non-personal/equipment base budget also provides increased funding by $485,000 to total $7.0 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. This Forecast assumes consistent funding for police vehicle replacement costs, increasing by $500,000 annually to $9.0 million by 2027-2028. Additional non-personal/equipment increases are included in this Forecast, primarily for: graffiti abatement ($800,000); City-wide janitorial services ($673,000); Animal Care services primarily associated with overnight and after hours veterinary care, medical supplies, janitorial services and cleaning supplies ($527,000); and cost increases for City facilities general maintenance services and supplies ($295,000).

Relatively stable growth rates ranging from 1.82% to 1.84% are assumed in the out-years of the Forecast, relative to non-personal/equipment base levels in each preceding year, consistent with planned annual increases of $500,000 toward Police vehicle replacement costs in those years.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

City-Wide, Capital, Transfers, and Reserves

City-Wide Expenses in the first year of the Forecast (2023-2024) total $81.7 million, a decrease of $515.3 million from the 2022-2023 Modified Budget of $596.4 million, largely due to the removal of TRANS Debt Service related to the 2022-2023 pre-payment of retirement contributions ($282.5 million), removal of one-time budget actions from 2022-2023 that are subject to re-evaluation ($53.7 million), removal of one-time allocations from 2021-2022 that were rebudgeted into 2022-2023 ($78.1 million), and various technical adjustments to ongoing allocations ($534,000).

The line-items in this category are primarily made up of cross-departmental, large grant, and general City-wide expenditures. Forecast funding levels for 2023-2024 include cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2023-2024 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims ($20.35 million); San José BEST and Safe Summer Initiative Programs ($6.7 million); General Liability Claims ($6.0 million); Homeless Rapid Rehousing ($4.0 million); Sick Leave Payments Upon Retirement ($4.0 million); Elections and Ballot Measures ($3.8 million); Insurance Premiums ($2.7 million); Property Tax Administration Fee ($2.6 million); Measure E – 5% Program Administration ($2.5 million); Sidewalk Repairs ($2.5 million); Property Leases ($2.0 million); Local Sales Tax – San José Works - Youth Jobs Initiative ($1.7 million); Senior Nutrition Program ($1.3 million); Public, Educational and Government Access Facilities – Capital ($1.2 million); San José Learns ($1.0 million); and Energy Services Company (ESCO) Debt Service ($1.0 million).

For continuing initiatives authorized in 2023-2024, City-Wide Expenses are projected to decrease overall by a net $534,000. This is the result of a number of adjustments, including the elimination of funding for the Tax and Revenue Anticipation Notes (TRANs) Debt Service payment ($1.5 million) that is used to pay the debt service costs associated with the prepayment of portions of the City's retirement contributions; however, for 2023-2024, the Forecast assumes the pre-payment of Tier 1 Police and Fire retirement costs only without the need for intra-year borrowing. The Sick Leave Payments Upon Retirement allocation is decreased by $1.0 million, bringing the ongoing base funding to $4.0 million to align to prior year and 2023-2024 projected expenditures. Other decreases include lower amounts for Measure E 5% Program Administration ($750,000) due to reduced Real Property Transfer Tax proceeds, and lower Emergency Street Tree Services ($273,000) to align with projected revenue levels. These decreases are offset by increased Elections and Ballot Measures costs ($1.3 million) anticipated for the upcoming 2024 primary election; increased projected Workers' Compensation Claims payments ($550,000) to account for a higher rate in the settlement of claims; an increase to Sidewalk Repairs ($543,000) to match the expenditure budget with projected revenue; an increase to Insurance Premiums ($412,000) that reflects changes in premium rates and growth in the insured value of City assets; and various adjustments for San José BEST and Safe Summer Initiative Programs ($258,000), Sanitary Sewer Fees ($235,000), Workers' Compensation State License ($156,000), Commercial Paper Program Fees ($123,000), Property Tax Administration Fee ($123,000), Energy Services Company (ESCO) Debt Service ($117,000), and Property Lease payments ($85,000).

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

City-Wide, Capital, Transfers, and Reserves

Overall, Workers' Compensation Claims payments are projected to gradually decrease over the Forecast period, from $19.45 million to $19.15 million.

The General Fund **Capital Contributions** category totals $5.8 million in 2023-2024, 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).

The **Transfers** category totals $26.8 million in 2023-2024 and averages $25.7 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 $17.7 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, planned to cease in 2025-2026); funding to support the Silicon Valley Regional Interoperability Authority (SVRIA) and the replacement of Silicon Valley Regional Communication System (SVRCS) radios in the Construction and Conveyance Tax Fund – Communications ($3.0 million, an increase of $1.0 million from prior planned levels for 2023-2024); funding for the Vehicle Maintenance and Operations Fund for general fleet replacement ($2.0 million, an increase of $500,000 from prior planned levels for 2023-2024); and payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($1.4 million, increasing to $1.9 million annually by 2027-2028).

The increased recurring transfer ($1.0 million) 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 SVRCS, as well as overall escalating costs to operate the City's Communications program This ongoing General Fund support, along with previous one-time funding ($5.25 million in 2021-2022 and $2.0 million in 2022-2023) partially addresses the estimated $2.2 million annual costs of SVRCS radio replacements, based on a 10-year replacement schedule (2021-2022 through 2030-2031).

The transfer from the General Fund to the Downtown Property and Business Improvement District (PBID) Fund increases by $207,000, to $1.25 million in 2023-2024, reflecting annualized 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 approved as part of the renewal of the district and resulting in the addition of City properties.

Expenditure Forecast

City-Wide, Capital, Transfers, and Reserves

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 $82.2 million in 2023-2024 and decreases to $80.2 million in 2024-2025 and throughout the Forecast. This category includes $50.0 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 to fund critical capital maintenance or address urgent technology needs, which will be allocated during development of the 2023-2024 Proposed Budget; recommended Police Equipment Replacement Sinking Fund of $1.0 million to set aside funding to maintain and replace vital enforcement equipment, including aircraft; 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. Additionally, the annual allocation to the Cultural Facilities Maintenance Reserve is maintained at $1.25 million (increased from $1.0 million) throughout the Forecast to address the growing deferred infrastructure rehabilitation needs at these facilities.

The Forecast does not include several Earmarked Reserves that may remain unspent in 2022-2023 and later recommended for rebudget or use in 2023-2024. Some of the larger current Earmarked Reserves include the: Budget Stabilization Reserve; Revenue Loss Reserve; Measure E – 30% Low-Income Households Reserve; Measure E – 40% Extremely Low-Income Households Reserve; Measure E – 15% Homeless Support Programs Reserve; Workers' Compensation/General Liability Catastrophic Reserve; Community and Economic Recovery Reserve; Salaries and Benefits Reserve; Information Technology Sinking Fund Reserve; Measure E – 10% Homelessness Prevention and Rental Assistance Reserve; Fire Station FF&E Reserve; Google Parking Lots Option Payment Reserve; Artificial Turf Replacement Reserve; Code Enforcement Permit System Reserve; Measure E – 5% Moderate-Income Households Reserve; Sick Leave Payments Upon Retirement Reserve; Berryessa Flea Market Vendor Business Transition Fund Reserve; City Attorney's Office Outside Litigation Reserve; Police Redistricting Implementation Reserve; and Police Property Facility Relocation Reserve.

Expenditure Forecast

City-Wide, Capital, Transfers, and Reserves

Per City Council policy, the **Contingency Reserve** ($47.0 million) is projected at the level necessary to comply with the City Council policy to maintain a Contingency Reserve equivalent to a minimum of 3% of operating expenses and allows for anticipated rebudget adjustments that will be incorporated into the 2023-2024 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 $52.0 million in 2027-2028 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 $3.1 million in 2023-2024 and increase to approximately $40.6 million by 2027-2028, primarily due to the anticipated completion of projects funded from the 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 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 $2.2 million representing an early look at potential ongoing impacts of this facility.

Additional maintenance and operations funding were factored for other Measure T projects including the: 911 Call Center Expansion, Clean Water Projects (River Oaks Stormwater Capture), the Emergency Operations Center, Fire Station 8 Relocation, Police Air Support Unit Hangar, and the Police Training Facility. In total, the maintenance and operations funding for Measure T facilities coming online will increase from $463,000 in 2023-2024 to approximately $21.7 million by 2027-2028.

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 activation of the Police Substation, as well as the cost of 15 new positions within the Police Department each year of the Forecast. The non-Measure T Committed Additions costs in the Forecast range from $2.7 million in 2023-2024 to $19.0 million by 2027-2028.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2023-2024, a General Fund surplus of $29.9 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 and shortfalls are projected in the remaining years of the Forecast; 2024-2025 (-$18.8 million), 2025-2026 (-$0.1 million), 2026-2027 ($9.4 million), and 2027-2028 ($0.1 million). These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from 0.0% to 1.3% of the projected annual budget (based on expenditures), which ranges from $1.5 billion to $1.6 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 2023 Forecast is compared to the corresponding year in the February 2022 Forecast.

2024-2028 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
February 2022 Incremental Surplus/(Shortfall)	**$26.0**	**$23.5**	**$22.7**	**$28.9**	**N/A**
June 2022 Incremental Surplus/(Shortfall)	$0	N/A	N/A	N/A	N/A
February 2023 Incremental Surplus/(Shortfall)	**$29.9**	**($18.8)**	**($0.1)**	**$9.4**	**$0.1**

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2022-2023; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

Elements of The General Fund Forecast

Operating Margin

For the February 2023 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2023-2024 and the remaining four years of the Forecast period. The 2023-2024 projected surplus of $29.9 million is primarily the result of escalating revenues, partially offset by expenditures that are growing at a lower rate. The numerous revenue and expenditure changes anticipated in 2023-2024 are described in this document.

In the out-years of this Forecast, the General Fund has an operating margin ranging from a surplus of $9.4 million to a shortfall of $18.8 million annually, reflective of the fact that a moderate recession is expected to occur in the near-term resulting in expenditure growth exceeding revenue growth in 2024-2025 and 2025-2026. However, during 2025-2026, as the economy recovers, revenues will resume stronger levels of growth, resulting in surpluses in 2026-2027 and 2027-2028. The surplus and shortfall margins in the Forecast, however, are narrow when put into context of the size of the projected General Fund budget (based on expenditures) of over $1.6 billion.

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