



2023-2024 City Manager's Budget Request

&

2024-2028 Five-Year Forecast and

Revenue Projections

For the General Fund and

Capital Improvement Program

Prepared by the Office of the City Manager

February 2023

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&
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FIVE-YEAR ECONOMIC FORECAST
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*Prepared by the
Office of the City Manager
February 2023*

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jennifer A. Maguire

**SUBJECT: 2023-2024 CITY MANAGER’S
BUDGET REQUEST AND
2024-2028 FIVE-YEAR FORECAST**

DATE: March 1, 2023

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council’s Adopted Budget process, this document provides both the recommended 2023-2024 City Manager’s Budget Request (2023-2024 Budget Balancing Strategy Guidelines) and the 2024-2028 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program (CIP). Major highlights of this report follow.

As shown in the chart below, a small General Fund surplus of \$29.9 million is projected for 2023-2024, which constitutes approximately 2% of the General Fund Base Budget. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved ongoing services in the General Fund as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. If the 2023-2024 surplus is fully allocated on an ongoing basis, a small shortfall of \$18.8 million (1.3%) is projected in 2024-2025, with essentially no or very small incremental surpluses over the remaining three years of the Forecast. Over the five-year period, a total net General Fund surplus of \$20.5 million translates to an average annual surplus of \$4.1 million, which equates to 0.3% of the projected average annual General Fund Base Budget. The overall incremental surplus projections are lower than the figures included in the 2023-2027 Five-Year Forecast due to anticipated weaker economic conditions in 2024-2025 and slightly higher contributions to the City’s retirement systems.

2024-2028 General Fund Forecast Incremental Surplus

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Five-Year Surplus
Incremental Surplus/(Shortfall) ¹	\$29.9 M	(\$18.8 M)	(\$0.1 M)	\$9.4 M	\$0.1 M	\$20.5 M
% of Budget (Based on Expenditures)	2.1%	1.3%	-	0.6%	-	

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.

- This Forecast reflects the Administration’s best estimates of projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2022-2023, including resources to support the City’s community and economic recovery efforts; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.
- The 2022-2023 Modified Budget includes substantial levels of one-time funding for important community services, most significantly from the General Fund and American Rescue Plan Fund. While these services are not funded on an ongoing basis in 2023-2024, their discontinuation would likely cause negative service impacts that no one would want for our City. Therefore, from a practical perspective, when including these one-time funded critical programs currently budgeted in the American Rescue Plan Fund and the General Fund as part of our ongoing service level needs – and, for reference purposes only, assuming the continuation of half of the programs and services currently budgeted in the American Rescue Plan Fund – the City faces a service level/structural shortfall in the General Fund, as illustrated below. Please see Attachment A to this transmittal a listing of programs funded on a one-time basis in the General Fund and American Rescue Plan Fund in 2022-2023.

**Estimated Service Level/Structural Shortfall in 2023-2024 for Planning Purposes
(\$ in Millions)**

	2023-2024
February 2023 Incremental Surplus/(Shortfall)	\$29.9 M
Community and Economic Recovery Workstreams in the American Rescue Plan Fund Continued at 50% of 2022-2023 Modified Budget Level	(\$47.2 M)
2022-2023 Programs Funded on a One-Time Basis in the General Fund	(\$15.0 M)
Estimated Service Level/Structural Shortfall for Planning Purposes	(\$32.3M)

- The Forecast is built on the assumption that the economy slows at the end of 2022-2023 and experiences a mild recession in 2023-2024, with a return to moderate growth thereafter. As with all forecasts, there is a level of uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. The City’s two largest General Fund revenues, Property Tax and Sales Tax, are sensitive to changes in the local economy and may fluctuate to a significant degree depending on future conditions. Various cost elements can also vary from year to year, including retirement contributions that are based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards.

- Two alternative forecasts have been developed to model the range of budgetary scenarios possible under varying economic conditions. Optimistic and Pessimistic Cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case". Over the five-year period, the Optimistic Case would generate a surplus of \$90.7 million, while the Pessimistic Case would result in a shortfall of \$87.3 million. It is important to note that due to the significant swings the pandemic has had on the local economy and the anticipated future weakening, it is challenging to forecast economic conditions over the next five years.
- The chart on page 4 compares the 2023-2024 General Fund Forecast to the 2022-2023 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund surplus of \$29.9 million. Ongoing revenues are projected to increase by \$78.2 million, driven primarily by increases in Property Tax, Utility Tax, Transfers and Reimbursements, Use of Money and Property, Sales Tax, Transient Occupancy Tax, and changes in the Beginning Fund Balance. Partially offsetting these increases is an estimated drop in Real Property Transfer Tax. When comparing expenditures, Base Budget costs are expected to increase by \$48.30 million from 2022-2023 ongoing budget levels, with the majority of the net cost increases associated with anticipated increased employee compensation and retirement contributions, utility costs, vehicle maintenance and replacement costs, as well as additional staffing costs in the Police Department as previously authorized by the City Council and planned costs for the operation of new facilities and infrastructure coming online in 2023-2024.

**2023-2024 General Fund Forecast
Reconciliation from 2022-2023 Adopted Budget**

2023-2024 General Fund Forecast Components (Ongoing)	\$ in Millions
Carry-Over from 2022-2023 Adopted Budget	\$ 0
Revenue Changes	
- Property Tax	31.70
- Utility Tax	19.10
- Beginning Fund Balance	9.75
- Transfers and Reimbursements	9.30
- Use of Money and Property	6.09
- Sales Tax	5.40
- Transient Occupancy Tax	5.00
- Fines, Forfeitures, and Penalties (Parking Fines)	2.90
- Telephone Line Tax	2.00
- Business Taxes	1.50
- Real Property Transfer Tax	(15.00)
- Other Net Revenue Changes	0.48
Total Revenue Changes (Increase)	\$ 78.22
Expenditure Changes	
- Employee Compensation	28.98
- Retirement Contributions	9.89
- Non-Personal/Equipment (Vehicle O&M, Electricity, Gas, and Police Fleet)	6.24
- Health Insurance Plans	4.69
- Committed Additions: Operations & Maintenance and Police Department Staffing	3.09
- Non-Management Step and Management-Pay-for-Performance Program	2.58
- Transfer to City Hall Debt Service Fund	1.51
- Elections and Ballot Measures	1.30
- Contingency Reserve	1.00
- Transfer to Communications Construction & Conveyance Tax Fund	1.00
- Graffiti Abatement	0.80
- Workers’ Compensation Claims and State License Fee	0.71
- Janitorial Services	0.67
- Sidewalk Repairs	0.54
- Animal Care and Services	0.53
- Transfer to Vehicle Maintenance and Operations Fund	0.50
- Insurance Premiums	0.41
- San José BEST and Safe Summer Initiative Programs	0.26
- Sanitary Sewer Fees	0.23
- Measure E Allocations – Affordable Housing and Homelessness Prevention and Support	(15.00)
- Living Wage/Minimum Wage Program	(2.00)
- Tax and Revenue Anticipation Notes (TRANS) Debt Service	(1.50)
- Sick Leave Payments Upon Retirement	(1.00)
- Emergency Street Tree Services	(0.27)
- Other Net Expenditure Changes	3.14
Total Expenditure Changes (Increase)	\$ 48.30
2023-2024 Projected General Fund Surplus	\$ 29.92

- For the 2023-2024 General Fund Forecast, personal services costs continue to account for nearly three-quarters of the total cost in the General Fund. The personal services category is broken down into three major components: salaries and other compensation, retirement, and health and other fringe benefits. Of the \$1.04 billion projected personal services total for 2023-2024, salary and other compensation costs total \$615.0 million (59.1% of projected personal services), retirement costs total \$347.9 million (33.4% of projected personal services), and health and other fringe benefits costs total \$78.1 million (7.5% of projected personal services). In the out years of the forecast, annual personal services growth ranging from 3.5% to 4.6% is projected.
- Committed Additions, expenses that address previous City Council direction, are included and total \$3.1 million in 2023-2024, rising to \$40.6 million by the end of the forecast period. The largest expenses in this category are the operating and maintenance costs for new facilities and public infrastructure that will come online within the next five years – including for Measure T bond projects approved by voters in November 2018, and the addition of 15 positions (a combination of sworn and civilian) in the Police Department each year of the Forecast, as authorized by the City Council with their adoption of the 2022-2023 Operating Budget.
- In approaching the 2023-2024 Proposed Budget, the Administration recommends the use of the budget balancing strategy guidelines outlined in this memorandum (2023-2024 City Manager's Budget Request). The *City of San José Budget Principles and Service Delivery Framework* (Appendix A) combined with City Council approval of the Mayor's March Budget Message will also guide the City's budget development efforts. The Administration recommends City Council approval of the Proposed 2023-2024 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval scheduled for March 21, 2023.
- This document also includes a set of structured guidelines for the process whereby City Councilmembers submit cost estimate requests to the Administration in preparation for their Budget Documents that are ultimately submitted to the Mayor's Office for potential inclusion in the Mayor's June Budget Message. For each of the past two years, the Administration has received over 100 cost estimate requests. While the City Council understandably views these requests as critical to informing their Budget Documents, department staff cannot sustain the high volume and short turnaround time to cost out the oftentimes new and complex services and capital projects that are requested. The Administration recommends that the included guidelines be incorporated into City Council's approval of the Mayor's March Budget Message so that they are effective for the upcoming 2023-2024 budget development process.

- As discussed above, the anticipated surplus for 2023-2024 does not include a range of existing service gaps that impact our community. There are also unmet/deferred infrastructure and maintenance needs that will have a long-term impact on the City. Looking forward, the Administration's goal is to ensure multi-year budget stability while also addressing, to the extent possible, the City's basic service delivery needs, and the backlog of unmet/deferred infrastructure and maintenance needs.
- The attached *City Budget Program Guide* (Appendix C) sets an initial baseline for how General Fund resources are currently allocated by City Service Area, Core Service, and Budget Program in the 2023-2024 Base Budget. This guide will serve as one tool to aid in the discussion of budgetary resource alignment with key City service delivery outcomes and performance as part of the 2023-2024 Proposed Operating Budget and 2023-2024 Proposed Budget Study Sessions.
- Projections for the selected CIP revenues are also included in this document. These revenue estimates of \$396.6 million are 4.2% lower than the estimate used to develop the 2023-2027 Adopted CIP (\$413.9 million), as the real estate market has seen a decline in property transfer activity due in large part to higher mortgage interest rates. When comparing the revenue estimates in this forecast to the 2023-2027 Adopted CIP, Construction and Conveyance Tax projections decreased by \$15.0 million or 6.5%, Building and Structure Construction revenue estimates remained the same, and Construction Excise Tax revenue estimates decreased by \$2.0 million or 2.4%. These three revenue estimates have a combined total of \$392.0 million.
- Consistent with past practice, any new information impacting revenue and expenditure estimates will be brought forward as part of the preparation for the 2023-2024 Proposed Budget, or as a Manager's Budget Addendum as part of the Adopted Budget process, as appropriate.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the 2023-2024 City Manager's Budget Request and the 2024-2028 Five-Year Forecast and Revenue Projections for the General Fund and CIP. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and are critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year CIP.

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends for use in developing the 2023-2024 Proposed Budget. These guidelines are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated budgetary status for 2023-2024 is an integral part of the Administration's proposed approach to preparing the 2023-2024 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2023-2024, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2023-2024 City Manager's Budget Request, including recommended guidelines for the Cost Estimate and City Council Budget Document Process; an overview of the 2024-2028 Five-Year Forecast and Revenue Projections for the General Fund and CIP; and a description of the next steps in the 2023-2024 Budget Process.

2023-2024 CITY MANAGER'S BUDGET REQUEST

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines recommended to be used in the development of the 2023-2024 Proposed Budget. These proposed guidelines were formulated in the context of General Fund projections that include an incremental ongoing shortfall of \$18.8 million to an ongoing surplus of \$29.9 million, which is approximately 2% of the General Fund Base Budget expenditures, but are also mindful that the City needs to strategically allocate resources to address a service level/structural shortfall when considering important community priorities currently funded in the General Fund on a one-time basis, and community and economic recovery workstreams currently included in the American Rescue Plan Fund on a one-time basis, as previously approved by the City Council.

The overarching goals of these guidelines are to align the ongoing limited resources in the General Fund with the strategic allocation of ongoing expenditures to address the City Council's most important priorities. Approximately \$94.4 million in the American Rescue Plan Fund and \$15.0 million in the General Fund were allocated on a one-time basis in 2022-2023 to fund critical programs and services, and it will be important to ensure that these programs and services are appropriately transitioned to a more sustainable service level that can be achieved on an ongoing basis without reliance on external resources, or eliminated in favor of higher City priorities.

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

In accordance with the City Charter, the City is required to adopt a balanced budget each year, allocating any projected surplus or addressing any projected shortfall. In 2023-2024, as previously stated, a General Fund surplus of \$29.9 million is projected, representing approximately 2% of the General Fund Base Budget of \$1.4 billion. In the out years of the Forecast, General Fund shortfalls are projected in year two (\$18.8 million) and three (\$109,000) of the Forecast and surpluses are projected for the remaining two years of the Forecast, \$9.4 million and \$130,000, respectively. When evaluating the annual General Fund surpluses projected in this Forecast, it is important to keep in mind that these figures do not incorporate impacts associated with:

- The costs to continue the community and economic recovery workstreams' services funded on a one-time basis in 2022-2023 by resources allocated from the American Rescue Plan Fund that totaled approximately \$94.4 million. Major workstreams funded on a one-time basis include, but are not limited to, the following: BeautifySJ Consolidated Model (contractual services), San José Bridge Program, Continued Child and Youth Services, Digital Equity, Emergency Housing Construction and Operation, Continued Food Services, Eviction Help Center, Homeless Services Outreach Assistance + Resources (SOAR), Downtown Homeless Health Response and Support, Resilience Corps, San José Abierto, San José Al Fresco, Small Business Outreach and Assistance Activities, Supplemental Arts and Cultural Grant Funding, and Community Engagement.
- The costs to continue services funded on a one-time basis in 2022-2023 in the General Fund that totaled over \$15 million. Major items funded on a one-time basis that need to be evaluated for continued funding include the following: Police Sworn Hire Ahead Program, Police Recruiting and Backgrounding, Coyote Creek and Guadalupe River Trail Patrol, Climate Smart Plan Implementation (contractual services), 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.
- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were last updated and presented to the Transportation and Environment Committee on April 4, 2022, at \$17.6 million annually in the General Fund (\$91.5 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling \$98.2 million in the General Fund (\$1.7 billion all funds).
- One-time revenues that may become available or one-time expenditure needs. Because the Forecast compares ongoing revenues and expenditures, it does not factor in one-time funding elements that may be available or required in any given year.

Due to the above critical needs that are not captured in the \$29.9 million General Fund ongoing surplus projected for 2023-2024, the Administration considers that the General Fund is experiencing an ongoing service level/structural shortfall. To provide perspective on the relative size of the service level/structural shortfall for planning purposes, the \$29.9 million surplus is compared below with just 50% of the \$94.4 million allocated from the American Rescue Plan Fund in 2022-2023 and those services and programs funded on a one-time basis in the General Fund in 2022-2023. Please see Attachment A to this transmittal a listing of programs funded on a one-time basis in the General Fund and American Rescue Plan Fund in 2022-2023.

**Estimated Service Level/Structural Shortfall in 2023-2024 for Planning Purposes
(\$ in Millions)**

	2023-2024
February 2023 Incremental Surplus/(Shortfall)	\$29.9 M
Community and Economic Recovery Workstreams in the American Rescue Plan Fund Continued at 50% of 2022-2023 Modified Budget Level	(\$47.2 M)
2022-2023 Programs Funded on a One-Time Basis in the General Fund	(\$15.0 M)
Estimated Service Level/Structural Shortfall for Planning Purposes	(\$32.3 M)

The Administration looks to City Council’s upcoming approval of the Mayor’s March Budget Message to identify the most critical priority areas to allocate the limited General Fund resources. The 2023-2024 Proposed Budget will focus on addressing those priority areas within available funding levels. As this Forecast anticipates the small surplus in 2023-2024 will be followed by a small shortfall in 2024-2025 and continued limited resources over the next five years absent significant economic improvement, achieving a structurally balanced budget from an ongoing service level perspective as soon as possible is critical to ensuring that the City remains nimble in future years to adapt to any unforeseen changes in the Forecast.

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

2023-2024 Budget Balancing Strategy Guidelines

The 2023-2024 Budget Balancing Strategy Guidelines, as shown below, provide recommended direction on the general approaches to use in the development of the 2023-2024 Proposed Budget.

2023-2024 Budget Balancing Strategy Guidelines

1. As directed by the priorities identified in the City Council-approved Mayor's March Budget Message, develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. As appropriate, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure; and, maintain or increase the Budget Stabilization Reserve as a buffer against a further weakening of future economic conditions or unanticipated cost increases.
4. Evaluate program-level budgets and identify opportunities to shift resources or reconfigure operations from the least influential contributors to the strongest contributors of achieving City-wide and departmental priority service and/or risk mitigation objectives.
5. Prioritize limited resources to address truly significant community or organizational risks, critical services funded on a one-time basis in 2022-2023 in the General Fund or American Rescue Plan Fund, and/or respond to specific City Council direction. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in proposal development.
6. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, reorganizing functions, and reallocating resources).
7. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively.
8. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
9. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
10. Explore expanding existing revenue sources and/or adding new revenue sources.
11. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
12. Focus any available one-time resources on investments that 1) continue a very small number of high-priority programs funded on a one-time basis in 2022-2023 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) accelerate the pay down of existing debt obligations where applicable and appropriate; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
13. Engage employees in department and/or city-wide budget proposal idea development.
14. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
15. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

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

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

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

Cost Estimate Request and City Council Budget Document Guidelines

The City Manager's Budget Request also includes a set of structured guidelines for the process whereby City Councilmembers submit cost estimate requests to the Administration in preparation for their Budget Documents that are ultimately submitted to the Mayor's Office for potential inclusion in the Mayor's June Budget Message. For each of the past two years, the Administration has received over 100 cost estimate requests. While the City Council understandably views these requests as critical to informing their Budget Documents, department staff cannot sustain the high volume and short turnaround time to cost out the oftentimes new and complex services and capital projects that are requested. The Administration recommends that the following definitions and guidelines – which attempt to provide clear definitions and feasible limits to the Cost Estimate Request and Budget Document process to better ensure the delivery of meaningful budgetary information for City Council decision-making – be incorporated into City Council's approval of the Mayor's March Budget Message.

Cost Estimate Request: A request by a Councilmember seeking the cost of a new project or program to be performed by City. The request from the Councilmember should include a clear description of the work to be performed and the anticipated outcomes that identifies how the change would affect services for San José residents, businesses, community groups, etc. Each Councilmember should submit no more than five Cost Estimate Requests.

The request must have a modest scope so that a reliable cost estimate response can be quickly and accurately completed. The anticipated scope should be a small-scale project that the City has delivered in the past, or an extension of a service that already exists that would only require a modest staffing additions on a one-time basis. Recent examples include the installation of targeted neighborhood traffic calming improvements, for a radar speed display sign along a neighborhood street, or additional street tree plantings within a Council District. Requests that involve complex service delivery and/or large ongoing staffing resources for new

programs (e.g., at-home STEM educational programs for children in Title I schools supplemented with free Wi-Fi hotspots), or large capital construction projects that require extensive design (e.g. new streetlight infrastructure, highway overpasses, etc.) are not appropriate for this process.

The request should identify the anticipated funding source to pay for the program (though City staff may suggest alternative funding sources in its response) and indicate if the project/program is a one-time or ongoing effort.

Cost Estimate Response: A response by City staff to the Councilmember's request that clearly identifies the one-time and ongoing costs, as appropriate, and any additional full-time equivalent positions that would be needed. Explanatory notes are provided only if necessary to clarify what is included in the cost estimate response.

Budget Documents: Memoranda issued by a Councilmember to the Mayor recommending adjustments to the City Manager's Proposed Budget. Typically, Budget Documents are based on the information received in a Cost Estimate Request and Response, but they may also recommend targeted funding for community groups whose programs or actions serve the public interest, but would not be performed by City staff. All Budget Documents that recommend a City-provided service or project must be based on a Cost Estimate Response.

As the Proposed Budget is fully balanced, Budget Documents must also identify the offsetting actions to pay for the recommended adjustment, such as the Essential Services Reserve. For example, if a Budget Document seeks to fund a \$50,000 project, then a typical offset would be a \$50,000 reduction to the Essential Services Reserve. It is important to note that the Essential Services Reserve is not an ongoing funding source. To pay for any ongoing costs, and to align within City of San José Budget Principles, the Budget Document would also need to identify an ongoing service in the Proposed Budget to defund.

Submittal Dates:

- **Monday, April 24** Councilmembers may begin to submit Cost Estimate Requests to the City Manager's Budget Office
- **Wednesday, May 10** Deadline for Councilmembers to submit Cost Estimate Requests to the City Manager's Budget Office
- **Friday, May 19** Cost Estimate Responses returned to Councilmembers
- **Thursday, May 25** Budget Documents due to Mayor's Office

2023-2024 Budget Process

As noted above, in addition to the forthcoming direction in the Mayor's March Budget Message, the Administration proposes the use of the general Budget Balancing Strategy Guidelines outlined above in the 2023-2024 City Manager's Budget Request combined with the overall City of San José Budget Principles and Service Delivery Framework to approach the 2023-2024 budget development process.

In December 2022, the Administration directed City departments to develop budget proposals using a draft version of the 2023-2024 Budget Balancing Strategy Guidelines. At that time, the Administration anticipated that the City's General Fund would appear to have a small surplus in 2023-2024 followed by a small shortfall in 2024-2025 – effectively balanced over a two-year period – but would also experience an ongoing service level/structural shortfall. As a result, departments were directed to:

- Comprehensively evaluate their highest priority objectives and risks, and offer actions that reallocate resources from the least influential contributors to the strongest contributors to achieving the identified objectives/risk mitigation;
- Evaluate and recommend, where appropriate, the continuation of high-priority programs funded on a one-time time basis in 2022-2023 in the General Fund and the American Rescue Plan Fund, with the expectation that a reallocation of resources may be necessary to focus on these priorities;
- Recommend the allocation of new resources to a very small handful of key policy priority areas and organizational risk factors; and
- Consider how the reallocation of existing resources or limited allocation of new resources impacts racial equity within our community.

Further, departments overseeing Special and Capital funds were directed to develop recommendations that balance the total resources of the fund, identify the impact on fees or rates and, to the extent possible, minimize fee and rate increases. For those programs that have historically allocated resources equally city-wide, direction was given to work on enhancing or further developing a practice of place-based and equity-focused strategies to allocate these resources. The long-term goal is to fully align ongoing expenditures to ongoing revenues, prioritizing organizational stability as we build back capacity to address our significant service delivery and infrastructure needs.

Consistent with the City Charter, the Mayor is currently anticipated to issue a March Budget Message on March 13, 2023, which will then be discussed, amended if necessary, and adopted by the City Council on March 21, 2023. The contents of that Message will set forth key budget priorities for the preparation of the City Manager's 2023-2024 Proposed Capital and Operating Budgets currently scheduled to be released on April 26, 2023 and May 1, 2023, respectively. As part of the 2023-2024 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2023-2024 Budget Balancing Strategy Guidelines, including the Cost Estimate Request and City Council Budget Document Guidelines, with any desired revisions. As required

by City Charter, those Proposed Budgets will contain allocations that address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Budget Study Sessions and Public Hearings to discuss the budget and associated impacts on performance and service delivery. The Administration will also work with the Mayor and City Council to provide informational community meetings on the Proposed Budget. Additional input by the City Council and community will be incorporated into the budget through these Proposed Budget Study Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2023.

2024-2028 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2024-2028 Five-Year Forecast and Revenue Projections portion of this document is divided into five sections.

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

The Five-Year Forecast discussion is based on the Base Case with Committed Additions scenario, which is considered the most likely scenario for the upcoming year.

- III. **Committed Additions to the Base General Fund Forecast** – This section describes the committed additions per previous City Council direction considered in the Forecast, including the financial impact in each year of the Five-Year Forecast. This section also includes a discussion of Budget Principle #8, which pertains to capital projects with General Fund operating and maintenance costs in excess of \$100,000.

- IV. **Alternative Forecast Scenarios** – Because all forecasts are burdened with a large degree of uncertainty, two plausible alternative forecast scenarios are presented – an Optimistic Case and a Pessimistic Case – that modify revenue assumptions. These cases are compared with the Base Case, with committed additions, to show the range of growth rates for revenues and the associated operating margins.

- V. **Capital Revenue Forecast** – This section describes the estimates for construction and real estate related revenues that are major sources of funding for the City’s Five-Year CIP.

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

2024-2028 General Fund Forecast

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

2024-2028 General Fund Five-Year Forecast
(\$ in Millions)

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Projected Revenues	\$1,464.1	\$1,495.3	\$1,544.7	\$1,601.9	\$1,665.5
Projected Expenditures	\$1,434.2	\$1,484.2	\$1,533.7	\$1,581.6	\$1,645.0
Total Cumulative Surplus	\$29.9	\$11.1	\$11.0	\$20.3	\$20.5
Total Incremental Surplus	\$29.9	(\$18.8)	(\$0.1)	\$9.4	\$0.1
% of Budget (Based on Expenditures)	2.1%	1.3%	0.0%	0.6%	0.0%

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.

In the 2024-2028 Forecast, a modest General Fund surplus of \$29.9 million is anticipated for 2023-2024, followed by incremental shortfalls and surpluses ranging from -\$18.8 million to \$9.4 million over the next four years. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from 0.0% to 1.3% of the projected annual budget (based on expenditures), which ranges from \$1.5 billion to \$1.6 billion. However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast, including programs funded on a one-time basis in 2022-2023, including funding to continue the City's community and economic and recovery efforts, unmet/deferred infrastructure and maintenance needs, and one-time revenue sources or expenditure needs.

Given the decreasing level of precision to be expected in the later years of a multi-year forecast, the significance of the projections in the out years is not so much in terms of their absolute amounts, but rather in the relative size of the change from the prior year. This information should be used to provide a multi-year perspective to budgetary decision-making, rather than as a precise prediction of what will occur.

When reconciling next year's Forecast to the 2022-2023 Adopted Budget, the projected surplus of \$29.9 million for 2023-2024 is the result of improved revenues of \$78.2 million, and increased costs of \$48.3 million. General Fund revenues are estimated to improve by a net of \$78.2 million when compared to the ongoing revenue performance assumed in the 2022-2023 Adopted Budget. The largest increases include: Property Tax (\$31.7 million), which is based on the most recent information provided by the County of Santa Clara; Utility Tax (\$19.1 million), based on rate increases and usage projections; Transfers and Reimbursements (\$9.3 million), associated with various adjustments related to transfers from other City funds and overhead reimbursements; Use of Money and Property (\$6.1 million), due to higher anticipated interest earnings due to raising interest rates; and Sales Tax (\$5.4 million), due to high inflation rates and anticipated economic activity. Partially offsetting revenue growth for various categories is an anticipated decline for the Real Property Transfer Tax (-\$15.0 million), due to the slowdown in the local real estate market, which drives this revenue category. A description of major General Fund revenue categories is included in *Appendix B*.

On the expenditure side, several upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of \$48.3 million in 2023-2024. The largest expenditure changes include: employee compensation increases (\$29.0 million) in accordance with existing labor agreements and estimation of future salary costs; an increase to retirement contributions in accordance with calculated pensionable payroll and actuarial assumptions approved by the City's Retirement Boards (\$9.9 million); city-wide vehicle operations and maintenance, electricity, gas, and police fleet replacements (\$6.2 million); health insurance plans cost increases (\$4.7 million); non-management step and management pay-for-performance program (\$2.6 million); transfer to the City Hall Debt Service Fund (\$1.5 million) to align with the proportional cost allocation for 2020A lease-revenue bonds, which refunded debt related to the construction of City Hall; Elections and Ballot Measures costs (\$1.3 million) anticipated for the upcoming 2024 primary election; transfer to the Construction and Conveyance Tax Fund – Communications (\$1.0 million) to support the Silicon Valley Regional Interoperability Authority (SVRIA) and the replacement of Silicon Valley Regional Communication System (SVRCS) radios; graffiti abatement (\$800,000); workers' compensation to address a higher rate of claim settlements and increased state license fee (\$706,000); city-wide janitorial services, including those associated with the addition of Sunday

hours at thirteen library branches (\$673,000); Sidewalk Repairs (\$543,000) to align funding with projected revenue; Animal Care and Services primarily associated with overnight and after hours veterinary care, medical supplies, janitorial services and cleaning supplies (\$527,000); transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement (\$500,000); Insurance Premiums (\$412,000) due to changes in premiums and growth in the insured value of City assets; cost increases for City facilities general maintenance services and supplies (\$295,000); various adjustments for San José BEST and Safe Summer Initiative Programs (\$258,000); Sanitary Sewer Fees (\$235,000); reduced allocations of projected Real Property Transfer Tax (Measure E) revenues toward affordable housing and homelessness prevention reserves and program administration (-\$15.0 million); reduced costs related to living wage adjustments (-\$2.0 million) due to the Council-approved change to City Council Policy 3-3 Living Wage Policy; reduced Tax and Revenue Anticipation Notes (TRANS) Debt Service payment costs (-\$1.5 million) due to the assumed pre-payment of Tier 1 Police and Fire retirement costs only, without the need for intra-year borrowing; reduced Sick Leave Payments Upon Retirement allocation (-\$1.0 million) based on prior year actual expenditures and projected payments for 2023-2024; and, lower Emergency Street Tree Services (-\$273,000) funding to align with projected revenue levels. Please see *Appendix C* for all General Fund Base Budget expenditures and position allocations by City Service Area, Core Service, and Budget Program for each department

It is important to note that this Forecast also assumes the elimination of the Voluntary Furlough/Reduced Work Week Program. The program allowed 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. As a result, this program will be discontinued in 2023-2024.

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

General Fund Committed Additions

Cost estimates for specific Committed Additions that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2023-2027 Adopted CIP, or for projects approved by the City Council during 2022-2023. The costs of the additions total \$3.1 million in 2023-2024 and increase to \$40.6 million by the end of the forecast period.

Maintenance and operating costs in the first year are largely due to the costs associated with additional positions in the Police Department. City Council's approval of the Mayor's June Budget Message for Fiscal Year 2022-2023 authorized, as Committed Additions to future Five-Year General Fund Forecasts, the annual addition of up to 15.0 sworn and civilian positions in the Police Department. Starting in 2024-2025, other Committed Addition costs are expected to increase significantly due to the completion of a few Measure T bond projects, including new Fire Station

32, Fire Station 8 Relocation, Police Training Facility, and the 911 Call Center Expansion. Two additional projects, new Fire Station 36 and Police Substation, are scheduled to be completed in 2025-2026, further increasing the overall maintenance and operating costs.

**2024-2028 General Fund Committed Additions
Maintenance and Operations Costs**

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Police Staffing Addition	\$2,400,000	\$4,944,000	\$7,638,000	\$10,490,000	\$13,506,000
New Parks and Recreation Facilities	\$58,000	\$371,000	\$1,868,000	\$2,024,000	\$2,251,000
New Traffic Infrastructure Assets	\$169,000	\$269,000	\$339,000	\$364,000	\$384,000
New Public Safety Facilities	\$0	\$0	\$271,000	\$2,661,000	\$2,819,000
Measure T Bond-funded Facilities	\$463,000	\$11,205,000	\$17,514,000	\$21,012,000	\$21,666,000
Total	\$3,090,000	\$16,789,000	\$27,630,000	\$36,551,000	\$40,626,000

A detailed listing of all committed additions with operating and maintenance costs is included in this 2024-2028 General Fund Forecast and can be found in *Section III - Committed Additions to the Base General Fund Forecast* of this document.

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

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

Alternative Forecast Scenarios

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the Base Case. Optimistic and Pessimistic cases model economic scenarios considered possible, but less likely to occur than the Base Case. These alternatives are presented in *Section IV – Alternative Forecast Scenarios* of the report to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2023-2024 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

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

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Five-Year Surplus
Base Case	\$29.9 M	(\$18.8 M)	(\$0.1 M)	\$9.4 M	\$0.1 M	\$20.5 M
Optimistic Case	\$55.1 M	\$8.3 M	\$4.0 M	\$21.4 M	\$1.9 M	\$90.7 M
Pessimistic Case	\$2.7 M	(\$44.5 M)	(\$24.7 M)	(\$3.8 M)	(\$17.0 M)	(\$87.3 M)

- 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 raise 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 valuation changes, Property Tax 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, a 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.

Capital Revenue Forecast

Section V – Capital Revenue Forecast of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2023-2024 Capital Budget and the 2024-2028 CIP. As in past years, the construction-related revenue estimates included in this report are derived from construction activity projections provided by the Planning, Building and Code Enforcement (PBCE) Department and an analysis of actual collection patterns. The projections and their basis are described in a report prepared by the PBCE Department, which is included as *Appendix D* of this document (Development Activity Trends and Five-Year Forecast 2024-2028). This activity forecast includes a review of specific projects that are in progress as well as a general prediction of expected levels of new construction.

The following table compares the estimates for the economically sensitive capital revenue categories included in this Five-Year Forecast with those included in the 2023-2027 Adopted CIP. As shown below, revenues are anticipated to decrease by 4% compared to the Adopted CIP, from \$413.9 million to \$396.6 million.

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

	2023-2027 Adopted	2024-2028 Forecast	Difference	% Change
Construction and Conveyance Tax	\$230,000	\$215,000	(\$15,000)	(7%)
Building and Structure Construction Tax	95,000	95,000	0	0%
Construction Excise Tax	84,000	82,000	(2,000)	(2%)
Municipal Water System Fees	375	175	(200)	(53%)
Residential Construction Tax	1,000	1,000	0	0%
Sanitary Sewer Connection Fee	2,500	2,500	0	0%
Storm Drainage Connection Fee	1,000	875	(125)	(13%)
TOTAL	\$413,875	\$396,550	(\$17,325)	(4%)

Real estate activity (primarily housing sales) determines the collection level of the Construction and Conveyance Tax. After reaching a record setting high at the time of \$49.0 million in 2005-2006, tax collections continuously fell following the real estate slowdown and financial market crisis, dropping to as low as \$20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and have been steadily increasing, hitting a new all-time high of \$64.5 million in 2021-2022. Collections in 2022-2023 are projected to end the year at \$40.0 million. This estimated collection level is 38% below the actual receipts received in 2021-2022, which is reflective of a drop in property transfers due in large part to higher mortgage interest rates. Collections in this extremely volatile revenue category are conservatively forecasted to drop to \$40.0 million in 2023-2024 and 2024-2025 increase to \$45.0 million for the remainder of the forecast period.

Construction activity valuation is anticipated to be lower than the prior year with \$1.4 billion in 2022-2023, an 11% decrease compared to \$1.5 billion in 2021-2022. Construction valuation is projected to increase through the five-year forecast period, going from \$1.4 billion in 2023-2024 to \$1.8 billion in 2027-2028. These valuations are based on slow but steady increases in new construction activities in the residential, industrial, and commercial categories. While the pandemic led to some interruptions in the local construction sector, the market showed resilience the last few years as projects already in progress re-started after the shutdown and other permits were pulled for the first time. Though these estimates may be conservative, they are reflective of the uncertain development environment in the future, specifically around the office and capital markets, and an acknowledgment that the extremely high activity experienced over the last several years will likely not continue at the same level.

The five-year projection for the Building and Structure Construction Tax collections totals \$95.0 million, matching the estimate included in the 2023-2027 Adopted CIP. It is projected that collection estimates will remain at \$19 million for the forecast period as projects are completed and activity levels remain steady. Construction Excise Tax collections are projected to total \$82.0 million over the forecast period, \$2.0 million below the estimate included in the 2023-2027 Adopted CIP. It is projected that collections will increase from the 2022-2023 estimate of \$14.0 million to \$15.0 million in 2023-2024, \$16.0 million in 2024-2025, and to \$17.0 million in 2025-2026 and for the remainder of the forecast period as projects are completed and activity levels increase.

NEXT STEPS IN THE 2023-2024 BUDGET PROCESS

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

March 2023

- 2023-2024 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2023

- 2023-2024 Proposed Capital Budget and 2024-2028 Proposed CIP Released

May 2023

- 2023-2024 Proposed Operating Budget and 2023-2024 Proposed Fees and Charges Released
- 2023-2024 Community Budget Meetings
- City Council Study Sessions and Initial Public Hearing on 2023-2024 Proposed Operating Budget, 2023-2024 Proposed Capital Budget and 2024-2028 Proposed CIP, and 2023-2024 Proposed Fees and Charges

June 2023

- 2023-2024 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2023-2024 Operating Budget, 2023-2024 Capital Budget and 2024-2028 CIP, and 2023-2024 Fees and Charges Adopted by City Council

CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's CIP. A modest General Fund surplus of \$29.9 million, approximately 2% of the General Fund budget, is projected in 2023-2024, followed by a small shortfall of \$18.8 million (1.3%) in 2024-2025, with essentially no or very small incremental surpluses over the remaining three years of the Forecast. These margins are extremely narrow when considering the size of the General Fund budget that totals \$1.4 billion to \$1.6 billion annually over the forecast period (2.1% - 0% of the budget).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. It is also important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2022-2023, including the substantial resources to support the City's community and economic recovery efforts funded in the American Rescue Plan Fund; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

The revenue and expenditure projections for 2023-2024 will continue to be refined over the next several months as additional information becomes available. This includes additional Property Tax roll growth data that is updated each month, or any new economic data that would substantially alter assumed revenue growth across economically sensitive categories. Based on this additional data, any necessary adjustments will be incorporated into the 2023-2024 Proposed and Adopted Operating Budgets, as appropriate.

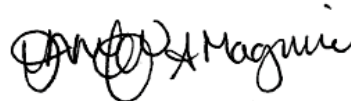
HONORABLE MAYOR AND CITY COUNCIL

March 1, 2023

Subject: 2023-2024 City Manager's Budget Request and 2024-2028 Five-Year Forecast

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This document also provides the recommended 2023-2024 City Manager's Budget Request (Budget Balancing Strategy Guidelines and Cost Estimate Request and City Council Budget Document Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. The over-arching goals of the Budget Balancing Strategy Guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner. The intent of the Cost Estimate Request and City Council Budget Document Guidelines are to provide clear definitions and feasible limits to the process to better ensure the delivery of meaningful budgetary information for City Council decision-making as part of the final adoption of the 2023-2024 Budget Documents. Over the past many years, the Mayor and City Council have remained committed to ensuring the fiscal health of the City while delivering essential services in the most cost-effective manner. Continued commitment to these strategies will help ensure a responsible approach to budgeting to ensure that the City can sustain critical community services into the future.



Jennifer A. Maguire
City Manager

Attachment A

Programs Funded on a One-Time Basis in the General Fund in 2022-2023 and
Programs Funded on a One-Time Basis the American Rescue Plan Fund in 2022-2023

ATTACHMENT A

Programs Funded on a One-Time Basis in the General Fund in 2022-2023

Program Service	Amount Budgeted in 2022-2023 on a One-Time Basis
Police Sworn Hire Ahead Program	\$7,500,000
Racial Equity Staffing	\$720,000
Recruiting and Backgrounding	\$850,000
Coyote Creek and Guadalupe River Trail Patrol (City Match)	\$600,000
Climate Smart Plan Implementation (contractual services)	\$500,000
Storefront Activation Grant Program	\$500,000
OEM - UASI Grant Staffing	\$471,000
Police Public Records Team Staffing	\$462,000
Automatic Public Toilets	\$410,000
Body Worn Camera Review	\$350,000
Recruitment and Retention Staffing (PM and Analyst I/II)	\$350,000
Learning and Development Program	\$350,000
Fourth of July Fireworks - San Jose Rotary	\$250,000
Data Equity Lead	\$200,000
Automated Speed Detection Messaging	\$175,000
Alum Rock Park Maintenance - Parks Facility Supervisor	\$170,750
PAB Employee Parking Lot Security Service	\$165,000
Workers' Compensation Legal Support	\$155,000
Workforce Pipeline Development	\$155,000
Contracts Processing and Coordination Staffing	\$134,000
Public-Facing Portal for Evidence Collection	\$125,000
Improving Criminal Justice Program (YWCA)	\$120,000
Northern California Regional Intelligence Center Staffing	\$107,000
Traffic Safety and Illegal Sideshows	\$100,000
Children's Advocacy Center (CAC) Forensic Interview	\$100,000
General Fund Total	\$15,019,750

ATTACHMENT A

Programs Funded on a One-Time Basis in the American Rescue Plan Fund in 2022-2023

Program Service	2022-2023 Modified Budget
BeautifySJ and Encampment Waste Pick Up - BeautifySJ Consolidated Model	\$14,963,000
BeautifySJ and Encampment Waste Pick Up - San Jose Bridge Program	\$7,000,000
Build Back Better and COVID-19 Recovery - Community Engagement	\$1,199,000
Build Back Better and COVID-19 Recovery - COVID-19 Recovery Taskforce	\$2,469,000
Build Back Better and COVID-19 Recovery - Emergency Public Information	\$646,000
Child and Youth Services - Child and Youth Services Master Plan	\$3,119,000
Child and Youth Services - Child and Youth Success	\$355,000
Child and Youth Services - Childcare Tenant Improvement	\$900,000
Child and Youth Services - Library	\$2,409,000
Child and Youth Services - PRNS (Programs, Experiences, and Scholarships)	\$4,316,000
Child and Youth Services - San Jose Learns	\$500,000
Digital Equity - Community WiFi	\$699,000
Digital Equity - Device Access	\$1,317,000
Digital Equity - Digital Equity Communications, Outreach, + Education	\$656,000
Emergency Housing - Downtown Homeless Health Response and Support	\$300,000
Emergency Housing - Emergency Housing Construction and Operation	\$20,000,000
Emergency Housing - Sheltering and Enhanced Encampment Services	\$2,839,000
Energy Saving Retrofits	\$480,000
Food and Necessities Distribution - Food Services	\$4,143,000
Housing Stabilization - Eviction Help Center	\$1,813,000
Housing Stabilization - Hotel Sheltering Operations + Services	\$3,497,000
Housing Stabilization - South Hall Demobilization + Housing Assistance Center	\$1,930,000
Recovery Foundation and Drive to Digital - Effective Teams	\$298,000
Recovery Foundation and Drive to Digital - Recovery Management, Coordination and Compliance	\$2,109,000
Recovery Foundation and Drive to Digital - Safe Workplace	\$186,000
Re-Employment and Workforce Development - Environment Resilience Corps	\$200,000
Re-Employment and Workforce Development - Food Distribution Resilience Corps	\$1,800,000
Re-Employment and Workforce Development - Small Business Resilience Corps	\$310,000
San Jose Aspires Administrative Support	\$250,000
Small Business Recovery - Downtown Outdoor Activities Marketing Campaign	\$200,000

ATTACHMENT A

Programs Funded on a One-Time Basis in the American Rescue Plan Fund in 2022-2023

Program Service	2022-2023 Modified Budget
Small Business Recovery - Quetzal Gardens Operations	\$75,000
Small Business Recovery - San Jose Al Fresco	\$719,000
Small Business Recovery - Shop Local Hub to Support Neighborhood Business Districts	\$100,000
Small Business Recovery - Small Business + Manufacturing Recovery Initiative	\$637,000
Small Business Recovery - Small Business Displacement Index Study	\$60,000
Small Business Recovery - Small Business District Outreach (Spanish + Vietnamese)	\$197,000
Small Business Recovery - Small Business Technical Assistance Revamp	\$117,000
Small Business Recovery - Storefront Activation Grants	\$160,000
Small Business Recovery - Supplemental Business Development Communications	\$375,000
Small Business Recovery - Supplemental Economic Development Association Capacity Building	\$1,711,000
Small Business Recovery - Supplemental Legal Assistance for Tenant	\$300,000
Small Business Recovery - Underwrite Creation of New Property Business Improvement Districts	\$1,000,000
Small Business Recovery - Virtual Accelerator Program for New Businesses	\$175,000
Small Business, Non-Profits, and Arts - Council District Outdoor Activation	\$168,000
Small Business, Non-Profits, and Arts - San Jose Abierto	\$1,228,000
Transfer to the Convention and Cultural Affairs Fund	\$2,500,000
Transfer to the General Fund	\$3,910,000
	\$94,335,000

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 States 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.

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 raise 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

ELEMENTS OF THE GENERAL FUND FORECAST

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

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

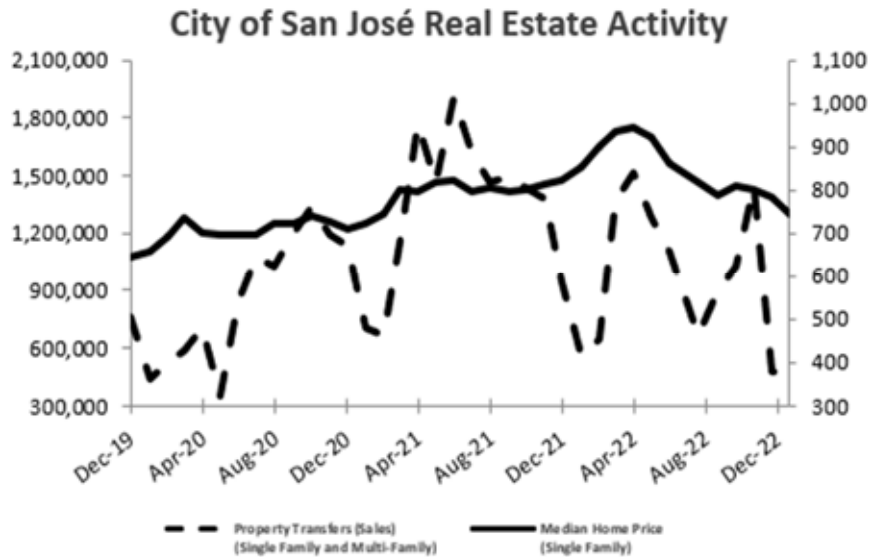
Base Case Forecast

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.

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%

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

ELEMENTS OF THE GENERAL FUND FORECAST

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

General Fund Revenue Category	Modified Budget	Forecast				
	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.

ELEMENTS OF THE GENERAL FUND FORECAST

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.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

General Sales Tax is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 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.

ELEMENTS OF THE GENERAL FUND FORECAST

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.

ELEMENTS OF THE GENERAL FUND FORECAST

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.

ELEMENTS OF THE GENERAL FUND FORECAST

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		FORECAST PERIOD			
	2022-2023	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.

ELEMENTS OF THE GENERAL FUND FORECAST

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.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Personal Services

Retirement:

To generate budgetary savings, retirement contributions assume the pre-payment of Tier 1 pension costs related to the 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.

ELEMENTS OF THE GENERAL FUND FORECAST

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
<i>Tier 1 Pension (Normal Cost) Rate</i>	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
<i>Tier 2 Pension Rate</i>	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
<i>Tier 1 Pension (Normal Cost) Rate</i>	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
<i>Tier 2 Pension Rate</i>	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
<i>Tier 1 Pension (Normal Cost) Rate</i>	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
<i>Tier 2 Pension Rate</i>	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).

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

**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
<i>Tier 1 Pension (Normal Cost) Rate</i>	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
<i>Tier 2 Pension Rate</i>	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
<i>Tier 1 Pension (Normal Cost) Rate</i>	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
<i>Tier 2 Pension Rate</i>	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
<i>Tier 1 Pension (Normal Cost) Rate</i>	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
<i>Tier 2 Pension Rate</i>	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).

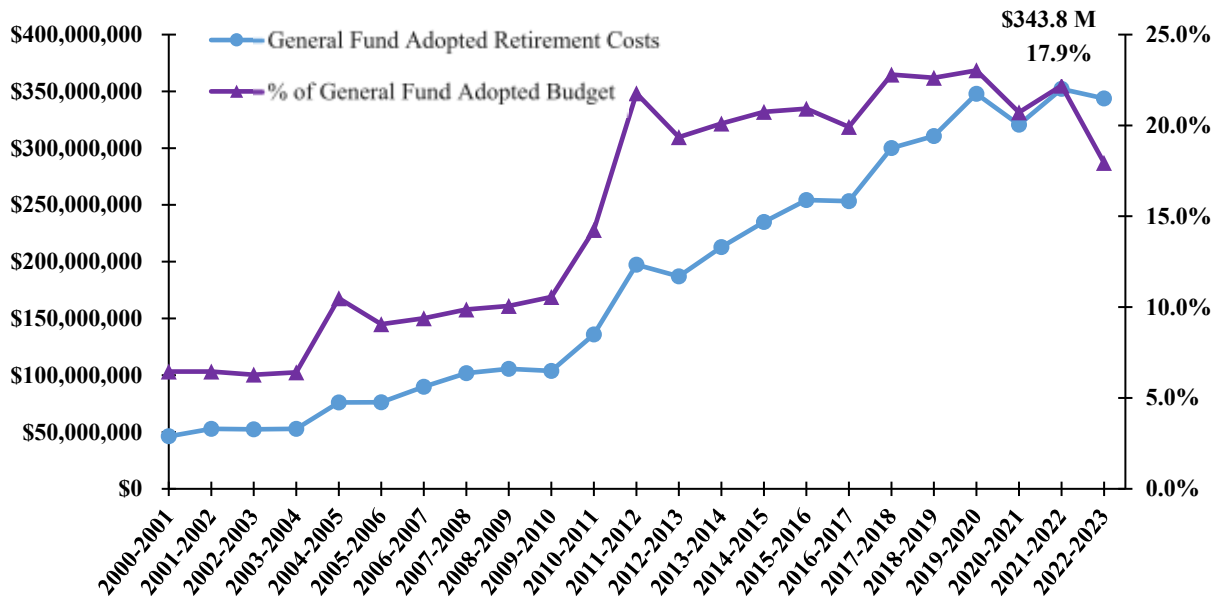
ELEMENTS OF THE GENERAL FUND FORECAST

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.

ELEMENTS OF THE GENERAL FUND FORECAST

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.

ELEMENTS OF THE GENERAL FUND FORECAST

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.

ELEMENTS OF THE GENERAL FUND FORECAST

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)

	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
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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BASE GENERAL FUND FORECAST

BASE CASE						
February Forecast	MODIFIED BUDGET	FEBRUARY FORECAST				
REVENUE SUMMARY	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
PROPERTY TAX	437,000,000	458,700,000	468,379,000	489,034,000	516,420,000	546,269,000
		4.97%	2.11%	4.41%	5.60%	5.78%
SALES TAX	331,000,000	336,400,000	343,734,000	355,558,000	366,402,000	379,410,000
		1.63%	2.18%	3.44%	3.05%	3.55%
TRANSIENT OCCUPANCY TAX	11,000,000	16,000,000	17,000,000	18,000,000	19,999,000	20,999,000
		45.45%	6.25%	5.88%	11.11%	5.00%
FRANCHISE FEES	49,168,393	50,808,393	51,774,000	53,146,000	54,974,000	57,404,000
		3.34%	1.90%	2.65%	3.44%	4.42%
UTILITY TAX	114,450,000	126,550,000	131,068,000	136,311,000	142,554,000	150,194,000
		10.57%	3.57%	4.00%	4.58%	5.36%
TELEPHONE TAX	20,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000
		10.00%	0.00%	0.00%	0.00%	0.00%
BUSINESS TAX	86,000,000	87,500,000	88,874,000	90,287,000	91,749,000	92,254,000
		1.74%	1.57%	1.59%	1.62%	0.55%
REAL PROPERTY TRANSFER TAX	65,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
		-23.08%	0.00%	0.00%	0.00%	0.00%
LICENSES AND PERMITS	20,778,200	20,225,561	20,734,000	21,414,000	22,081,000	22,947,000
		-2.66%	2.51%	3.28%	3.11%	3.92%
FEES, RATES, AND CHARGES	23,914,232	22,323,728	22,885,000	23,636,000	24,372,000	25,328,000
		-6.65%	2.51%	3.28%	3.11%	3.92%
FINES, FORFEITURES & PENALTIES	12,232,000	15,130,000	15,012,000	14,926,000	14,703,000	14,601,000
		23.69%	(0.78%)	(0.57%)	(1.49%)	(0.69%)
USE OF MONEY & PROPERTY	13,279,000	14,864,000	15,236,000	15,540,000	15,851,000	16,168,000
		11.94%	2.50%	2.00%	2.00%	2.00%
REVENUE FROM LOCAL AGENCIES	20,414,379	16,921,171	17,186,000	17,646,000	18,244,000	18,893,000
		-17.11%	1.57%	2.68%	3.39%	3.56%
REVENUE FROM THE STATE OF CALIFORNIA	30,999,693	13,800,000	13,800,000	13,800,000	13,800,000	13,800,000
		-55.48%	0.00%	0.00%	0.00%	0.00%
REVENUE FROM THE FEDERAL GOVERNMENT	11,599,714	0	0	0	0	0
		-100.00%	N/A	N/A	N/A	N/A
OTHER REVENUE	293,133,446	9,770,264	9,800,000	9,843,000	9,901,000	9,978,000
		-96.67%	0.30%	0.44%	0.59%	0.78%
GAS TAX	15,500,000	17,000,000	17,235,000	17,302,000	17,259,000	17,013,000
		9.68%	1.38%	0.39%	(0.25%)	(1.43%)
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
		-17.84%	2.09%	3.35%	3.85%	4.07%

BASE GENERAL FUND FORECAST

BASE CASE						
February Forecast	MODIFIED BUDGET	FEBRUARY FORECAST				
REVENUE SUMMARY	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
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
		0.94%	2.56%	3.46%	2.85%	3.81%
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
		-16.61%	2.13%	3.36%	3.77%	4.05%
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
		(34.15%)	2.13%	3.30%	3.70%	3.97%

BASE GENERAL FUND FORECAST

BASE CASE						
February Forecast	MODIFIED BUDGET	FEBRUARY FORECAST				
EXPENDITURE SUMMARY	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
PERSONAL SERVICES						
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
		2.78%	3.45%	3.36%	3.14%	4.60%
TOTAL NON-PERSONAL/EQUIPMENT	160,451,827	147,126,000	149,833,000	152,580,000	155,369,000	158,199,000
		(8.31%)	1.84%	1.83%	1.83%	1.82%
CITY-WIDE						
CITY-WIDE EXPENSES	596,414,172	81,077,796	79,269,651	80,225,198	80,290,621	81,927,286
CAPITAL PROJECTS	56,991,022	5,832,000	5,832,000	5,832,000	5,832,000	5,832,000
TRANSFERS	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	1,050,211,021	242,950,837	240,600,019	240,364,495	241,531,882	245,291,051
		(76.87%)	(0.97%)	(0.10%)	0.49%	1.56%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	2,223,562,597	1,431,114,231	1,467,429,046	1,506,094,422	1,545,018,634	1,604,405,331
		(35.64%)	2.54%	2.63%	2.58%	3.84%
OPERATING MARGIN						
	MODIFIED BUDGET	FEBRUARY FORECAST				
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
GRAND TOTAL REVENUE	2,223,562,597	1,464,128,606	1,495,296,000	1,544,693,000	1,601,902,000	1,665,494,000
GROWTH RATE		(34.15%)	2.13%	3.30%	3.70%	3.97%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	2,223,562,597	1,431,114,231	1,467,429,046	1,506,094,422	1,545,018,634	1,604,405,331
GROWTH RATE		(35.64%)	2.54%	2.63%	2.58%	3.84%
OPERATING MARGIN CHANGE	0	33,014,375	(5,147,421)	10,731,624	18,284,788	4,205,000
<i>From Prior Year</i>						

BASE GENERAL FUND FORECAST

BASE CASE

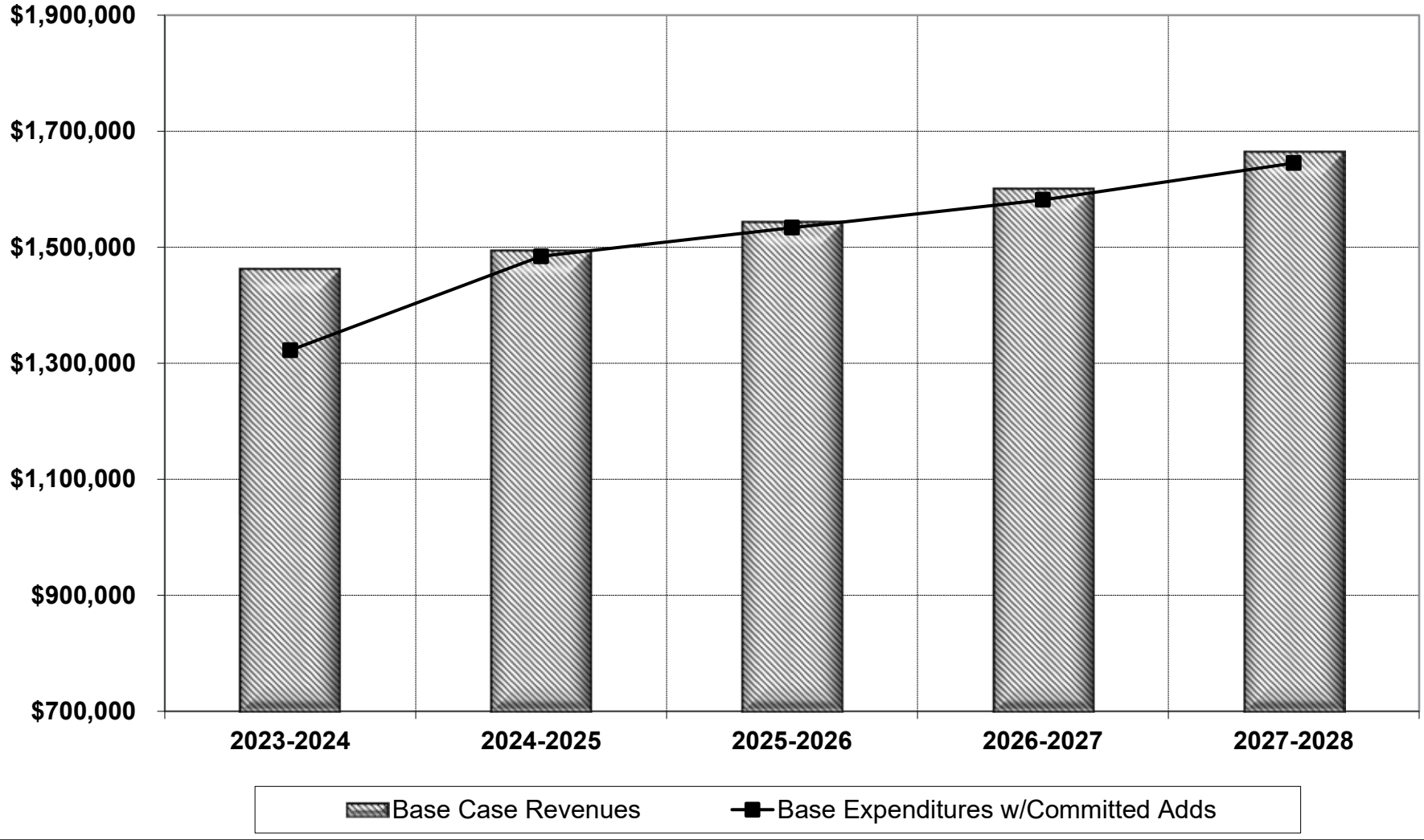
February Forecast	MODIFIED BUDGET	FEBRUARY FORECAST				
EXPENDITURE SUMMARY	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
<u>COMMITTED ADDITIONS:</u>						
Police Staffing Addition	0	2,400,000	4,944,000	7,638,000	10,490,000	13,506,000
New Parks 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 BASE EXPENDITURES (w / 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
		(35.50%)	3.49%	3.34%	3.12%	4.01%

OPERATING MARGIN

	MODIFIED BUDGET	FEBRUARY FORECAST				
BASE EXPENDITURES (w / COMMITTED ADDITIONS)	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
GRAND TOTAL REVENUE	2,223,562,597	1,464,128,606	1,495,296,000	1,544,693,000	1,601,902,000	1,665,494,000
GROWTH RATE		(34.15%)	2.13%	3.30%	3.70%	3.97%
TOTAL BASE EXPENDITURES (w / 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
GROWTH RATE		(35.50%)	3.49%	3.34%	3.12%	4.01%
OPERATING MARGIN	0	29,924,375	11,077,954	10,968,578	20,332,366	20,462,669
ONGOING OPERATING MARGIN CHANGE		29,924,375	(18,846,421)	(109,376)	9,363,788	130,303
<i>From Prior Year</i>						

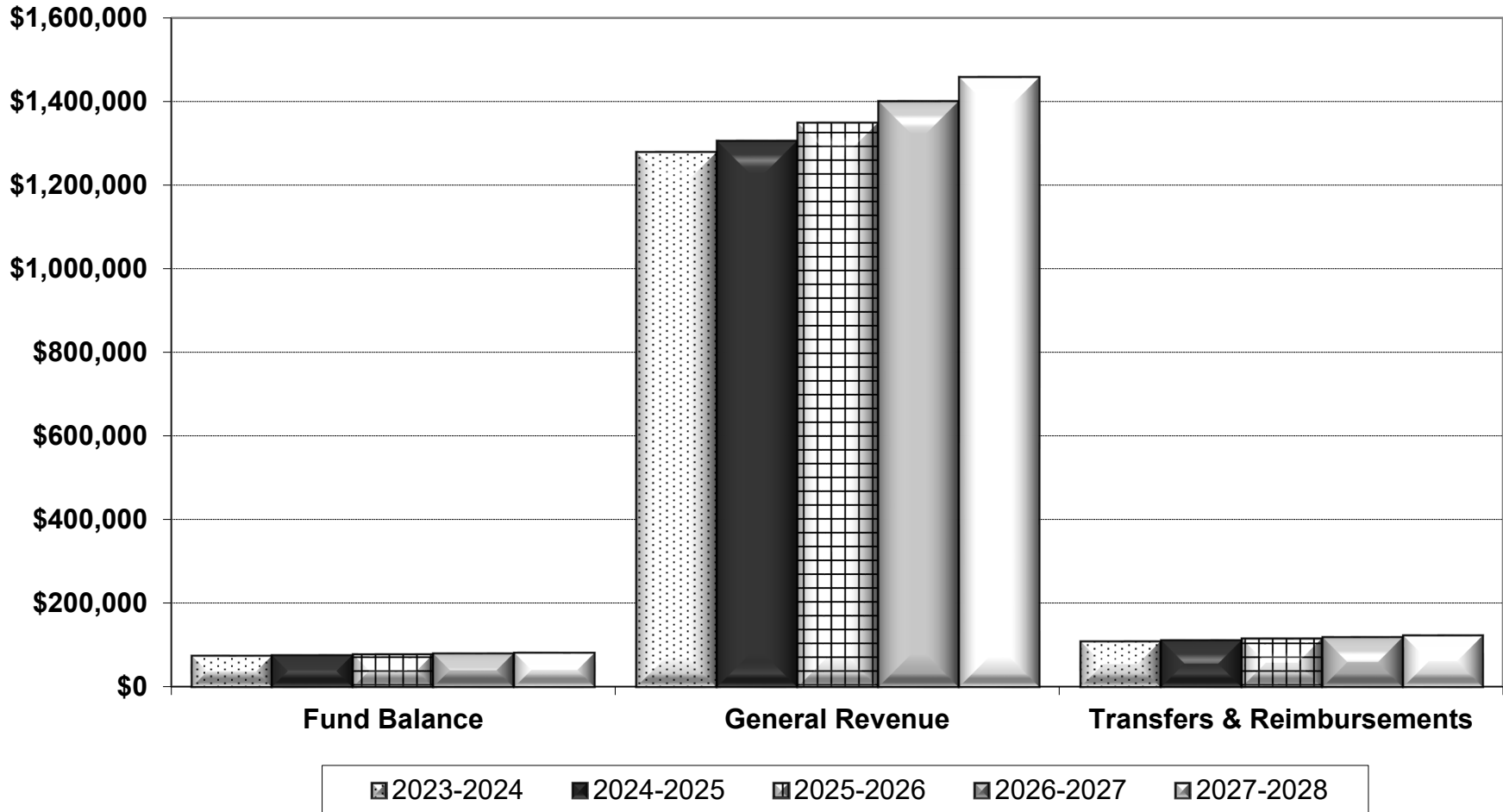
BASE GENERAL FUND FORECAST

2024-2028 General Fund Forecast PROJECTED REVENUES AND EXPENDITURES (\$ in thousands)



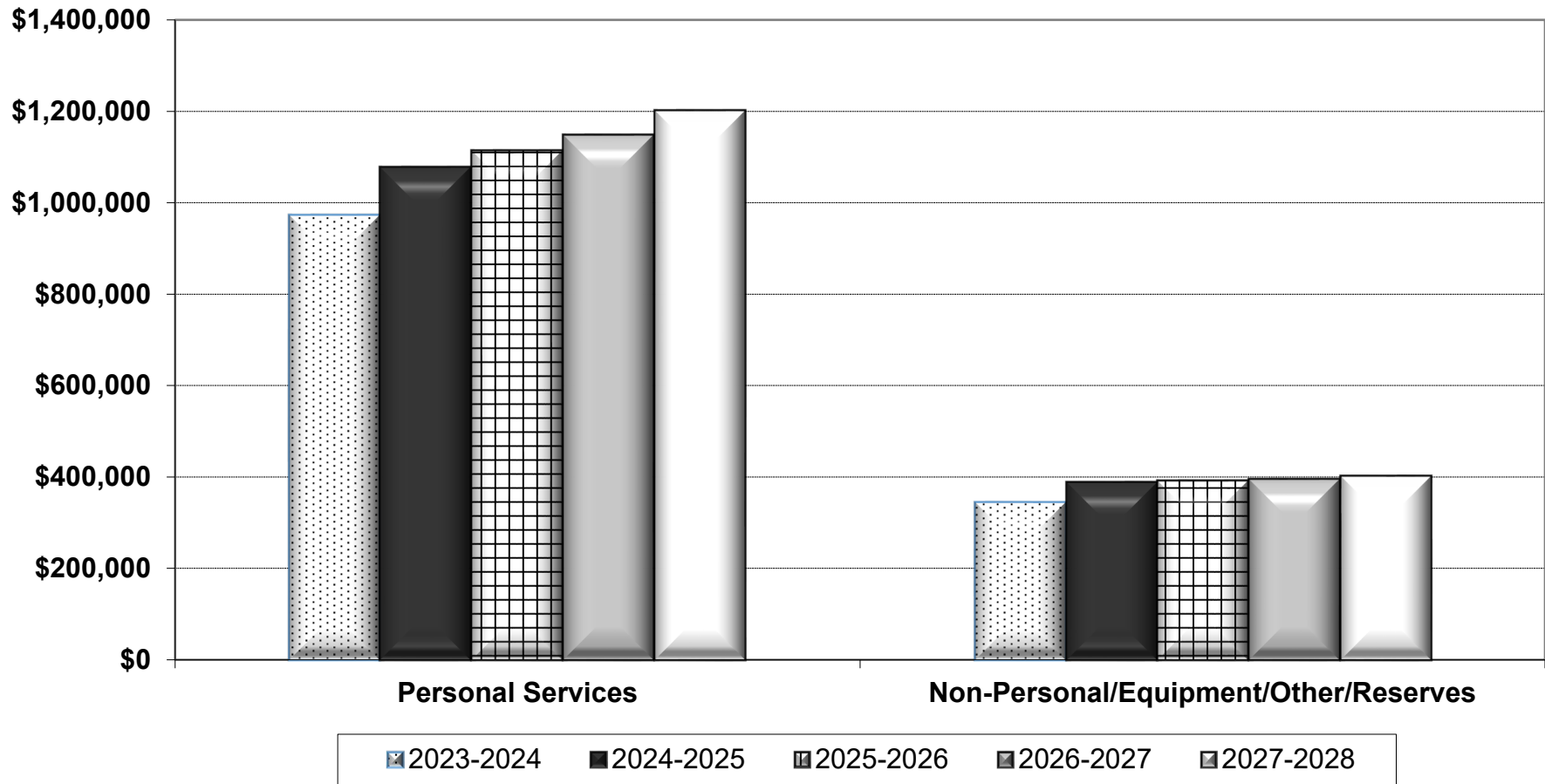
BASE GENERAL FUND FORECAST

2024-2028 General Fund Forecast FIVE-YEAR SOURCE OF FUNDS COMPARISON (\$ in thousands)



BASE GENERAL FUND FORECAST

2024-2028 General Fund Forecast FIVE-YEAR USE OF FUNDS COMPARISON (\$ in thousands)



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

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COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

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

A summary of the Committed Additions included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council’s adoption of Budget Principle #8 during the 2008-2009 budget process, a General Fund Capital Operating and Maintenance/Budget Principle #8 discussion is included in this section. Capital projects with annual maintenance and operating costs over \$100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A of this section. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast, that have not been previously approved by the City Council, may be recommended for certification as part of the 2024-2028 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

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

Police Staffing – This category captures the costs associated with additional positions in the Police Department. City Council’s approval of the Mayor’s June Budget Message for Fiscal Year 2022-2023 authorized, as Committed Additions to future Five-Year General Fund Forecasts, the annual addition of up to 15.0 positions in the Police Department; the positions may be a mix of sworn and civilian positions depending upon the most pressing community safety needs, in each year where the City Manager determines that the addition of the positions would not require a decrease in existing basic neighborhood services. The Forecast includes ongoing funding to support this staffing growth, and the Administration will recommend the addition of the full-time-equivalent positions in the Proposed Operating Budget.

<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
2,400,000	4,944,000	7,638,000	10,490,000	13,506,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

The Forecast also includes operating cost estimates for trails, including sections of Coyote Creek Trail, including Phelan to Tully and Mabury to Empire and sections along Guadalupe River Trail, including Branham to Chynoweth; Spur to Blossom River, Data Center, and Top Golf; and St. John to Julian. Additional future costs are identified to support Future Trail Projects to help meet the City’s goal to expand the City’s trail system. The City currently has approximately 62 miles of trails.

<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
58,000	371,000	1,868,000	2,024,000	2,251,000

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the anticipated additional costs that are necessary to operate and maintain transportation-related projects included in the Capital Improvement Program. Funding to operate and maintain new traffic signals and streetlights (including those installed by developers), landscaping, and other traffic infrastructure is assumed in this category. Most of the projects are related to traffic safety enhancements for pedestrians and bicyclists, such as Pedestrian Improvements, Hillsdale Avenue Safety and Bikeway Improvements, Vision Zero projects such as Quick Build Branham Lane and Data-Driven Safety Improvements, and West San Carlos Corridor Safety Improvements.

<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
169,000	269,000	339,000	364,000	384,000

New Public Safety Facilities Maintenance and Operations – This category reflects the anticipated additional costs that are necessary to fully activate the South San José Police Substation. The Police Training Facility, expected to come online in 2024-2025, will trigger the activation of the South San José Police Substation once the Police Academy and Training units vacate the Police Substation. The Police Substation will be converted back to the original intent of enhancing community presence and improving response times to calls in the Southern Division. All estimates will be further refined once the scope of work necessary for activation is finalized, the results of which will be brought forward for City Council consideration.

<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
		271,000	2,661,000	2,819,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

Fire Stations 32 and 36 are anticipated to come online in 2024-2025 and 2025-2026, respectively. The increased costs associated with these new fire stations are primarily driven by the need for new engine companies at the facilities. The scope of Fire Station 32 has been expanded from a single company to a two-company station to accommodate the service demands in Council District 7 and neighboring Council Districts 3, 5, and 8 and that required revised cost assumptions in this Forecast. Other facility maintenance and operations funding is included for the 911 Call Center Expansion, Clean Water Projects (River Oaks Stormwater Capture), the Emergency Operations Center, Fire Station 8 Relocation, relocation of the Police Air Support Unit Hangar, and the Police Training Facility that are all scheduled to come online during the five-year period. 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.

As the Measure T program continues to progress over the next two years, the corresponding estimates for operations and maintenance costs will be updated accordingly. Future General Fund forecasts will also incorporate any incremental costs associated with the improvements for the Police Headquarters and Fire Station 23.

<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
463,000	11,205,000	17,514,000	21,012,000	21,666,000

General Fund Capital Operating and Maintenance/Budget Principle #8

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

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

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for these projects were included as part of the previously approved Capital Improvement Program or align with previous City Council direction. All capital projects with annual maintenance and operating costs in the General Fund greater than \$100,000 have been denoted in the chart. By 2027-2028, the costs to maintain and operate all City Council projects expected to come online during the five-year period are estimated at approximately \$40.6 million annually, of which approximately \$21.7 million is related to Measure T facilities as described above.

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

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

CHART A - 2024-2028 GENERAL FUND FORECAST

Net Operating Impact of Committed Additions

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
POLICE STAFFING					
Police Staffing Additions	2,400,000	4,944,000	7,638,000	10,490,000	13,506,000
TOTAL POLICE STAFFING	2,400,000	4,944,000	7,638,000	10,490,000	13,506,000
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Bassett Park†	-	34,000	38,000	39,000	39,000
Columbus Park Soccer Fields*	-	-	1,214,000	1,309,000	1,414,000
Communications Hill II - Hillsdale Fitness Staircase	-	-	57,000	58,000	59,000
Future Trail Projects	-	36,000	72,000	111,000	152,000
North San Pedro Park†	-	36,000	89,000	91,000	93,000
Old Orchard Park*	-	48,000	99,000	101,000	103,000
PAL Stadium Turf Replacement	-	19,000	23,000	23,000	24,000
Prototype Dog Park	51,000	52,000	53,000	54,000	55,000
River Oaks Regional Stormwater Capture Project	-	44,000	45,000	46,000	46,000
TRAIL: Coyote Creek - Mabury to Empire	-	25,000	44,000	45,000	46,000
TRAIL: Coyote Creek - Phelan to Tully	-	17,000	34,000	36,000	36,000
TRAIL: Five Wounds Trail from Story to Lower Silver Creek	-	-	-	-	46,000
TRAIL: Guadalupe River Trail Branham to Chynoweth	-	-	-	-	22,000
TRAIL: Guadalupe River Trail Spur to Blossom River Drive	1,000	1,000	1,000	1,000	1,000
TRAIL: Guadalupe River Trail Spur to Data Center	-	-	-	2,000	2,000
TRAIL: Guadalupe River Trail Spur to Top Golf	6,000	6,000	6,000	6,000	6,000
TRAIL: Guadalupe River Trail St. John to Julian	-	-	-	-	3,000
TRAIL: Los Gatos Creek Trail to Three Creeks Trail	-	-	-	7,000	7,000
Winchester Orchard Park	-	53,000	93,000	95,000	97,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	58,000	371,000	1,868,000	2,024,000	2,251,000
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Balbach Street Transportation Improvements	11,000	23,000	24,000	24,000	25,000
Branham and Monterey Sideshow Deterrents	1,000	1,000	1,000	1,000	1,000
Camden and Charmeran Avenue Crosswalk	1,000	1,000	1,000	1,000	1,000
Community Development Block Grant - Crosswalk Lights	10,000	10,000	11,000	11,000	11,000
Copper to Fiber Conversion	4,000	4,000	4,000	4,000	4,000
Copper to Fiber Conversion (Future Years)	-	4,000	7,000	7,000	8,000
Developer Installations - Signals	14,000	14,000	15,000	15,000	15,000
Developer Installations - Signals (Future Years)	-	4,000	9,000	14,000	14,000
Developer Installations - Streetlights	7,000	7,000	7,000	8,000	8,000
Developer Installations - Streetlights (Future Years)	-	7,000	14,000	20,000	21,000
Highway 680 and Jackson Traffic Signal	-	2,000	5,000	5,000	5,000
Highway Soundwalls	1,000	2,000	2,000	2,000	2,000
Kooser Road Crosswalk	-	1,000	1,000	1,000	1,000
Monterey Road Radar Speed Signs	3,000	4,000	4,000	4,000	4,000
Quick Build Illegal Street Racing Sideshow Deterrent Street Modificatic	15,000	15,000	16,000	16,000	17,000
Roosevelt Park Transportation Improvements	3,000	6,000	6,000	7,000	7,000
Route 101/Trimble/De La Cruz Interchange Improvement	-	12,000	12,000	12,000	13,000
Safety: Pedestrian Improvements	8,000	9,000	9,000	9,000	9,000
Safety: Pedestrian Improvements (Future Years)	-	8,000	16,000	25,000	34,000
Safety: Traffic Signal Modifications/Construction	4,000	5,000	5,000	5,000	5,000
Safety: Traffic Signal Modifications/Construction (Future Years)	-	4,000	5,000	5,000	5,000
Senter Road Traffic Safety Improvements	10,000	10,000	10,000	10,000	11,000
TFCA 2020-2021 Hillsdale Avenue Safety and Bikeway Improvements	30,000	31,000	32,000	32,000	33,000
Vision Zero: City-wide Pedestrian Safety & Traffic Calming	2,000	2,000	3,000	3,000	3,000
Vision Zero: Data-Driven Safety Improvements	11,000	12,000	12,000	12,000	13,000
Vision Zero: Quick Build Branham Lane	34,000	35,000	36,000	37,000	38,000
Vision Zero: Quick Build (Future Years)	-	13,000	25,000	26,000	27,000
W San Carlos Corridor Safety Improvements (OBAG)	-	13,000	27,000	27,000	28,000
Willow-Keyes Complete Streets Improvements	-	10,000	20,000	21,000	21,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	169,000	269,000	339,000	364,000	384,000

CHART A - 2024-2028 GENERAL FUND FORECAST

Net Operating Impact of Committed Additions

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS					
Police Substation Activation*	-	-	271,000	2,661,000	2,819,000
TOTAL NEW PUBLIC SAFETY FACILITIES MAINTENANCE AND OPERATIONS	-	-	271,000	2,661,000	2,819,000
MEASURE T MAINTENANCE AND OPERATIONS					
911 Call Center Expansion*	-	30,000	124,000	136,000	141,000
City Facility LED Conversion (Controllers)	13,000	13,000	18,000	18,000	18,000
Clean Water Projects (River Oaks Stormwater Capture)*	-	163,000	173,000	183,000	194,000
Emergency Operations Center**	450,000	550,000	572,000	595,000	619,000
Fire Station 8 Relocation*	-	132,000	175,000	181,000	188,000
Fire Station 32 (New)*	-	9,212,000	11,378,000	11,720,000	12,074,000
Fire Station 36 (New)*	-	-	2,928,000	5,963,000	6,143,000
Police Air Support Unit Hangar	-	67,000	93,000	95,000	98,000
Police Training Facility*	-	1,038,000	2,053,000	2,121,000	2,191,000
TOTAL MEASURE T MAINTENANCE AND OPERATIONS	463,000	11,205,000	17,514,000	21,012,000	21,666,000
TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS	3,090,000	16,789,000	27,630,000	36,551,000	40,626,000

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

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

**Additional facilities maintenance staffing to support the new Emergency Operations Center, including the Office of Emergency Services offices, and Fire Training Facility.

2024-2028 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

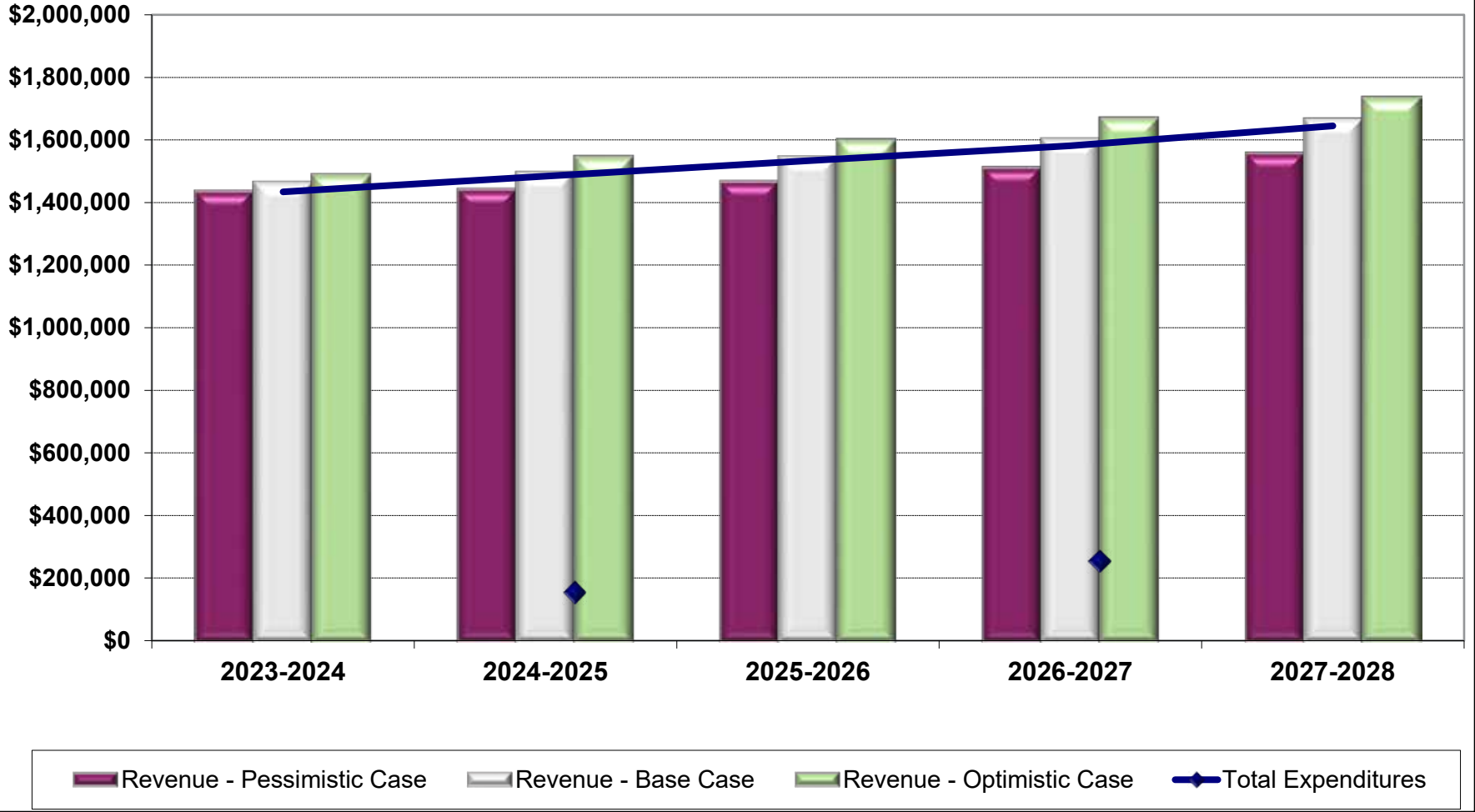
BASE CASE					
	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
TOTAL REVENUES (\$)	1,464,128,606	1,495,296,000	1,544,693,000	1,601,902,000	1,665,494,000
GROWTH RATE		2.13%	3.30%	3.70%	3.97%
TOTAL EXPENDITURES (\$)	1,434,204,231	1,484,218,046	1,533,724,422	1,581,569,634	1,645,031,331
GROWTH RATE		3.49%	3.34%	3.12%	4.01%
OPERATING MARGIN - BASE	29,924,375	(18,846,421)	(109,376)	9,363,788	130,303

OPTIMISTIC CASE					
	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
TOTAL REVENUES (\$)	1,489,276,213	1,547,630,000	1,601,087,000	1,670,311,000	1,735,700,000
GROWTH RATE		3.92%	3.45%	4.32%	3.91%
TOTAL EXPENDITURES (\$)	1,434,204,231	1,484,218,046	1,533,724,422	1,581,569,634	1,645,031,331
GROWTH RATE		3.49%	3.34%	3.12%	4.01%
OPERATING MARGIN - OPTIMISTIC	55,071,982	8,339,972	3,950,624	21,378,788	1,927,303

PESSIMISTIC CASE					
	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>
TOTAL REVENUES (\$)	1,436,876,213	1,442,406,000	1,467,166,000	1,511,246,000	1,557,740,000
GROWTH RATE		0.38%	1.72%	3.00%	3.08%
TOTAL EXPENDITURES (\$)	1,434,204,231	1,484,218,046	1,533,724,422	1,581,569,634	1,645,031,331
GROWTH RATE		3.49%	3.34%	3.12%	4.01%
OPERATING MARGIN - PESSIMISTIC	2,671,982	(44,484,028)	(24,746,376)	(3,765,212)	(16,967,697)

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

2024-2028 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
 (\$ in thousands)



CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

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

Construction and property resale-related Capital Program revenues are generally tracking at or below the modified expectations for 2022-2023 and anticipated to end the year approximately 8% below the estimates of the 2023-2027 Adopted CIP. Property resale-related performance will negatively influence future years; and construction activity-related revenues, which are lower in 2022-2023, are expected to modestly increase over the following five years. Overall revenue estimates of \$396.6 million are 4% lower than the estimates used to develop the 2023-2027 Adopted CIP (\$413.9 million), as the real estate market has seen a drop in property transfers due in large part to higher mortgage interest rates. The Construction-Related Revenue chart included at the end of this section provides a comparison of this forecast with the 2023-2027 Adopted CIP.

Capital Revenue Forecast Comparison Summary (\$ in thousands)

	2023-2027 Adopted	2024-2028 Forecast	Difference	% Change
Construction and Conveyance Tax	\$230,000	\$215,000	(\$15,000)	(7%)
Building and Structure Construction Tax	95,000	95,000	0	0%
Construction Excise Tax	84,000	82,000	(2,000)	(2%)
Municipal Water System Fees	375	175	(200)	(53%)
Residential Construction Tax	1,000	1,000	0	0%
Sanitary Sewer Connection Fee	2,500	2,500	0	0%
Storm Drainage Connection Fee	1,000	875	(125)	(13%)
TOTAL	\$413,875	\$396,550	(\$17,325)	(4%)

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

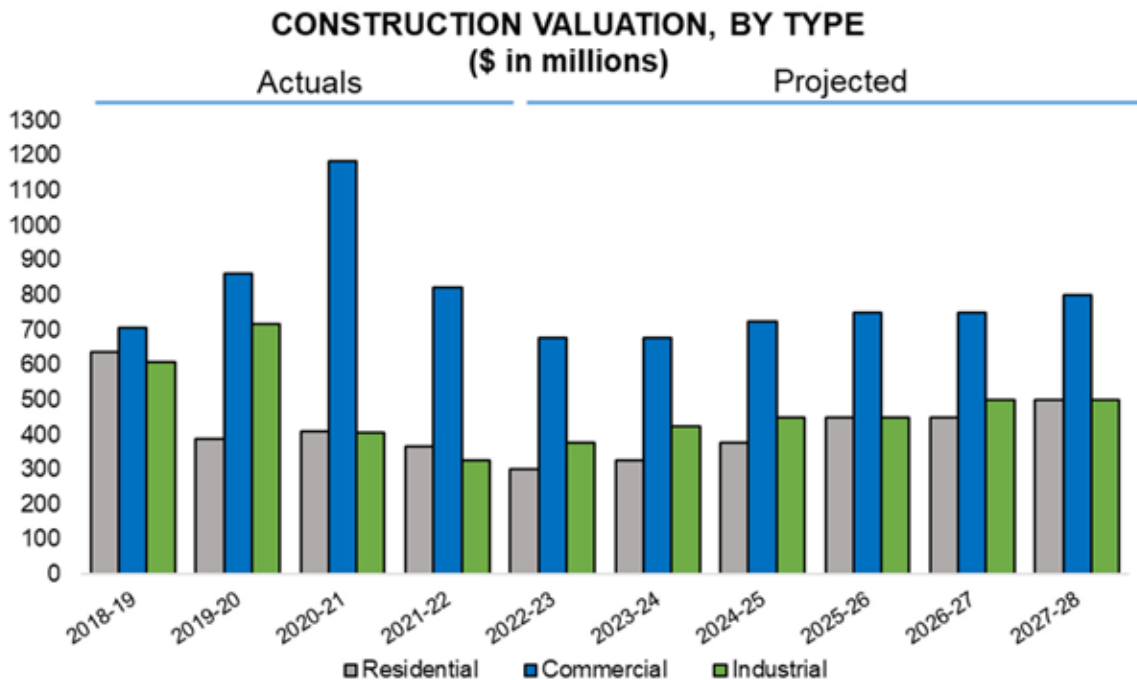
CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year, PBCE provides construction activity projections in residential, commercial, and industrial development categories. The valuation figures have been adjusted to 2022 dollars per Bureau of Labor Statistics Consumer Price Index, San Francisco-Oakland-Hayward all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled *Development Activity Trends and Five-Year Forecast (2024-2028)*, which is included as Appendix .

Based on projections provided by PBCE, construction activity valuation is anticipated to be lower than the prior year at \$1.35 billion in 2022-2023, an 11% decrease compared to \$1.52 billion in 2021-2022. Construction valuation is projected to increase throughout the five-year forecast period, going from \$1.43 billion in 2023-2024 to \$1.80 billion in 2027-2028. As described in Appendix , the City experienced a decline in the valuation of new construction permits in 2021-2022 which was most likely the impact of COVID-19-related supply chain disruption, increased construction costs, and a more measured approach to investment decisions. The Forecast is reflective of the uncertain development environment and that an immediate return to pre-pandemic activity in the near future is unlikely.

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



CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

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

A. Residential Construction Activity

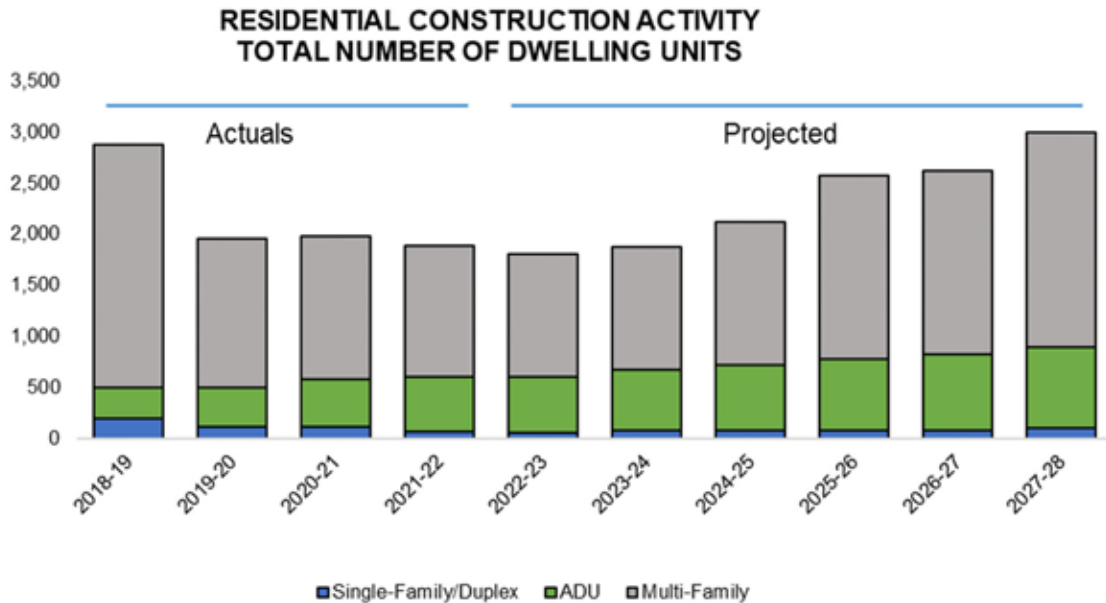
A significant portion of development-related revenue in San José has traditionally been generated by residential construction. New construction activity peaked in 2013-2014 in this sector with a total of 4,724 multi-family and single-family dwelling units, and then decreased the next two years and dropped to 1,692 dwelling units in 2015-2016, rebounded to 3,241 new dwelling units in 2017-2018, and then continued to drop for the next two years, ending with 1,954 new dwelling units in 2019-2020. Residential construction activity rose slightly in 2020-2021 to 1,975 but then continued the previous trend and dropped to 1,887 units in 2021-2022. It is anticipated to drop again to 1,800 in 2022-2023, a decrease of 5% from the prior year total.

The total value of residential construction activity projected in this forecast is \$2.1 billion, which is a drop of \$200 million the projected valuation included in the 2023-2027 Forecast. New residential construction slowed down due to the impacts from the COVID-19 pandemic, but is expected over time to grow moderately as the economic outlook becomes clearer. PBCE expects residential construction activity to generate an estimated 1,875 new units in 2023-2024, and steadily increase to 3,000 new units in 2027-2028. This represents an average of 2,440 units per year or 12,200 units over the forecast period. The activity level represents a 6% increase compared to the 11,550 units included in the 2023-2027 Forecast.

This forecast expects a total of 8,300 multi-family dwelling units or approximately 68% of all dwelling units (single-family/duplex, accessory dwelling unit (ADU), or multi-family) to be constructed. This total number of multi-family dwelling units is lower than the 9,500 units projected in the 2023-2027 Forecast. The number of new single-family dwelling units and ADUs combined is estimated to be 3,900 during this forecast period, which is 90% higher than the projections in the 2023-2027 Forecast, primarily driven by a trend of increased ADU construction. Starting in 2016, the City Council has taken several actions to ease requirements for accessory dwelling units (ADU), and since 2017-2018, the amount of ADU construction has continued to increase. The trend of ADUs comprising a significant portion of single-family units is expected to continue. The following chart shows the number of new units, by housing type, anticipated in San José through 2027-2028.

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS



B. Commercial Construction Activity

In 2021-2022, commercial construction activity totaled \$822 million, a decrease of 31% from a peak level of activity in 2020-2021 of \$1.2 billion. In 2022-2023, PBCE expects commercial activity to decrease 18% to \$675 million in total permit valuation as large commercial new construction projects move through the development pipeline and construction is completed. Going forward, commercial new construction and alteration activity is expected to increase slightly over the forecast period, rising to \$800 million in 2027-2028.

The total commercial construction valuation projected in this forecast is \$3.7 billion, an increase of 49% from the previous five-year forecast at \$2.5 billion because of an increase in commercial new construction and alterations. As discussed in the attached report provided by PBCE, commercial development activity includes new construction proposals such as the Montgomery office, Brokaw project, and Stockton development and smaller hotels. Although growth is forecasted for the commercial sector, commercial activity is expected to drop significantly from the high points of 2019-2020 and 2020-2021 due to lack of available land for large retail centers, as well as companies potentially right-sizing office needs based on hybrid work models.

Information provided by real estate trade groups for the 4th Quarter 2022 that the overall San José office vacancy rate was 20%, nearly double pre-pandemic levels, research and development (R&D) vacancy rate decreased to 12.0% from 15.0%, and retail vacancy rate slightly increased from 5.4% to 5.5%¹.

¹ Cushman & Wakefield's 2022Q4 MarketBeat, as cited in Development Activity Trends and Five-Year Forecast (2024-2028) prepared by PBCE.

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS

C. Industrial Construction Activity

In 2021-2022, industrial activity totaled \$326 million, a decrease of 20% from 2020-2021, primarily driven by a decrease in new construction. PBCE expects valuation to increase to \$375 million in 2022-2023, primarily driven by an upward trend in new construction activity, while permit records show a decrease in total production of industrial square footage. Valuation then is projected to slightly increase across the forecast to \$500 million annually by 2027-2028 as alteration and new construction activity grows.

Information provided by real estate trade groups for 4th Quarter 2022 indicated that the overall San José vacancy rate for industrial space was 3.2%, decreasing from 3.3% in 4th Quarter 2021².

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

Major Development Activity Data

As part of the attached *Development Activity Trends and Five-Year Forecast (2024-2028)* document prepared by PBCE (Appendix), information is provided on development activity that serves as the foundation for their forecast. Data is provided on “major” projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but construction not yet commenced, and pending City approval). In addition, the City is divided into 15 planning areas and individual maps that show the projects in all status categories are available through the City of San José’s map gallery (see “Development Projects” gallery at <https://gis.sanjoseca.gov/apps/mapsgallery/>), except for the Almaden, Calero, Coyote, and San Felipe planning areas as no major development activity has occurred and/or these areas are outside the City’s Urban Service Area and Urban Growth Boundary. These maps can be used in conjunction with the activity data to help analyze the rate, type, and location of major development activity in San José.

² CoStar Q4 2022, as cited in *Development Activity Trends and Five-Year Forecast (2024-2028)* prepared by PBCE.

CAPITAL REVENUE FORECAST

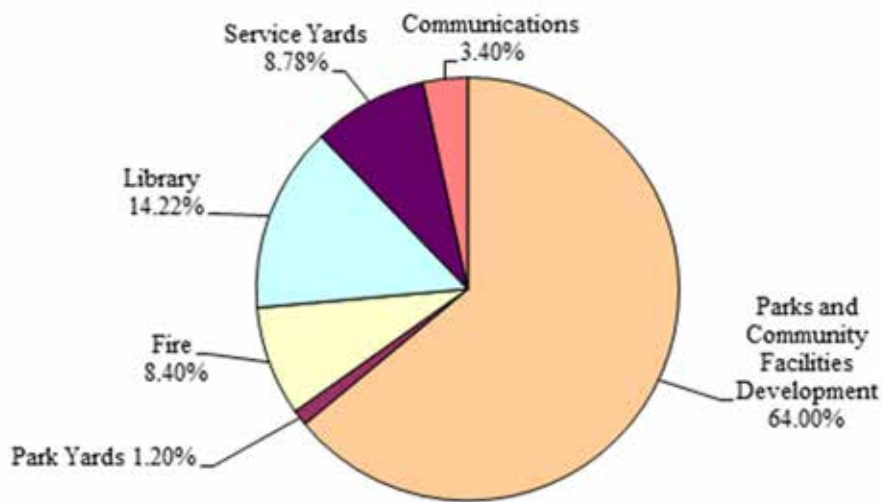
CONSTRUCTION AND CONVEYANCE TAX

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

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

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

CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION



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

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

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX

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

The five-year projection for Construction and Conveyance Tax revenue totals \$215.0 million, which is \$15.0 million lower than the estimate used to develop the 2023-2027 Adopted CIP. The Construction and Conveyance Tax revenue projections are based on: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

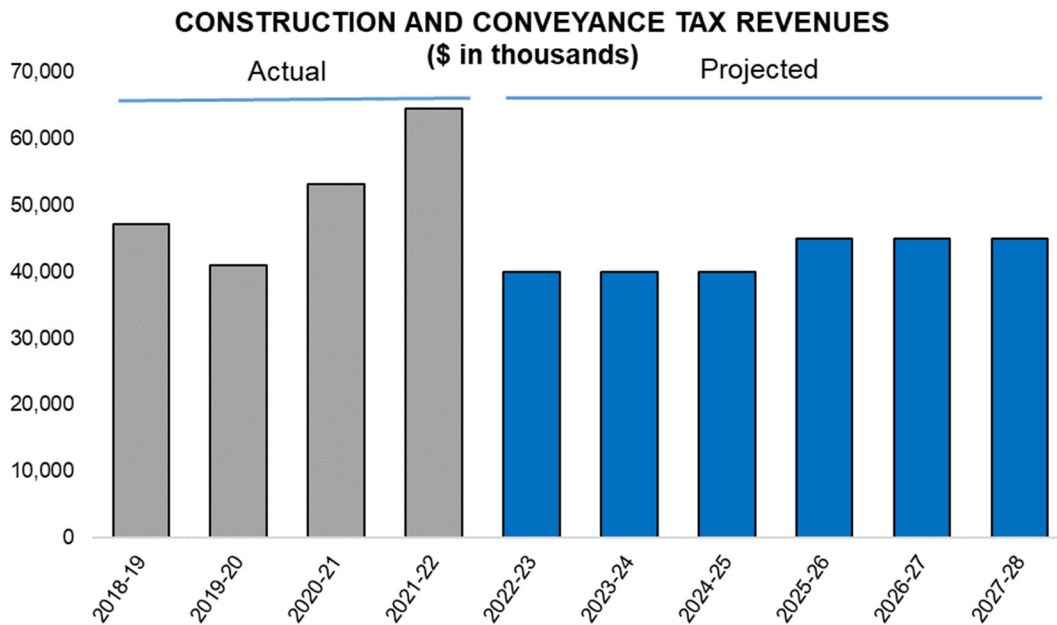
Historically, Construction and Conveyance Tax revenues have been volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high at the time of \$49.0 million in 2005-2006, tax collections continuously fell following the real estate slowdown and financial market crisis, dropping to as low as \$20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and have been steadily increasing, hitting a new all-time high of \$64.5 million in 2021-2022.

While real estate activity remained strong through the COVID-19 pandemic, recent data suggests a slow-down in the local real estate market. According to data from the Santa Clara County Association of Realtors, the local real estate market has been experiencing a decline in year-over-year home prices. Additionally, homes are staying on the market for longer periods of time before selling. The average days on the market for single-family and multi-family dwellings increased from an average of 16 days in December 2021 to an average of 25 days in December 2022. The median single-family home price, which totaled \$1.5 million in December 2021, has decreased by over 11% to \$1.3 million in December 2022. Finally, property transfers through the first half of the fiscal year has decreased by almost 32% compared to July through December 2021 sales.

Construction and Conveyance Tax collections in 2022-2023 are projected to end the year at \$40.0 million. This collection level is 38.0% below the actual receipts received in 2021-2022 (\$64.5 million). Collections in this extremely volatile revenue category are forecasted to drop to \$40.0 million in 2023-2024 and 2024-2025 and then increase to \$45.0 million for the remainder of the forecast period. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX



CONSTRUCTION VALUATION TAX RATES

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

Permanent Tax Rates without Partial Suspension:

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

CAPITAL REVENUE FORECAST

CONSTRUCTION VALUATION TAX RATES

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

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

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

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

CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX

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

In 2022-2023, Building and Structure Construction Tax receipts through December totaled \$9.5 million, up 38% from \$6.9 million collected through the same period last year, and expected to end 2022-2023 at the budgeted estimate of \$19.0 million.

Based on the construction activity forecasts supplied by PBCE and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections total \$95.0 million, matching the estimate included in the 2023-2027 Adopted CIP. It is projected that collections will remain flat at \$19.0 million for the entire five years of the forecast period.

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

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX

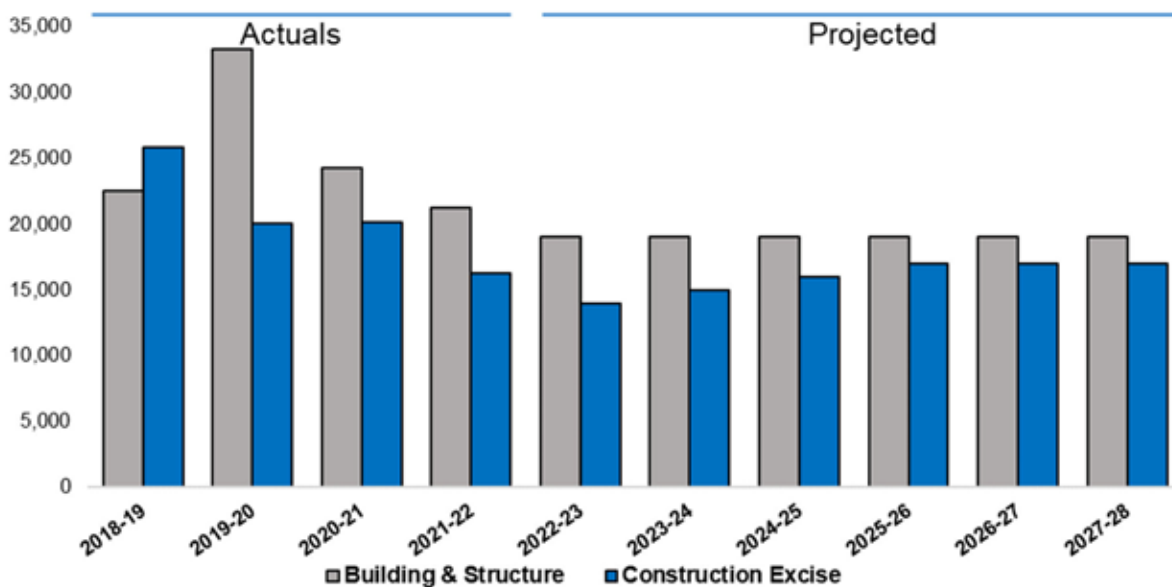
The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. This general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

In 2022-2023, tax receipts through December for the Construction Excise Tax Fund totaled \$4.9 million, 19% below the \$6.1 million collected through the same period last year and projected to fall short of the 2022-2023 Adopted Budget estimate of \$16.0 million by \$2.0 million. Based on the collections to date, a revised estimate for 2022-2023 of \$14.0 million has been used for the development of the 2024-2028 Proposed Traffic Capital Improvement Program.

Based upon the construction projections provided by PBCE and an analysis of actual collection patterns, Construction Excise Tax collections are projected to total \$82.0 million over the five-year forecast period, \$2.0 million less than the estimate included in the 2023-2027 Adopted CIP. It is projected that collections will increase from the 2022-2023 estimate of \$14.0 million to \$15.0 million in 2023-2024, \$16.0 Million in 2024-2025, and to \$17.0 million in 2025-2026 and remain at that level for the remainder of the forecast period.

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

MAJOR CONSTRUCTION-RELATED TAX REVENUES
(in thousands)



CAPITAL REVENUE FORECAST

MUNICIPAL WATER SYSTEM FEES

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

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

Based on projected activity and collection trends, the Municipal Water System fees are projected to decrease to \$175,000 over the forecast period. These fees are detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

(\$ in Thousands)

	2023-2027	2024-2028		%
	CIP	Forecast	Difference	Change
Advance System Design Fee	125	50	(75)	(60%)
Meter Installation Fee	125	50	(75)	(60%)
Service Connection Fee	125	75	(50)	(40%)
TOTAL	375	175	(200)	(53%)

RESIDENTIAL CONSTRUCTION TAX

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

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

In 2022-2023, receipts are projected to total \$200,000 based on year-to-date activity levels. This collection level is on target to meet the budgeted estimates of \$200,000. Based upon construction estimates by PBCE and the actual collection pattern for this tax, collections are expected to remain at \$200,000 in the forecast. A total of \$1.0 million is expected over the five-year period of this forecast, which is equal to the total in the 2023-2027 Adopted CIP.

CAPITAL REVENUE FORECAST

SANITARY SEWER CONNECTION FEE

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

In 2022-2023, receipts are projected to total \$500,000 based on year-to-date activity levels, which is equal to the budgeted estimate of \$500,000. The five-year forecast for Sanitary Sewer Connection Fees totals \$2.5 million, with annual receipts of \$500,000 for the period from 2023-2024 to 2027-2028. This collection level is equal to the estimate included in the 2023-2027 Adopted CIP.

STORM DRAINAGE CONNECTION FEE

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

In 2022-2023, receipts are projected to total \$175,000 based on year-to-date activity levels, which is below the budgeted estimate of \$200,000. The five-year forecast for Storm Drainage Connection Fees totals \$875,000, with annual receipts of \$175,000 for the period from 2023-2024 to 2027-2028. This collection level decreased by approximately 13% compared to the \$1.0 million estimate included in the 2023-2027 Adopted CIP.

ATTACHMENT A

**CONSTRUCTION-RELATED REVENUE
2024-2028 FORECAST
(\$ in thousands)**

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	5 Yr Total
Construction and Conveyance Tax							
2023-2027 Adopted CIP	50,000	45,000	45,000	45,000	45,000	N/A	230,000
2024-2028 FORECAST	40,000	40,000	40,000	45,000	45,000	45,000	215,000
Difference	(10,000)	(5,000)	(5,000)	-	-	N/A	(15,000)
Building and Structure Construction Tax							
2023-2027 Adopted CIP	19,000	19,000	19,000	19,000	19,000	N/A	95,000
2024-2028 FORECAST	19,000	19,000	19,000	19,000	19,000	19,000	95,000
Difference	-	-	-	-	-	N/A	-
Construction Excise Tax							
2023-2027 Adopted CIP	16,000	17,000	17,000	17,000	17,000	N/A	84,000
2024-2028 FORECAST	14,000	15,000	16,000	17,000	17,000	17,000	82,000
Difference	(2,000)	(2,000)	(1,000)	-	-	N/A	(2,000)
Municipal Water Advance System Design Fee							
2023-2027 Adopted CIP	25	25	25	25	25	N/A	125
2024-2028 FORECAST	10	10	10	10	10	10	50
Difference	(15)	(15)	(15)	(15)	(15)	N/A	(75)
Municipal Water Meter Installation Fee							
2023-2027 Adopted CIP	25	25	25	25	25	N/A	125
2024-2028 FORECAST	10	10	10	10	10	10	50
Difference	(15)	(15)	(15)	(15)	(15)	N/A	(75)
Municipal Water Service Connection Fee							
2023-2027 Adopted CIP	25	25	25	25	25	N/A	125
2024-2028 FORECAST	15	15	15	15	15	15	75
Difference	(10)	(10)	(10)	(10)	(10)	N/A	(50)
Residential Construction Tax							
2023-2027 Adopted CIP	200	200	200	200	200	N/A	1,000
2024-2028 FORECAST	200	200	200	200	200	200	1,000
Difference	-	-	-	-	-	N/A	-
Sanitary Sewer Connection Fee							
2023-2027 Adopted CIP	500	500	500	500	500	N/A	2,500
2024-2028 FORECAST	500	500	500	500	500	500	2,500
Difference	-	-	-	-	-	N/A	-
Storm Drainage Connection Fee							
2023-2027 Adopted CIP	200	200	200	200	200	N/A	1,000
2024-2028 FORECAST	175	175	175	175	175	175	875
Difference	(25)	(25)	(25)	(25)	(25)	N/A	(125)
TOTAL							
2023-2027 Adopted CIP	85,975	81,975	81,975	81,975	81,975	N/A	413,875
2024-2028 FORECAST	73,910	74,910	75,910	81,910	81,910	81,910	396,550
Difference	(12,065)	(7,065)	(6,065)	(65)	(65)	N/A	(17,325)
% Change from 2023-2027 CIP	-14%	-9%	-7%	0%	0%	N/A	-4.2%

APPENDIX A

City of San José Budget Principles & Service Delivery Framework

CITY OF SAN JOSE BUDGET PRINCIPLES

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

1) STRUCTURALLY BALANCED BUDGET

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

2) PROPOSED BUDGET REVISIONS

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

3) USE OF ONE-TIME RESOURCES

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

4) BUDGET REQUESTS DURING THE YEAR

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

5) RESERVES

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

Original City Council Approval 03/18/2008
Revised 09/09/08

CITY OF SAN JOSE BUDGET PRINCIPLES

6) DEBT ISSUANCE

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

7) EMPLOYEE COMPENSATION

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

8) CAPITAL IMPROVEMENT PROJECTS

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

9) FEES AND CHARGES

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

10) GRANTS

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

11) GENERAL PLAN

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

12) PERFORMANCE MEASURES

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

13) FIRE STATION CLOSURE, SALE OR RELOCATION

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

Original City Council Approval 03/18/2008
Revised 09/09/08

Service Delivery Framework



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APPENDIX B

General Fund Revenue Descriptions

PROPERTY TAX

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

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

SALES TAX

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

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

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

Sales Tax Rates	
State – General Fund	3.9375%
State – Local Revenue Fund	1.5625
State – County Transportation Funds	0.2500
State – City of San José	1.0000
Public Safety Fund (Proposition 172) ⁽¹⁾	0.5000
<i>Sub-Total Statewide Sales and Use Tax</i>	<i>7.2500</i>
Local – City of San José ⁽²⁾	0.2500
Santa Clara County Transit District ⁽³⁾	0.5000
Santa Clara County Valley Transportation Authority ⁽⁴⁾	0.5000
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax ⁽⁵⁾	0.1250
Santa Clara County Retail Transactions and Use Tax ⁽⁶⁾	0.1250
Silicon Valley Transportation Solutions Tax ⁽⁷⁾	0.5000
Peninsula Corridor Joint Powers Board (Caltrain) ⁽⁸⁾	0.1250
<i>Total Sales and Use Tax</i>	<i>9.3750%</i>
⁽¹⁾ City of San José receives a portion of this Sales and Use Tax revenue that varies from year to year. ⁽²⁾ Approved by voters in June 2016, and effective October 1, 2016, (limited to 15 years) to fund essential City services. ⁽³⁾ Approved by voters in 1976; does not expire. Imposed by VTA. ⁽⁴⁾ Approved by voters in November 2000, and effective April 1, 2006 (limited to 30 years). Imposed by VTA. ⁽⁵⁾ Approved by voters in November 2008 to support BART and effective on July 1, 2012 (limited to 30 years). Imposed by VTA. ⁽⁶⁾ Approved by voters in November 2012 and effective April 1, 2013 (limited to 10 years). ⁽⁷⁾ Approved by voters in June 2016, and effective April 1, 2017 (limited to 30 years). Imposed by VTA. ⁽⁸⁾ Approved by voters in November 2020, and effective July 1, 2021 (limited to 30 years). Imposed by Peninsula Corridor Joint Powers Board, which owns and operates Caltrain.	

SALES TAX

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

TRANSIENT OCCUPANCY TAX

The Transient Occupancy Tax is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The combined tax rate is currently 10%, of which 6% is placed in the Transient Occupancy Tax Fund and 4% is deposited in the General Fund. The General Fund portion (4% of rent) of the tax is authorized by Title 4 of the Municipal Code, Section 4.74, Ordinance number 21931. The Transient Occupancy Tax Fund portion of the revenues (6% of rent) is authorized by Title 4 of the Municipal Code, Section 4.72, Ordinance number 23481, with the use of funds restricted to the following uses:

- 1) Approximately 50% shall support the City's operating subsidy to the convention and cultural facilities of the City of San José.
- 2) The remaining 50% shall support the following uses, with respective funding levels determined by the City Council:
 - a. Funding of the Convention and Visitors Bureau (historically, approximately 25%); and
 - b. Funding for the cultural grant program and fine arts division programs, including funding of cultural grants and expenses of the fine arts division, including, but not limited to, personal and non-personal/equipment expenses, fringe benefits, and overhead (historically, approximately 25%).

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

FRANCHISE FEES

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

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

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

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

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

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

FRANCHISE FEES

less incidental contamination. The base fee of \$5.0 million per year for each of two geographic collection districts, plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District became effective July 1, 2012, and is subject to an annual Consumer Price Index (CPI) adjustment. The CSW fee is authorized by Title 9 of the Municipal Code, Chapter 9.10.1710.

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

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

UTILITY TAX

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

BUSINESS TAXES

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

The following charts present the business tax rate structure after the Business Tax Modernization, along with the inflation adjusted rates for the periods listed.

Employee Count

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

Businesses: Employee Count ¹	July 2021 - June 2022	Effective July 1, 2022 ³
Base Tax: 1-2 employees	\$206.90	\$210.00
Incremental Tax: 3-35 ²	\$33.21	\$34.21
Incremental Tax: 36-100 ²	\$44.28	\$45.61
Incremental Tax: 101-500 ²	\$55.35	\$57.01
Incremental Tax: 501+ ²	\$66.48	\$68.47
Cap	\$166,311	\$171,300.69

¹ Businesses choose between calculating the number of employees based on full-time equivalent (FTE) or based on the number employers report to the California Employment Development Department (EDD).

² Incremental tax rates are applicable per employee.

³ As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period, as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area), using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2021 to February 2022, the CPI grew by 5.2%, which resulted in the minimum base tax increasing by 1.5% and the incremental tax bracket increasing to 3.0%, in line with the prescribed limits.

GENERAL FUND REVENUE DESCRIPTIONS

BUSINESS TAXES

Residential Rental Property Units

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

Residential Landlords: Rental Units	July 2021 - June 2022	Effective July 1, 2022 ²
Base Tax: 1-2 units	\$206.90	\$210.00
Incremental Tax: 3-35 ¹	\$33.21	\$34.21
Incremental Tax: 36-100 ¹	\$44.28	\$45.61
Incremental Tax: 101-500 ¹	\$55.35	\$57.01
Incremental Tax: 501+ ¹	\$66.48	\$68.47
Cap	\$166,311	\$171,300.69

¹ Incremental tax rates are applicable per unit.

² As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period, as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area), using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2021 to February 2022, the CPI grew by 5.2%, which resulted in the minimum base tax increasing by 1.5% and the incremental tax bracket increasing to 3.0%, in line with the prescribed limits.

Commercial (Non-Residential) Rental Property Units

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

Commercial Landlords	July 2021 - June 2022	Effective July 1, 2022 ²
Base Tax	\$206.90	\$210.00
Flat Incremental Tax: per Square Foot ¹	\$0.0276	\$0.0284
Cap	\$166,311	\$171,300.69

¹ Incremental tax rates are applicable per unit.

² As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period, as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area), using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2021 to February 2022, the CPI grew by 5.2%, which resulted in the minimum base tax increasing by 1.5% and the incremental tax bracket increasing to 3.0%, in line with the prescribed limits.

BUSINESS TAXES

Mobile Home Parks Rental Units

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

Mobile Home Parks – Rental Lot	July 2021 - June 2022	Effective July 1, 2022 ²
Base Tax: 1-2 lots	\$206.90	\$210.00
Incremental Tax: 3+ lots ¹	\$11.07	\$11.40
Cap	\$166,311	\$171,300.69

¹ Incremental tax rates are applicable per unit.

² As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period, as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area), using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2021 to February 2022, the CPI grew by 5.2%, which resulted in the minimum base tax increasing by 1.5% and the incremental tax bracket increasing to 3.0%, in line with the prescribed limits.

Water Meter Connections

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

Water Companies	July 2021 - June 2022	Effective July 1, 2022 ²
Base Tax	\$206.90	\$210.00
Flat Incremental Tax: per connection ¹	\$1.10	\$1.13
Cap	\$166,311	\$171.300.69

¹ Incremental tax rates are applicable per unit.

² As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period, as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area), using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2021 to February 2022, the CPI grew by 5.2%, which resulted in the minimum base tax increasing by 1.5% and the incremental tax bracket increasing to 3.0%, in line with the prescribed limits.

BUSINESS TAXES

Out of Town Businesses

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

Out of Businesses:	Effective July 1,2022³				
Employee Count¹	120+ days	90-119 Days	30-89 days	6-29 days	5 or less days⁴
Base Tax: 1-2 employees	\$210.00	\$105.00	\$78.75	\$52.50	\$0.00
Incremental Tax: 3-35 ²	\$34.21	\$17.11	\$12.83	\$8.55	\$0.00
Incremental Tax: 36-100 ²	\$45.61	\$22.81	\$17.10	\$11.40	\$0.00
Incremental Tax: 101-500 ²	\$57.01	\$28.51	\$21.38	\$14.25	\$0.00
Incremental Tax: 501+ ²	\$68.47	\$34.24	\$25.68	\$17.12	\$0.00
Cap	\$171,300.69	\$171,300.69	\$171,300.69	\$171,300.69	\$0.00

¹ Businesses choose between calculating the number of employees based on full-time equivalent (FTE) or based on the number employers report to the California Employment Development Department (EDD).

² Incremental tax rates are applicable per employee.

³ As prescribed in San José Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period, as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-Hayward, CA Area), using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap. For the period February 2021 to February 2022, the CPI grew by 5.2%, which resulted in the minimum base tax increasing by 1.5% and the incremental tax bracket increasing to 3.0%, in line with the prescribed limits.

⁴ For businesses in San José only 5 or less days, there is no fee, but the business is still required to submit registration. They will receive an account number, but a certificate will not be issued. These accounts automatically expire annually.

Exclusions and Exemptions

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

Specialty Business Taxes

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

During 1991-1992, the City Council approved a cardroom ordinance, which contained the provision of a **Cardroom Business Tax** to tax gross receipts from cardrooms located in the City.

BUSINESS TAXES

Specialty Business Taxes

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

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

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

REAL PROPERTY TRANSFER TAX

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

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

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

¹ Beginning July 1, 2025, the exemption threshold of under \$2,000,000 will automatically adjust based on a consumer price index every five years. The Finance Director will publish the exemption threshold as adjusted no later than April 30 prior to the July 1 date on which the adjustment to the exemption threshold becomes effective.

TELEPHONE LINE TAX

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

LICENSES AND PERMITS

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

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

FEES, RATES, AND CHARGES

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

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

FINES, FORFEITURES, AND PENALTIES

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

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

REVENUE FROM THE USE OF MONEY AND PROPERTY

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

REVENUE FROM LOCAL AGENCIES

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

REVENUE FROM THE STATE OF CALIFORNIA

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

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

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

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

REVENUE FROM THE FEDERAL GOVERNMENT

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

OTHER REVENUE

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

TRANSFERS AND REIMBURSEMENTS

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

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

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

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

GENERAL FUND REVENUE DESCRIPTIONS

STATE GAS TAX

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

County Allocation : **a** No. of Registered Vehicles in County
 \div **b** No. of Registered Vehicles in State
 x c \$0.0104
 x d Gallons of Gas Sold

City Allocation: **a** Incorporated Assessed Value in County
 \div **b** Total Assessed Value in County
 x c County Allocation

Individual City Allocation: **a** Population in City
 \div **b** Population of all Cities in County
 x c City Allocation

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

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

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APPENDIX C

City Budget Program Guide

The City Budget Program Guide contains 2023-2024 General Fund Base Budget expenditures¹ and position allocations by City Service Area, Core Service, and Budget Program for each department. This guide will serve as one tool to aid in the discussion of budgetary resource alignment with key City service delivery outcomes and performance as part of the 2023-2024 Proposed Operating Budget and 2023-2024 Proposed Budget Study Sessions.

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

City Budget Program Guide
2023-2024 Base Operating Budget

CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Strategic Support - Appointees	City Attorney	Legal Services	PE01	Legal Representation	Provides legal representation to advocate, defend, and prosecute matters on behalf of the City and the Successor Agency to the Redevelopment Agency. This involves a variety of activities including defense of lawsuits; general liability claims management; prosecution of municipal code violations; workers' compensation investigations and litigation; seeking injunctions for general nuisance, gang and drug abatements; alternative dispute resolution and contract dispute assistance; and initiation of litigation which can result in significant revenue collections.	29.67	9,035,546
Strategic Support - Appointees	City Attorney	Legal Services	PE02	Legal Transactions	Provides oral and written legal counsel and advice to the Mayor, City Council, Council Appointees, City departments, City boards, commissions and committees, and to the Successor Agency to the Redevelopment Agency, and is responsible for review and preparation of ordinances, resolutions, contracts, permits and other legal documents to implement official City and Agency actions.	23.01	6,561,416
Strategic Support - Appointees	City Attorney	Strategic Support	PE06	City Attorney Management and Administration	Provides administrative oversight for the department, including executive management, financial management, and human resources.	6.56	1,663,670
Strategic Support - Appointees	City Attorney	Strategic Support	PE06	City Attorney Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	6,000,000
Strategic Support - Appointees	City Auditor	Audit Services	PG01	Performance Audits	Identify ways to increase the economy, efficiency, effectiveness, equity, and accountability of City government and provide independent, reliable, accurate, and timely information to the City Council and other stakeholders.	13.00	3,021,615
Strategic Support - Appointees	City Auditor	Strategic Support	PG06	City Auditor Management and Administration	Provides administrative oversight for the department, including executive management, financial management, and human resources.	1.00	178,751
Strategic Support - Appointees	City Clerk	City Clerk Services	PF01	Facilitate the City's Legislative Process	Maximizes public access to the City's legislative process by administering the democratic processes such as elections, access to City records, and all legislative actions ensuring transparency to the public. Serves as a compliance officer for federal, State, and local statutes including the Political Reform Act, the Brown Act, and the Public Records Act.	16.00	3,125,292
Strategic Support - Appointees	City Clerk	Strategic Support	PFD6	City Clerk Management and Administration	Provides administrative oversight for the department, including financial management, human resources, and analytical support.	1.00	180,506
Strategic Support - Appointees	City Clerk	Strategic Support	PFK6	Clerk Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	4,929,102
Public Safety	City Manager	City-Wide Emergency Management	PC09	Emergency Management	Oversees emergency management efforts throughout the City, including: preparedness, response, recovery, and mitigation; maintains a citywide Emergency Management Roadmap to address preparedness gaps; ensures comprehensive all hazards planning, exercises, and training complies with State and federal requirements; and, engages the community through public education and training to encourage preparation for the next emergency.	9.00	2,306,771
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	PC10	Administration, Policy, and Intergovernmental Relations	Supports city-wide leadership by resolving complex administrative matters, supporting City-wide policy analysis and implementation, and monitoring, analyzing, and supporting legislation from the federal, state, and local government arenas. Other services include agenda review and coordination and open government requests and initiatives.	13.75	3,260,355
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	PC02	Budget Office	Develops and monitors the City's operating and capital budgets that total \$5.1 billion annually; works with City departments to develop a budget that meets the highest priority community and organizational needs while maintaining fiscal integrity; responds to City Council direction, improves operational efficiency; and supports data-driven public service delivery.	19.00	4,454,658
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	PC03	Civic Innovation	Coordinates the development and implementation of the City's Smart City Vision; focuses the City to deliver on the most important innovation opportunities; empowers staff to dramatically improve services for customers in an equitable manner; and works with teams to address continuous process improvement and program evaluation.	-	43,600
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	PC04	Communications	Directs and implements the City's communications strategy to inform and engage San José residents. Provides strategic counsel to the City Manager and oversight of media relations; internal communications; emergency public information; and digital, social, and creative services.	4.00	1,304,955
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	PC05	Employee Relations	Represents the City Council and City Administration in various labor relations issues and negotiates on behalf of the City on wages, hours, and other terms and conditions of employment. Manages employee relations matters for the City and advises and assists departments regarding strategies and due process requirements when dealing with employee sub-performance or misconduct.	10.50	2,501,735

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CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	PC06	Executive Leadership/City Management	Provides strategic leadership that supports the Mayor and City Council in making public policy decisions and ensures the organization is delivering cost-effective services that meet the needs of our community with the highest standards of quality and customer service. Also guides fiscal and change management, the building and development of our workforce, and development of long term, data-driven strategies to invest in the City's future.	11.55	4,386,997
Strategic Support - Appointees	City Manager	Lead and Manage the Organization	PC08	Racial Equity	Advances a city-wide equity framework to examine and improve San José's internal policies, practices and systems to eradicate structural and/or institutional racism that may exist in our City government and ultimately improve outcomes for Black, Indigenous, and People of Color (which includes, but is not limited to, Latino/a/x and Asian and Pacific Islander).	7.00	1,953,103
Strategic Support - Appointees	City Manager	Strategic Support	PCD6	City Manager Management and Administration	Provides administrative oversight for the department, including financial management and human resources.	1.00	163,558
Strategic Support - Appointees	City Manager	Strategic Support	PCK6	City Manager Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	279,000
Community and Economic Development	Economic Development and Cultural Affairs	Arts and Cultural Development	PP02	Cultural Facilities Operations and Maintenance	Provides stewardship of city-owned cultural facilities such as the Convention Center, the Hammer Theatre Center, and Mexican Heritage Plaza, including the management of operations and maintenance agreements with non-profit partners and the monitoring of those partners; coordinates with the Public Works Department on maintenance and capital needs of the cultural facilities; and manages legal agreements and the relationship with Team San José.	0.25	4,013,900
Community and Economic Development	Economic Development and Cultural Affairs	Business Development and Economic Strategy	PP13	Business District Management	Manages relationships, legal agreements, joint projects and policy changes between the City and major downtown partners, including San José Downtown Association, San José Sports Authority, San José State University, San José Hotels, and Japantown and Downtown Business Improvement Districts; manages the City's free use program and plays a lead role in public space activation in the Downtown; supports the development of neighborhood business centers citywide; and increases retail amenities (in Neighborhood Business Districts and urban villages) including management of the wayfinding program, banner program.	3.00	1,007,516
Community and Economic Development	Economic Development and Cultural Affairs	Business Development and Economic Strategy	PP06	Business Outreach and Assistance	Works with existing and potential San José businesses and entrepreneurs to encourage business and job attraction, retention, expansion and creation including driving industry outreach, layoff prevention, small business assistance, and hiring and customized training; administers the Sister City and Foreign Trade Zone programs, and small business inter-departmental coordination.	6.15	2,026,561
Community and Economic Development	Economic Development and Cultural Affairs	Business Development and Economic Strategy	PP08	Economic Policy Analysis/Communications	Leads development of economic development-related strategies (e.g., the Economic Strategy and North San José Area Development Policy), performs economic and data analysis to support policy development, business intelligence activities, and decision making by numerous departments and City Council; collaborates and coordinates communications strategies with internal and external communications staff around shared projects/initiatives; and manages the development of public information collateral materials, graphic design and production, and audio-visual production in a variety of media.	2.68	672,545
Community and Economic Development	Economic Development and Cultural Affairs	Real Estate Services	PP11	City Lease Administration	Manages leasing with the City as a lessee or lessor for facilities and/or telecommunications, including maintenance of City owned properties that are being leased to other entities or are vacant.	-	2,019,243
Community and Economic Development	Economic Development and Cultural Affairs	Real Estate Services	PP12	City Property Acquisition and Sales	Works with real estate brokers, developers and property owners to encourage new leasing and development activity, including acquisition of temporary or permanent property rights for City projects and initiatives; manages the sale of surplus property.	3.10	816,681
Community and Economic Development	Economic Development and Cultural Affairs	Regional Workforce Development	PP09	Workforce Development Services	Provides assessments, career counseling, workshops, training, supportive services and job development support to approximately 3,000 youth and adult clients annually, while at the same time supporting thousands of businesses with recruiting, on-the-job training, layoff avoidance, and technical assistance directly and through the BusinessOwnerSpace network.	2.00	1,712,880
Community and Economic Development	Economic Development and Cultural Affairs	Strategic Support	PPD1	Economic Development Management and Administration	Provides administrative oversight for the office, including executive management, financial management, human resources, and analytical support.	6.85	2,304,099
Community and Economic Development	Economic Development and Cultural Affairs	Strategic Support	PPK1	Economic Development Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	258,687
Environmental and Utility Services	Environmental Services	Potable Water Delivery	PS05	Municipal Water System Operations and Maintenance	Operates and maintains the Municipal Water System to ensure a reliable, safe, and potable water supply.	0.25	82,047
Environmental and Utility Services	Environmental Services	Recycling and Garbage Services	PS01	Civic/Other Solid Waste Collection Services	Provides management and oversight of all solid waste services generated from City facilities and right-of-way and includes funding from non-rate-payer funds to provide waste diversion services to restrict or redirect waste from entering local landfills.	0.44	1,400,318

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CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Environmental and Utility Services	Environmental Services	Stormwater Management	PS15	Stormwater Administration	Provides executive-level management and administration of the Stormwater Management Core Service. Also provides mid-level and clerical administrative support.	-	101
Environmental and Utility Services	Environmental Services	Stormwater Management	PS16	Stormwater Enforcement	Educates and regulates approximately 10,000 businesses and construction sites in San José regarding stormwater practices to ensure compliance with federal and State requirements for the City's storm sewer system.	0.22	38,931
Environmental and Utility Services	Environmental Services	Stormwater Management	PS17	Stormwater Policy and Compliance	Facilitates City compliance with its Stormwater the National Pollutant Discharge Elimination Program (NPDES) permit for the storm sewer system, including requirements for municipal operations, new development and redevelopment requirements, and control programs for specific pollutants such as trash, PCBs, and mercury. Supports compliance with the requirements of the Baykeeper Consent Decree and other agreements.	2.77	770,805
Environmental and Utility Services	Environmental Services	Strategic Support	PSC4	Environmental Services Information Technology	Provides information technology services, planning, system development and maintenance for the Department in coordination with the Information Technology Department.	0.09	23,099
Environmental and Utility Services	Environmental Services	Strategic Support	PSD4	Environmental Services Management and Administration	Provides executive-level, analytical and administrative support to the department.	0.98	170,142
Environmental and Utility Services	Environmental Services	Strategic Support	PSK4	Environmental Services Other Departmental - City Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	1,155,000
Environmental and Utility Services	Environmental Services	Sustainability and Environmental Health	PS18	Environmental Compliance and Safety	Provides oversight of ESD employee health and safety at all ESD facilities, as well as providing professional compliance services for City lands, including closed landfills, such that both aspects fully comply with all State and federal laws.	2.00	453,135
Environmental and Utility Services	Environmental Services	Sustainability and Environmental Health	PS19	Policy, Legislative Advocacy and Education	Leads the City's efforts to implement Climate Smart San Jose strategies that address the challenges of climate change for the City. Climate Smart San Jose has set multiple goals to take meaningful action to reduce carbon emissions through strategic planning, policy implementation, community outreach, and public/private partnerships. Coordinates the City's efforts related to energy efficiency, renewable energy, and Green House Gas reductions, including administration of the Silicon Valley Energy Watch and other programs. Environmental legislation advocacy and policy development is led from this group as well as external partner relationships for sustainability, water, and wastewater policy and projects.	10.25	1,827,673
Strategic Support	Finance	Debt and Treasury Management	PI05	Banking Management	Manages the City's centralized banking relationships and cash operations for multiple programs throughout the City. Oversees payments of various tender types processed on multiple billing systems, including Building Permits, Business Taxes, Utility Billing, Airport Fees, and Fire Citations.	1.35	1,059,531
Strategic Support	Finance	Debt and Treasury Management	PI06	Cashiering and Payment Processing	Manages over-the-counter payments made for various programs, including Business Tax, Transient Occupancy Tax and Hotel Business Improvement District, Utility Billing, Airport, and Utility Users Tax.	7.77	1,101,681
Strategic Support	Finance	Debt and Treasury Management	PI07	Debt Management	Responsible for City debt issuance, credit facilities and other borrowing, debt management projects and debt administration activities, including performing compliance activity related to statutory, regulatory, and contractual requirements for 90 different obligations, including bonds, commercial paper, credit facilities, a lease-purchase agreement and conduit bonds for affordable housing projects. Finances the construction of new facilities and improvements to existing city facilities through various bond measures and other financing tools. Public infrastructure and affordable housing are also facilitated through special taxes and various types of bonds.	7.32	2,074,526
Strategic Support	Finance	Debt and Treasury Management	PI08	Investment Management	Manages the City's cash flow and invests the City operating funds in accordance with the Investment Policy mandates of safety, liquidity, and yield. Responsible for cash flow forecasts, portfolio management, Investment Policy updates and compliance, interest earnings forecasts, and related reporting. Performs counterparty credit risk analysis of the City clean energy program.	4.06	964,828
Strategic Support	Finance	Disbursements	PI01	Accounts Payable	Facilitates timely and accurate payment of the City's non-payroll disbursements. Customers of this service include City departments, employees, government agencies, non-profit corporations, consultants, contractors, and vendors who provided goods and services to the City.	6.76	1,201,526
Strategic Support	Finance	Disbursements	PI02	Payroll	Facilitates timely and accurate payment of payroll to City employees and provides responses to information requests City-wide. The City has employees divided among many different bargaining units with various compensation requirements contained in each respective units' Memoranda of Agreement.	9.60	1,893,724

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CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Strategic Support	Finance	Financial Reporting	PI03	General Accounting	Provides accurate and meaningful reporting on the City's financial condition and primarily responsible for the accounting of City-wide financial activity for all City funds, with services including management of the Financial Management System, preparation of the Comprehensive Annual Financial Report, preparation of various Cost Allocation Plans, capital assets accounting, monthly financial information publication, City-wide reports for audits purposes, and coordination of stand-alone audits.	12.45	2,656,453
Strategic Support	Finance	Financial Reporting	PI04	Special Accounting	Manages accounting responsibilities related to special facility districts, grant programs, assessment districts, loans, debt transactions, bank reconciliations, investments, deferred compensation; and prepares and submits legally mandated reports including the City's Federal Single Audit Report and State-mandated cost reimbursement claim reports.	4.96	949,368
Strategic Support	Finance	Purchasing and Risk Management	PI13	Purchasing	Following transparent and competitive procurement procedures, supports the operations of all City departments by ensuring the timely procurement and delivery of products and services other than construction and consulting services. Establishes City-wide procurement policies and procedures and provides City-wide training and guidance to departments to enable them to facilitate procurements that are decentralized. Manages the P-Card program to enable the procurement of small dollar purchase transactions.	18.80	3,414,672
Strategic Support	Finance	Purchasing and Risk Management	PI14	Risk Management	Ensures insurance coverage for City assets, establishes City-wide risk management policies and procedures, and provides City-wide training and guidance to departments on risk-related programs. Manages property and casualty claims from inception to conclusion and performs the centralized subrogation function to recapture losses resulting from third-party wrongdoing or negligence resulting in loss of or damage to City-owned property.	2.90	3,399,394
Strategic Support	Finance	Revenue Management	PI09	Accounts Receivable	Develops, maintains, and updates business systems and processes to support the delivery of City services through timely collection of payments due to the City, including services, taxes, fees, and other revenues.	8.70	1,521,991
Strategic Support	Finance	Revenue Management	PI10	Business Tax	Enforces the general business tax ordinance by ensuring that taxes and related fees are collected. Issues business tax certificates and processes applications for the following regulatory permits: amusement devices, carnivals/circuses, Christmas tree lots, flower vendors, handbills, pawnbrokers, pool and billiard rooms, pumpkin patches, and second-hand dealers.	12.30	2,392,810
Strategic Support	Finance	Revenue Management	PI11	Revenue Audit and Compliance	Monitors and conducts compliance reviews of various tax and fee programs related to the following: Transient Occupancy Tax, Convention Center Facility District Tax, Hotel Business Improvement District Fees, Utility Users Tax, Franchise Fees, Telephone Line Tax, Tow agreements, Solid Waste Enforcement Fees, Disposal Facility Tax, Cardroom Tax, Marijuana Business Tax, and Sales and Use Taxes.	8.69	2,093,324
Strategic Support	Finance	Strategic Support	PIF7	Finance Funds Debt/Financing Costs	Provides for debt and financing costs associated with City debt issuance, credit facilities, and other borrowing.	-	1,026,000
Strategic Support	Finance	Strategic Support	PID7	Finance Management and Administration	Provides administrative oversight for the department, including executive management, financial management, human resources, and analytical support.	7.67	1,880,142
Strategic Support	Finance	Strategic Support	PIK7	Finance Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	6,572,500
Public Safety	Fire	Emergency Response	PL02	Fire and Emergency Medical Services Dispatch	Receives calls from 9-1-1 call-takers and other sources, dispatches appropriate resources, triages calls using Medical Priority Dispatch System (MPDS) and Fire Priority Dispatch System (FPDS), relays critical information, provides detailed life safety assistance and instructions to callers (e.g. CPR, childbirth, choking), and provides critical communications support for Incident Commanders.	47.48	8,741,084
Public Safety	Fire	Emergency Response	PL03	Fire and Emergency Medical Services Response	Responds to fire, rescue, medical emergencies, and other public assist calls for service; implements appropriate mitigation efforts and incident command system (ICS) scaled to the needs of the emergency.	661.41	213,986,547
Public Safety	Fire	Emergency Response	PL04	Fire Stations/Apparatus Operations and Maintenance	Ensures availability of response-ready fire apparatus, tools and equipment, and personal protective equipment (PPE); maintains facilities including fire stations, training facilities, emergency generators, and fueling sites; provides necessary supplies, utilities, furnishings, and fuel.	4.76	9,625,455
Public Safety	Fire	Emergency Response	PL05	Fire Sworn Training	Ensures the response-readiness of all sworn fire personnel through comprehensive annual mandated training; provides initial required trainings through Fire Fighter and Fire Engineer Academies.	12.95	4,971,489
Public Safety	Fire	Emergency Response	PL06	Special Operations - Airport Rescue and Fire Fighting	Provides dedicated Aircraft Rescue and Fire Fighting (ARFF) certified Fire Captains, Engineers, and Fire Fighters as required by the Federal Aviation Administration at Norman Y. Mineta San José International Airport. (Program costs are offset by a transfer from the Airport.)	18.34	6,128,213

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CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Public Safety	Fire	Emergency Response	PL07	Special Operations - Hazardous Incident Team	Provides Hazardous Materials specialist-level trained responders and equipment for response to incidents requiring technical expertise to comply with Title 8 CCR §5192: Hazardous Waste Operations and Emergency Response; reviews and inspects facilities with hazardous materials storage. (Majority of the budget and FTE for this program is displayed in Fire and Emergency Medical Services Response Program.)	5.13	1,794,497
Public Safety	Fire	Emergency Response	PL08	Special Operations - Urban Search and Rescue	Provides responses to incidents requiring technical expertise including confined space rescue, low/high angle (cliff) rescue, trench rescue, water rescue, structure collapse, and other technical rescue situations. (Majority of the budget and FTE for this program is displayed in Fire and Emergency Medical Services Response Program.)	5.13	1,794,517
Public Safety	Fire	Fire Prevention	PL09	Fire Cause Investigation	Investigates suspicious fires to determine the origin; collects and processes evidence, develops detailed reports to assist in criminal prosecution, and provides expert testimonies at court trials.	5.25	2,059,213
Public Safety	Fire	Fire Prevention	PL10	Fire Safety Education, Review, and Inspections	Provides fire safety inspections of permitted occupancies and provides Fire Watch and inspections during special events throughout the City. (Program costs are offset by revenues from the Fire Department Non-Development Fee Program.) Provides public safety information and education to the community through multiple education and awareness programs.	23.70	6,370,296
Public Safety	Fire	Strategic Support	PLE5	Fire Capital - Public Safety	Provides support for the delivery of capital improvement projects for City-owned facilities, including recreational facilities, parks, trails, libraries, public safety facilities, transportation infrastructure, and various cultural and municipal facilities.	-	3,750,000
Public Safety	Fire	Strategic Support	PLJ5	Fire Workers' Compensation - Public Safety	Provides state-mandated benefits for employees injured on the job.	-	9,000,000
Public Safety	Fire	Strategic Support - Public Safety	PLB5	Fire Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	-	212,108
Public Safety	Fire	Strategic Support - Public Safety	PLC5	Fire Information Technology	Provides information technology services, planning, and system development and maintenance for the department in coordination with the Information Technology Department.	8.65	1,877,742
Public Safety	Fire	Strategic Support - Public Safety	PLD5	Fire Management and Administration	Provides executive-level, analytical, and administrative support to the department; manages the budget and all financial transactions for the department.	18.70	4,157,969
Community and Economic Development	Housing	Affordable Housing Production and Preservation	PM17	Affordable Housing Development Loans	Provides financing and technical assistance for the development of new affordable housing developments for low-income households and individuals.	1.00	-
Community and Economic Development	Housing	Neighborhood Capital Investment and Public Services	PM06	Non-Profit Service Grants to Support Housing and Community Development Needs	Provides grants to non-profit organizations to support fair housing and tenant legal services, senior programs, and homeless programs.	0.25	39,223
Community and Economic Development	Housing	Neighborhood Capital Investment and Public Services	PM07	Place-Based Neighborhood Strategy	Provides community engagement and leadership development services in challenged neighborhoods.	-	9,500
Community and Economic Development	Housing	Strategic Support	PMD1	Housing Management and Administration	Provides administrative oversight for the department, including executive management, financial management, human resources, and analytical support.	0.25	54,844
Community and Economic Development	Housing	Strategic Support	PMK1	Housing Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	8.75	2,600,000
Community and Economic Development	Housing	Strategic Support	PMP1	Housing Planning and Policy Development	Analyzes, develops and recommends public policy to strengthen affordable housing and community development programs. Provides research support for advancement of new and one-time programs. Tracks and coordinates the Department's legislative response to legislation and program regulations at both the State and Federal levels.	1.00	218,587
Neighborhood Services	Housing	Homelessness Interventions and Solutions	PM12	Homeless Outreach and Case Management	Provides a coordinated response to unsheltered homeless residents including street-based outreach, engagement, case management, and essential services such as mobile hygiene, warming locations, and temporary and incidental shelters.	2.00	-
Neighborhood Services	Housing	Homelessness Interventions and Solutions	PM14	Joint Encampment Response Team	Provides outreach services and housing referrals to unhoused residents prior to an encampment abatement.	1.50	265,201
Neighborhood Services	Housing	Homelessness Interventions and Solutions	PM16	Tenant Based Rental Assistance and Rapid Rehousing	Provides short-term rental subsidies, with supportive services during the subsidy period, to help homeless residents obtain permanent housing as quickly as possible.	1.50	4,000,466
Strategic Support	Human Resources	Employee Benefits	PH04	Deferred Compensation	Manages the Voluntary and Non-Voluntary Employee Deferred Compensation contribution and related non-personal and personal administrative expenses.	1.55	401,657
Strategic Support	Human Resources	Employee Benefits	PH07	Other Benefits	Manages the other City benefits provided to City employees and their dependents, such as Life Insurance, Unemployment, Vision, etc.	2.21	581,552
Strategic Support	Human Resources	Employment Services	PH01	Classification Services	Ensures that positions are properly classified, described, and aligned to support organizational effectiveness and efficiency. In addition, this program determines appropriate salary ranges for new and existing classifications by conducting market and internal equity analyses.	1.00	187,972

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Strategic Support	Human Resources	Employment Services	PH02	Recruiting/Hiring	Manages recruitment, assessment, and hiring processes to meet the City's staffing needs. In addition, this program is responsible for managing placements, bumping, redeployment, and layoffs, as necessary.	12.50	2,422,691
Strategic Support	Human Resources	Health and Safety	PH08	Employee Health Services	Provides occupational medical services, including pre-employment physicals, medical testing and surveillance, blood-borne pathogen testing, and general wellness screenings.	1.00	525,218
Strategic Support	Human Resources	Health and Safety	PH10	Employee Safety	Provides comprehensive safety services for 16 City Departments, various City-wide safety trainings, and analysis of work injury data for accident prevention.	2.25	762,791
Strategic Support	Human Resources	Health and Safety	PH09	Workers' Compensation Administration	Provides state-mandated benefits for employees injured on the job.	2.50	5,551,344
Strategic Support	Human Resources	Strategic Support	PHD7	Human Resources Management and Administration	Provides city-wide Human Resources Systems Management and Records Management as well as administrative oversight for the department, including executive management, financial management, and human resources.	10.00	2,125,355
Strategic Support	Human Resources	Strategic Support	PHK7	Human Resources Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	206,400
Strategic Support	Human Resources	Strategic Support	PHJ7	Workers' Compensation - Other Departments	Provides state-mandated benefits for employees injured on the job.	-	1,500,000
Strategic Support	Human Resources	Training and Development	PH03	Employee Training and Development	Provides training and development offerings for employees City-wide to develop essential skills like mentoring, coaching, writing, data visualization, analysis and reporting, and public presentations.	2.00	967,456
Public Safety	Independent Police Auditor	Independent Police Oversight	PA01	Oversight of Police Misconduct Complaints and Public Outreach	Independent civilian oversight of the San José Police Department (SJPD) by taking in complaints from members of the public about San José police officers, auditing misconduct investigations, preparing annual public reports, making recommendations to improve SJPD policies, participating in the Department's review of officer-involved shooting incidents, and conducting community outreach and engagement.	6.50	1,512,683
Public Safety	Independent Police Auditor	Strategic Support	PAD5	IPA Management and Administration	Provides administrative oversight for the department, including financial management, human resources, and analytical support.	0.50	146,059
Strategic Support	Information Technology	Business Solutions	PD03	Advanced Applications and Services	Develops, implements, and supports software applications and system integrations for multi-departmental to division level business solutions. These business solutions are required to directly support specific City operations.	0.42	665,253
Strategic Support	Information Technology	Business Solutions	PD04	Data Services	Enables data administration, use, analytics, transparency and reporting by staff and the public, through strong data platforms, tools, and support.	2.21	725,286
Strategic Support	Information Technology	Business Solutions	PD01	Enterprise Resource Management	Manages and supports use of Human Resources, Payroll, Talent, Financials, Budgeting, and Tax Systems impacting all City personnel and fiscal actions. Enables data transparency, analytics, decision-support, and reporting by staff and the public.	10.80	4,280,344
Strategic Support	Information Technology	Business Solutions	PD02	Productivity and Collaboration Applications	Administers and supports city-wide use of collaboration and productivity software that multiply the efficiency and effectiveness of City contributors. Collaboration tools enhance group performance through information access, tracking assignments through delivery, and in-group communications. Productivity solutions enable work with high efficiency through documents, spreadsheets, analytics, presentations, electronic messaging, and mobile work enhancement. Business process automation services digitize City workflows to process faster, with less staff time, and with auditability.	9.99	4,893,952
Strategic Support	Information Technology	San José 311	PD12	City Customer Contact Center	Serves as the digital contact point for the large majority of non-emergency interactions with the City's residents and businesses as San José 311. Intakes and processes utility billing cases. Provides access to City information and offices via mobile, chat, online portal, and telephone means. Coordinates across departments to administer main call trees, the frequently asked questions manifest, and response scripts. Administers overflow vendor contract(s) for after-hours and special events call handling.	8.76	1,352,551
Strategic Support	Information Technology	Strategic Support	PDD7	Information Technology Management and Administration	Provides strategic direction, analytical insights, and administrative support for departmental activities. Manages all fiscal activities, directs budget development and implementation, and administers IT-related policy adherence. Manages personnel functions for the department, including hiring, employee development, discipline, and personnel transactions, all in coordination with the Human Resources Department and Office of Employee Relations. Provides oversight and status reporting for strategic technology deployments in the City.	21.62	5,552,889
Strategic Support	Information Technology	Technology Infrastructure and Operations	PD09	Cybersecurity Office	Secures City information and systems assets to ensure business value, compliance, and resilience for all departments. Serves as incident response command for cyber disasters. Leads planning, testing, and attesting for City information and systems assurance activities.	5.00	2,992,796
Strategic Support	Information Technology	Technology Infrastructure and Operations	PD06	IT Customer Care	Supports the customer-side use of information and communications technologies by City staff across all departments, including computers and mobile devices. Resolves Help Desk service requests. Supports City employees and contractors in working remotely effectively.	12.08	3,403,237

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Strategic Support	Information Technology	Technology Infrastructure and Operations	PD08	IT Systems and Operations	Administers and supports the underlying data/voice/video network, hardware systems, storage resources, virtualization, and cloud services fabric on which City software, communications, and collaboration solutions are built.	6.67	1,454,306
Strategic Support	Information Technology	Technology Infrastructure and Operations	PD11	Voice and Data Network Infrastructure	Manages city-wide telephone costs, charges/billing, procurement, enterprise voice, and data network infrastructure for quality voice and data communication abilities.	7.00	2,806,304
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	PR03	Access and Borrower Services	Provides materials handling, materials delivery, and customer service at all Library branches and the Dr. Martin Luther King, Jr. Library, including fines and fees collections, check out, check in, hold processing, customer account maintenance, materials maintenance, shelving, and transport of library materials between the 25 library facilities including the Dr. Martin Luther King, Jr. Library, and Mt. Pleasant Neighborhood Library.	243.45	27,843,667
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	PR05	Electronic Resources Implementation and Maintenance	Applies the Library's e-Resources strategy, which includes the production and management of the Library's websites (sjpl.org, events.sjpl.org, and SharePoint), the management of the Library online catalog (sjpl.bibliocommons.org), and the management and curation of the all the Library's electronic resource platforms for eBooks, eMagazines, and databases.	8.86	1,454,148
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	PR04	Library Facilities and Security	Ensures residents have access to safe, welcoming, accessible, well-equipped, and well-maintained facilities; this includes management and implementation of facility improvements, maintenance, and patron security.	1.64	272,163
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	PR06	Main Library Operations	Ensures that Dr. Martin Luther King, Jr. Library remains fully operational and maintained, including ongoing support of the unique joint partnership with San José State University.	-	3,680,420
Neighborhood Services	Library	Access to Information, Library Materials, and Digital Resources	PR07	Materials Acquisition and Processing	Includes the selection, purchase, and processing of all Library materials to reflect the diversity and needs of the community.	15.25	2,224,584
Neighborhood Services	Library	Literacy and Learning, Formal and Lifelong Self-Directed Education	PR01	Early Education and Family Learning	With the Library's system-wide Early Education Strategy and nine branch Family Learning Centers, provides dedicated resources to young children (birth to kindergarten), parents, caregivers, and early educators in order to close opportunity gaps and ensure all children receive a strong start in learning and preparation for successful school experiences.	8.62	1,847,501
Neighborhood Services	Library	Literacy and Learning, Formal and Lifelong Self-Directed Education	PR02	Partners in Reading/Adult Literacy	Provides free one-to-one and small group tutoring, by volunteers, for adults whose reading or writing skills are below the ninth-grade level.	4.50	758,816
Neighborhood Services	Library	Strategic Support	PRE2	Library Capital	Provides support for the delivery of capital improvement projects for City-owned facilities, including recreational facilities, parks, trails, libraries, public safety facilities, transportation infrastructure, and various cultural and municipal facilities.	1.00	351,212
Neighborhood Services	Library	Strategic Support	PRA2	Library Financial Management	Manages the budget, contracts and all financial transactions for the department; assists in annual budget development.	4.00	550,592
Neighborhood Services	Library	Strategic Support	PRB2	Library Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	2.00	345,661
Neighborhood Services	Library	Strategic Support	PRC2	Library Information Technology	Provides information technology services, planning, system development and maintenance for the department in coordination with the Information Technology Department.	8.50	1,441,023
Neighborhood Services	Library	Strategic Support	PRD2	Library Management and Administration	Provides executive-level, analytical and administrative support to the department.	16.06	3,364,549
Neighborhood Services	Library	Strategic Support	PRK2	Library Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	500,000
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB01	City Council Office - District #01	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	311,247
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB02	City Council Office - District #02	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	325,748
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB03	City Council Office - District #03	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	319,772
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB04	City Council Office - District #04	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	298,990
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB05	City Council Office - District #05	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	319,772

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Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB06	City Council Office - District #06	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	333,754
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB07	City Council Office - District #07	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	302,619
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB08	City Council Office - District #08	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	305,047
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB09	City Council Office - District #09	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	327,069
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB10	City Council Office - District #10	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	2.00	291,159
Strategic Support - Appointees	Mayor/City Council	Strategic Support	PB00	Mayor's Office	Represents the residents of San Jose; provides accountability; reviews public policy and programs; and adopts those policies which best meet the needs of the residents, visitors, and businesses in San José.	7.00	1,050,973
Neighborhood Services	Parks, Recreation and Neighborhood Services	Community Services	PQ01	Anti-Graffiti and Anti-Litter	Provides support of litter cleanup and graffiti abatement efforts throughout the City by increasing community engagement and coordinating with neighborhoods, partners, and businesses to address issues of blight.	23.50	4,591,065
Neighborhood Services	Parks, Recreation and Neighborhood Services	Community Services	PQ20	Illegal Dumping and Homeless Encampment Trash Collection and Abatement Services	In partnership with neighborhoods, businesses, and non-profit partners, provides neighborhood and environmental beautification and cleanup services by eliminating blight caused illegal dumping and homeless encampment trash accumulation throughout the City.	46.00	8,289,056
Neighborhood Services	Parks, Recreation and Neighborhood Services	Community Services	PQ08	Youth Gang Prevention and Intervention	Comprised of a broad coalition of local residents, school officials, community and faith-based organizations, local law enforcement representatives and agencies, and, City, County and State government leaders, leverages each group's expertise as part of a coordinated, interagency effort to curb gang related activity.	50.98	10,527,041
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	PQ10	Family Camp	Provides campers with reservable wood-framed canvas tents, a dining hall and food services, recreation programs, a swimming area, and a nature center at an all-inclusive, 51.2-acre campground located in the Sierra Nevada wilderness.	7.84	858,133
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	PQ11	Happy Hollow Park & Zoo	Focuses on conservation, education, animal welfare, and fun by providing animal exhibits and interactive, multi-generational attractions that create connections that inspire a strong sense of community.	99.62	9,237,594
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	PQ13	Neighborhood Parks and Regional Parks	Maintains and operates nearly 200 neighborhood parks and many other civic spaces as well as nine regional parks to provide safe, clean, and green public spaces for the community to live and play.	191.21	34,213,872
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	PQ14	Park Rangers	Protect, preserve, and enhance the natural and cultural resources of the City's parks, trails, and open spaces.	22.02	3,110,580
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	PQ15	Parks Administration	Provides the central management of nearly 200 neighborhood parks and many other civic spaces, including nine regional parks; 61 miles of trails; San José Family Camp; Special Parks Use and facility rentals; City-Wide Sports; the Volunteer Management Unit; Community Gardens; and Happy Hollow Park & Zoo.	12.89	2,761,691
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	PQ16	Sports Fields Maintenance and Reservations	Provides community access to outdoor play and recreation at 83 sports fields in 47 parks; also known as "City-Wide Sports."	21.15	2,632,894
Neighborhood Services	Parks, Recreation and Neighborhood Services	Parks Maintenance and Operations	PQ17	Volunteer, Adopt a Park, and Community Gardens	Includes the Volunteer Corporate Connections and promotes community engagement by working directly with the community members and organizations to supplement park maintenance and keep San José clean and beautiful.	4.79	759,103
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	PQ02	Aquatics	Offers San José residents and surrounding communities access to pools for swim lessons and recreational swim at affordable costs.	12.91	881,192
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	PQ03	Community Center Operations	Offers a multi-service Community Center Hub model in order to improve all residents' health and quality of life through dynamic recreational opportunities and high-quality facilities.	197.89	18,873,300
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	PQ05	Neighborhood Center Partners Program (formerly PRNS Re-Use)	Allows community-based nonprofits, neighborhood associations, school districts, and other government agencies or community service providers to use City-owned facilities in exchange for providing San José residents with low or no-cost services.	18.85	2,593,838
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	PQ04	Park Activation/Placemaking	Repurposes and reimagines underused public space through creative and innovative programming, utilizing the City of San José assets, community inspiration, and resident potential to create public life that promotes health, happiness, and well-being in San José.	13.86	2,561,000

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Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	PQ06	RNS Administration	Oversees and manages recreation programs and facilities that are used to promote play and health; strengthen communities and enrich lives throughout San José in an effort to foster healthier lifestyles; improve quality of living; and connect, inform and engage residents.	5.74	1,534,342
Neighborhood Services	Parks, Recreation and Neighborhood Services	Recreation Services	PQ07	Senior Services	Strives to decrease social isolation, encourage healthy aging, provide nutritional meals, and offer additional resource connections for older adults through wrap-around services provided at City of San José community centers.	2.50	2,431,239
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PQA2	PRNS Financial Management	Manages the budget and all financial transactions for the department; assists in annual budget development.	16.40	2,993,173
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PQB2	PRNS Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	8.73	1,403,814
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PQD2	PRNS Management and Administration	Provides executive-level, analytical and administrative support to the department.	4.73	1,421,851
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PQK2	PRNS Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	244,000
Neighborhood Services	Parks, Recreation and Neighborhood Services	Strategic Support	PQJ2	PRNS Workers' Compensation	Provides state-mandated benefits for employees injured on the job.	-	1,500,000
Community and Economic Development	Planning, Building and Code Enforcement	Citywide Land Use Planning	PO08	Citywide Planning	Guides the physical design and development of San José by maintaining and updating the Envision San José 2040 General Plan; preparing and updating Urban Village Plans, Area Development Policies, and Specific Plans; conducting long range planning studies and participating with local partners on regional planning; updating City ordinances and policies as they relate to land use and development; and conducting data analysis.	12.54	2,587,575
Community and Economic Development	Planning, Building and Code Enforcement	Citywide Land Use Planning	PO09	Planning Administration	Provides administrative support to Planning Development Services for preparation of public hearings and land use entitlement documents.	1.32	478,435
Community and Economic Development	Planning, Building and Code Enforcement	Development Plan Review and Building Construction Inspection	PO05	Building Development Services	Ensures building projects in San José are built to meet City and State standards by providing customer information, supporting small businesses, issuing building permits, conducting plan reviews, and inspecting building projects to ensure compliance with applicable codes and policies.	2.00	324,565
Community and Economic Development	Planning, Building and Code Enforcement	Strategic Support	POL1	PBCE Other Departmental - Grants - Community and Economic Development	Provides oversight and management of federal, State and local grants.	1.00	210,507
Community and Economic Development	Planning, Building and Code Enforcement	Strategic Support - Community and Economic Development	POD1	PBCE Management and Administration	Provides administrative oversight for the department, including executive management, employee services, human resources, grant tracking/reconciliation, contract management and analytical support.	1.79	488,173
Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	PO01	Code Enforcement Administration	Provides management and oversight to the Code Enforcement Division along with administrative and analytical support, budget preparation, billing, and monitoring.	2.62	439,970
Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	PO02	Community Code Enforcement	Ensures the health and safety and quality of life for San José residents and businesses by enforcing the municipal code and land use requirements.	31.95	5,776,074
Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	PO03	Multiple Housing Code Enforcement	Ensures multi-family buildings are maintained in safe, decent, and sanitary conditions by conducting proactive, routine, and complaint-based inspections under the Multiple Housing Residential Occupancy Permit Program.	23.50	4,395,675
Neighborhood Services	Planning, Building and Code Enforcement	Code Enforcement	PO04	Solid Waste Code Enforcement	Regulates and inspects solid waste facilities to ensure that each permitted facility is in full compliance with federal, state, and local regulations governing health and operational standards.	6.95	1,320,825
Neighborhood Services	Planning, Building and Code Enforcement	Strategic Support - Neighborhood Services	POD2	PBCE Management and Administration	Provides administrative oversight for the department, including executive management, employee services, human resources, grant tracking/reconciliation, contract management and analytical support.	4.07	677,308
Public Safety	Police	Crime Prevention and Community Education	PJ01	Crime Prevention	Provides community-oriented policing, community education programs, and problem-solving support for the Police Department and the community.	13.00	2,048,165
Public Safety	Police	Crime Prevention and Community Education	PJ03	School Liaison/Tuancency Abatement	Develops and maintains positive communications and relationships between the Police Department and the school districts within the city; supports truancy abatement services.	6.00	2,105,220
Public Safety	Police	Crime Prevention and Community Education	PJ04	School Safety	Provides for the safety of school age children as they travel to and from school.	49.67	2,683,967
Public Safety	Police	Investigative Services	PJ07	Assaults	Investigates assault cases, hate crimes, criminal threats, and brandishing weapons cases.	15.00	3,959,706
Public Safety	Police	Investigative Services	PJ16	Court Liaison	Liaisons with the District Attorney's Office, seeks and processes criminal citations, and coordinates witnesses.	12.00	1,938,971
Public Safety	Police	Investigative Services	PJ05	Crime Analysis	Identifies crime trends and crime patterns through analysis of crime data.	18.00	2,984,619
Public Safety	Police	Investigative Services	PJ08	Family Violence	Uses a collaborative approach to provide a secure, comfortable and convenient location for victims of family violence in order to facilitate the investigation of their cases and seek the services necessary to ensure their continued safety and well-being.	22.00	6,559,655

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Public Safety	Police	Investigative Services	PJ15	Financial Crimes/Burglary	Provides police services to the community by providing investigations of economic crimes.	22.00	5,872,084
Public Safety	Police	Investigative Services	PJ09	Gang Investigations	Investigates gang-related crimes committed by members of criminal street gangs.	21.00	5,768,560
Public Safety	Police	Investigative Services	PJ10	Homicide/Crime Scene	Provides for the investigation of all homicides, suspicious deaths, child deaths, in-custody deaths, and officer involved fatal incidents.	34.00	10,172,069
Public Safety	Police	Investigative Services	PJ20	Internal Affairs	Responsible for receiving, documenting, and investigating all citizen complaints, as well as Department-initiated investigations involving Department members.	18.00	5,851,129
Public Safety	Police	Investigative Services	PJ12	Investigations Administration	Provides leadership and management for investigative services.	27.00	11,898,509
Public Safety	Police	Investigative Services	PJ11	Juvenile/Missing Persons	Responsible for investigating a wide variety of cases involving juvenile offenders and for locating persons who are formally reported as missing from within the city.	5.50	1,426,218
Public Safety	Police	Investigative Services	PJ19	Robbery	Conducts investigations of robberies, extortions, kidnappings, grand theft "purse snatch" cases, and other robbery-related crimes.	14.00	4,313,167
Public Safety	Police	Investigative Services	PJ13	Sexual Assaults	Investigates sex offenses reported in the city.	56.00	16,539,120
Public Safety	Police	Investigative Services	PJ21	Special Investigations	Collects, analyzes, and disseminates information on the criminal activities of organized crime groups, emerging criminal groups, public disorder and terrorist groups, and threats to public officials or private citizens.	53.00	15,309,211
Public Safety	Police	Regulatory Services	PJ24	Cannabis Regulation	Maintains regulatory oversight for cannabis collectives including site inspections, background investigations on collective's employees, investigation of Municipal Code violations, and conducting analysis of criminal activity related to cannabis operations.	6.00	1,467,069
Public Safety	Police	Regulatory Services	PJ23	Gaming Control	Maintains regulatory oversight for cardrooms including site inspections, background investigations on cardroom's employees, investigation of Municipal Code violations, and conducting analysis of criminal activity relating to cardroom operations.	7.00	1,567,712
Public Safety	Police	Regulatory Services	PJ25	Permits	Maintains regulatory oversight for business permits such as taxi companies, tow companies, massage parlors, entertainment venues, gaming establishments, bingo parlors, and peddlers in accordance with the Municipal Code.	10.00	1,985,483
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ27	9-1-1 Call Taking & Police Dispatch	Serve as the vital link between public safety and those who need assistance by answering and dispatching emergency and non-emergency calls in a timely, precise, and skilled manner.	163.80	29,975,936
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ30	Air Support	Provides aerial support for police ground units on matters relating to public and officer safety.	7.00	2,698,151
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ37	Airport Division	Provides basic police services as well as coordinates with partners to enforce the Airport Security Plan and ensure compliance with all FAA and TSA security directives, existing regulations, and emergency amendments at Norman Y. Mineta San José International Airport.	11.00	4,112,437
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ31	Downtown Services	Manages policing activities for events associated with the Downtown Entertainment Zone, including regulatory enforcement of the City's Entertainment and Conditional Use Permits at nightclubs and bars, enforcement of Alcoholic Beverage Control violations, cruise management traffic diversion, and patrol checks at parking garages in the Entertainment Zone.	7.00	2,113,149
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ29	Field Operations Administration	Provides leadership and management for field operations.	22.00	4,682,468
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ28	Field Patrol	Performs continuous patrol and response to calls for service to ensure immediate public safety.	767.00	220,328,666
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ33	Metro	Performs a variety of functions, including street level narcotics enforcement, prostitution enforcement, tactical support for the MERGE Unit, augmenting the VCET Unit during upticks in violent gang crime, and various special assignments as needed.	29.00	8,776,718
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ34	Reserves/Volunteers	Manages volunteers who assist the Department for relief, special functions and community events.	5.00	1,317,680
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ32	Special Operations	Responds to high-risk incidents, including hostage/barricade situations, with specially trained and equipped staff.	54.00	17,115,210
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ35	Traffic Enforcement	Enforces traffic laws in order to reduce traffic collisions, their resulting injuries, and facilitates the safe and expedient flow of vehicular and pedestrian traffic.	30.00	9,031,764
Public Safety	Police	Respond to Calls for Service and Patrol Support	PJ36	Violent Crimes Enforcement	With a highly skilled and trained team, provides enforcement of crimes associated with violence related to criminal gang activity in an effort to reduce and prevent youth crime and violence.	16.00	4,237,581
Public Safety	Police	Strategic Support	PJD5	Police Department Management and Administration	Provides executive-level, analytical and administrative support to the department.	11.00	7,323,124
Public Safety	Police	Strategic Support	PJA5	Police Financial Management	Manages the budget and all financial transactions for the department; assists in annual budget development.	15.00	2,759,299

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CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Public Safety	Police	Strategic Support	PJB5	Police Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	28.00	7,704,501
Public Safety	Police	Strategic Support	PJC5	Police Information Technology	Provides information technology services, planning, system development and maintenance for the department in coordination with the Information Technology Department.	23.00	8,674,835
Public Safety	Police	Strategic Support	PJK5	Police Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	7,500
Public Safety	Police	Strategic Support	PJQ5	Police Records	Manages and maintains local, state and federal databases in order to assist in the identification, apprehension and prosecution of criminal offenders, and to ensure officer and public safety.	80.50	10,595,828
Public Safety	Police	Strategic Support	PJP5	Police Research and Development	Performs research and preparation of complex reports and projects involving inter-departmental issues and intergovernmental topics as well as coordinates release of information in accordance with the California Public Records Act.	17.00	3,568,825
Public Safety	Police	Strategic Support	PJR5	Police Training and Academy	Delivers constantly updated training programs that support the Department's commitment to excellence, reflecting the highest professional standards in managerial, operational, and personal performance.	40.00	13,040,118
Public Safety	Police	Strategic Support	PJJ5	Police Workers' Compensation	Provides state-mandated benefits for employees injured on the job.	-	9,000,000
Community and Economic Development	Public Works	Regulate / Facilitate Private Development	PN01	Public Works Development Services	Provides support to ensure new development projects comply with applicable regulations and provide the necessary public infrastructure including, but not limited to: streets, sidewalks, storm and sanitary sewers, streetlights, landscaping in frontages and street islands, and traffic signals.	6.32	1,252,650
Community and Economic Development	Public Works	Strategic Support	PNK1	Public Works Other Departmental - City-Wide - Community and Economic Development	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	593,319
Neighborhood Services	Public Works	Animal Care and Services	PN06	Animal Licensing and Customer Services	Provides licensing, adoption and customer service support, such as spay and neuter, quarantine, and owner surrender for customers at the Animal Services Center.	54.57	7,380,963
Neighborhood Services	Public Works	Animal Care and Services	PN05	Animal Services Field Operations	Provides field services to ensure the health, safety and welfare of animals and people in the City.	24.00	3,455,268
Neighborhood Services	Public Works	Strategic Support	PND2	Public Works Management and Administration - Neighborhood Services	Provides administrative oversight for the department, including executive management, financial management, human resources, and analytical support.	2.50	954,881
Neighborhood Services	Public Works	Strategic Support	PNK2	Public Works Other Departmental - City-Wide - Neighborhood Services	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	6.00	-
Strategic Support	Public Works	Facilities Management	PN07	City Facilities Repairs and Minor Capital Improvements	Addresses City facility needs, including tracking and conducting repairs and minor capital improvements, managing improvement and remodel projects, performing building system repairs and improvements, and maintaining the work order database.	2.50	724,778
Strategic Support	Public Works	Facilities Management	PN09	Facility Maintenance and Operations – City Hall	Provides maintenance, event services and security for City Hall; maintenance includes programmed preventive maintenance and corrective maintenance.	28.00	8,974,552
Strategic Support	Public Works	Facilities Management	PN10	Facility Maintenance and Operations – Non City Hall	Provides maintenance for City-owned facilities (not City Hall), including programmed preventive maintenance and corrective maintenance through requests and building assessments, and repairs in areas such as locksmith work, carpentry, electrical, HVAC, painting, and plumbing.	34.85	17,556,024
Strategic Support	Public Works	Fleet and Equipment Services	PN13	Radio Communication	Provides reliable, necessary public and non-public safety-related communications equipment, maintains existing radio equipment and ensures optimal functionality, strategically plans for future upgrades and technology changes while supporting the Silicon Valley Regional Interoperability Authority.	6.25	1,264,022
Strategic Support	Public Works	Plan, Design, and Construct Public Facilities and Infrastructure	PN03	City Facilities Engineering and Inspection Services	Provides engineering and surveying services to determine roadway pavement sections and develop topographic map; provides quality assurance during construction to ensure compliance with the contract documents, the California Building Standard Code, and industry standards of care.	1.13	212,686
Strategic Support	Public Works	Plan, Design, and Construct Public Facilities and Infrastructure	PN04	Transportation, Sanitary and Storm Sewer Capital	Supports the design and construction of right-of-way capital infrastructure projects, general engineering plan review for regional projects, and electrical engineering review for projects constructed by private developers.	-	38,000
Strategic Support	Public Works	Strategic Support	PNE7	Public Works Capital - Strategic Support	Provides support for the delivery of capital improvement projects for City-owned facilities, including recreational facilities, parks, trails, libraries, public safety facilities, transportation infrastructure, and various cultural and municipal facilities.	4.75	1,882,000
Strategic Support	Public Works	Strategic Support	PNC7	Public Works Information Technology - Strategic Support	Provides administrative oversight for the department's technology needs.	2.80	491,607
Strategic Support	Public Works	Strategic Support	PND7	Public Works Management and Administration	Provides administrative oversight for the department, including executive management, financial management, information technology support, human resources, and analytical support.	11.55	3,127,307

City Budget Program Guide
2023-2024 Base Operating Budget

CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Strategic Support	Public Works	Strategic Support	PNK7	Public Works Other Departmental - City-Wide - Strategic Support	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	1.00	2,121,691
Strategic Support	Public Works	Strategic Support	PNJ7	Public Works Workers' Compensation - Strategic Support	Provides state-mandated benefits for employees injured on the job.	-	350,000
Strategic Support - Appointees	Retirement Services	Retirement Plan Administration	PT01	Retirement Benefits	Provides retirement planning and counseling services to plan members and administers health care and other benefits for retirees and beneficiaries.	-	85,000
Strategic Support - Appointees	Retirement Services	Strategic Support	PTK6	Retirement Services Other Departmental - City-Wide	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	30,000
Environmental and Utility Services	Transportation	Storm Sewer Maintenance	PK18	Storm Sewer Operation and Maintenance	Provides maintenance and engineering services for the City's 1,250+ mile storm sewer system and interdepartmental coordination on water quality issues and storm response.	-	116,936
Environmental and Utility Services	Transportation	Storm Sewer Maintenance	PK19	Street Sweeping	Provides in-house street sweeping on the City's streets; inspects street sweeping and performs related parking enforcement.	-	1,483
Transportation and Aviation Services	Transportation	Parking Services	PK03	Off-Street Parking	Manages the City's public parking facilities including planning, maintenance, security, and operations of parking facilities, and implementation of the annual capital improvement program.	0.10	165,248
Transportation and Aviation Services	Transportation	Parking Services	PK04	On-Street Downtown Operations	Provides transportation planning and operations support for special events in the Downtown area and City-wide, including developing and implementing event transportation and parking management plans.	3.20	664,043
Transportation and Aviation Services	Transportation	Parking Services	PK05	On-Street Parking	Provides on-street parking compliance services Downtown, in metered zones, around school zones, and in neighborhoods with posted residential permit parking requirements; revenue collection for parking fees and fines; and meter maintenance.	50.39	10,347,849
Transportation and Aviation Services	Transportation	Pavement Maintenance	PK06	Corrective Pavement Repair	Responds to urgent service requests and complaints to repair potholes and other minor damage to the pavement network.	1.90	280,214
Transportation and Aviation Services	Transportation	Pavement Maintenance	PK07	Pavement Maintenance Administration and Capital Project Delivery	Assesses and manages the City's 2,400+ mile pavement network, including planning and delivering the annual pavement maintenance projects, managing and developing the capital pavement budget, installing ADA curb ramps and maintaining the City's bridges.	-	6,500
Transportation and Aviation Services	Transportation	Strategic Support	PKA3	Transportation Financial Management	Manages the budget and all financial transactions for the department; assists in annual budget development.	3.30	615,013
Transportation and Aviation Services	Transportation	Strategic Support	PKJ3	Transportation Workers' Compensation - Transportation and Aviation	Provides state-mandated benefits for employees injured on the job.	-	500,000
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	PKB3	Transportation Human Resources	Manages personnel-related functions for the department, including hiring (in coordination with the Human Resources Department), employee development, employee discipline (in coordination with the Office of Employee Relations), and personnel transactions.	1.75	335,078
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	PKC3	Transportation Information Technology	Provides information technology services, planning, system development and maintenance for the department in coordination with the Information Technology Department.	0.40	530,837
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	PKD3	Transportation Management and Administration	Provides executive-level, analytical and administrative support to the department. Performs community outreach, marketing, and media relations to advance priorities.	1.80	643,146
Transportation and Aviation Services	Transportation	Strategic Support - Transportation and Aviation	PKK3	Transportation Other Departmental - City-Wide - Transportation and Aviation	Administers and supports city-wide expenses that relates to more than one department or are not directly associated with ongoing departmental operations.	-	513,000
Transportation and Aviation Services	Transportation	Street Landscape Maintenance	PK02	Streetscape Services	Provides in-house and contractual landscape maintenance on City-owned median islands and frontage properties, tree and sidewalk inspections and repair, special event support, and roadway illegal dumping response for street and traffic safety.	32.87	13,441,030
Transportation and Aviation Services	Transportation	Traffic Maintenance	PK08	Traffic Signal Maintenance	Performs maintenance and repairs on the City's 950+ traffic signals, maintains communications between traffic infrastructure and the centralized traffic management system, and performs special project work for traffic signal infrastructure upgrades in addition to funding utility costs for signals city-wide.	9.20	3,733,153
Transportation and Aviation Services	Transportation	Traffic Maintenance	PK09	Traffic Signs and Markings Maintenance	Performs preventive and corrective maintenance on traffic signs and roadway markings and performs banner installations; installs and repairs traffic safety and traffic calming improvements.	13.50	2,877,109
Transportation and Aviation Services	Transportation	Traffic Maintenance	PK10	Traffic Streetlights Maintenance	Performs maintenance and repairs on the City's 64,400+ streetlights in addition to funding utility costs for streetlights city-wide.	7.45	8,697,210
Transportation and Aviation Services	Transportation	Transportation Planning and Project Delivery	PK14	Transportation Capital Project Delivery	Manages the development of major local street improvement and regional transit and highway projects throughout the City including grant management, policy review, General Plan analysis, CEQA review, engineering and design, roadway geometric design, and construction.	0.81	186,065
Transportation and Aviation Services	Transportation	Transportation Planning and Project Delivery	PK15	Transportation Multi-Modal Alternatives	Performs planning, engineering, and project delivery for all transportation modes (pedestrians, bicycle, transit, and carpool) to increase multi-modal travel as described in the transportation element of the General Plan.	1.00	201,325

City Budget Program Guide
2023-2024 Base Operating Budget

CSA	Department	Core Service	Program Code	Budget Program	Budget Program Description	FTE	General Fund Budget *
Transportation and Aviation Services	Transportation	Transportation Planning and Project Delivery	PK16	Transportation Planning and Policy	Manages the transportation elements of the General Plan, coordinates transportation and land use planning studies, manages issues related to private development, analyzes the performance of the transportation system, supports policy and technical committees for regional transportation organizations, and reviews and advocates for transportation legislation serving San José interests.	3.00	560,949
Transportation and Aviation Services	Transportation	Transportation Safety and Operations	PK11	Neighborhood Traffic	Responds to an average of 1,300 traffic safety service requests annually. Services include traffic studies which result in changes to roadway signage, pavement striping, and/or pavement markings. Reviews parking requests to support residential and business needs to achieve economic and mobility goals.	9.40	2,002,150
Transportation and Aviation Services	Transportation	Transportation Safety and Operations	PK12	Traffic Safety	Constructs traffic safety improvement projects for pedestrian safety and traffic calming. Provides traffic safety education to children, adults, and older adults. Implements the Vision Zero Action Plan to build a culture of safety through community outreach and engagement, data analytics, quick build data-driven safety improvements and prioritizing resources on high corridors and districts with high fatal and severe injury crashes.	1.30	203,992
Transportation and Aviation Services	Transportation	Transportation Safety and Operations	PK13	Traffic Signals and Systems Management	Operates the City's 950+ traffic signal system using the Traffic Management Center, manages associated traffic systems (communication and video network) to reduce travel delays and congestion, and plans and improves the traffic signal system.	4.05	1,008,902

* General Fund Base Budget amounts exclude Transfers to Other Funds and Reserves. Budget program totals are subject to change due to pending realignments to more accurately reflect current service levels.

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APPENDIX D

Development Activity Trends and Five-Year Forecast (2024-2028)

Prepared by the Department of Planning, Building and Code
Enforcement

DEVELOPMENT ACTIVITY TRENDS AND FIVE-YEAR FORECAST (2024-2028)



CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

*Planning, Building and
Code Enforcement*

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Development Activity Trends & Five-Year Forecast (2024-2028)

Prepared by

City of San José
Department of Planning, Building and Code Enforcement
Planning Division
General Plan and Analytics Team
200 East Santa Clara Street
San José, CA 95113
(408) 535-3555
GeneralPlanStaff@sanjoseca.gov

Date: February 22, 2023

*This report can be found
on the Planning Division website at:
<http://bit.ly/3S0WNjx>*

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I. PURPOSE

The *Development Activity Trends and Five-Year Forecast (2024-2028)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves three important functions, as follows:

1. Assists the Office of the City Manager in estimating future construction-related tax¹ revenues that generate funds for the City's Capital Improvement Program;
2. Provides City policymakers and staff with key data for periodic assessment of the rate, type, and location of development activity in San José; and
3. Distributes information on major development projects to the public.

II. SUMMARY

The City of San José experienced a decline in the valuation of new construction permits issued in the fiscal year 2021/2022, particularly within the commercial sector. The reasons for this decline likely include the impact of COVID-19-related supply-chain disruption, construction cost increases, and a more measured approach to capital investment decisions due to uncertainty about the future of workspace needs. In addition, the valuation of residential construction permits also experienced a decrease in all three types of residential building permits, including single-family/duplex units, accessory dwelling units, and multi-family units.

The total number of residential permits issued decreased slightly in the fiscal year 2021/2022. Though the total number of residential units permitted has been relatively stable over the last few years, the mix of residential units has changed considerably, with a significant decrease in single-family permits and an increase in accessory dwelling units.

The commercial new construction activity decreased significantly in the fiscal year 2021/2022. In contrast, commercial alterations activity increased significantly. Industrial new construction activity also decreased significantly in the fiscal year 2021/2022.

The five-year forecast predicts that for the next few years the total permit valuation of building permits will remain lower than the City's average permit valuation of the last few years due to uncertainty around the office and capital markets. However, the Silicon Valley innovation ecosystem will likely drive commercial and industrial construction recovery. Single-family unit production is expected to stay lower than the average, while accessory dwelling unit (ADU) production is anticipated to grow. Multi-family unit production is expected to increase in the fiscal year 2024/2025. New construction square footage for commercial and industrial development is expected to remain lower than average for several years but is expected to increase in the fiscal year 2024/2025 and

¹ See Section IV for details of constructions taxes in San José.

thereafter. The square footage for alteration in both commercial and industrial development is likely to decrease as new construction development increases.

III. PERMIT ACTIVITY TRENDS

Table 1 below shows the construction valuation of the projects for which building permits were issued in San José in the past five fiscal years. Fiscal year 2021/2022 saw a significant drop-off in the valuation of new construction, particularly within the commercial building sector, which includes retail and office, and the industrial sector. This followed a period of relative stability at a high level of construction valuation overall in the four years prior. The reasons for this decline are varied but include the impact of COVID-19-related supply-chain disruption, construction cost increases, and a more measured approach to capital investment decisions due to uncertainty about the future of workspace needs.

Table 1 - Construction Valuation of Building Permits Issued: FY 17/18 to FY 21/22

Fiscal Year	17/18	18/19	19/20	20/21	21/22
Actual Valuation¹ (in millions)					
<u>New Construction</u>					
Residential	\$597	\$488	\$252	\$290	\$212
Commercial	\$439	\$395	\$609	\$888	\$263
Industrial	\$261	\$166	\$424	\$271	\$27
Subtotal	\$1298	\$1049	\$1286	\$1449	\$502
<u>Alterations</u>					
Residential	\$126	\$147	\$135	\$119	\$155
Commercial	\$269	\$311	\$251	\$295	\$559
Industrial	\$224	\$442	\$291	\$135	\$299
Subtotal	\$619	\$900	\$677	\$549	\$1013
Total	\$1916	\$1949	\$1962	\$1998	\$1515

¹Valuation figures adjusted to 2022 dollars, per U.S. Bureau of Labor Statistics Consumer Price Index (San Francisco-Oakland-Hayward, all items index) except for fiscal year 21/22.

Table 2 below shows residential building permits issued for the past five fiscal years. Overall residential unit production sharply decreased in fiscal year 2019/2020 from pre-Covid fiscal years' levels but has remained relatively stable at this lower level of production since then.

**Table 2 - Residential Units
 Permitted: FY 17/18 to FY21/22**

Fiscal Year	17/18	18/19	19/20	20/21	21/22
<u>Actual Residential Units¹</u>					
Single-Family/Duplex	97	199	109	113	68
ADU	153	296	392	464	540
Multi-Family	2,991	2,387	1,453	1,398	1,279
Total	3,241	2,882	1,954	1,975	1,887

¹Data on residential units based on the Building Division's *Permit Activity Report*.

Overall square footage of the commercial and industrial projects for which building permits were issued in San José decreased slightly in fiscal year 2019/2020 from pre-Covid levels and continued to decrease slightly in fiscal year 2021/2022. This was mostly driven by declines on the new-construction side of the ledger; alterations remained strong as developers and tenants readied their buildings for new uses and workplace strategies.

**Table 3 - Non-Residential Square
 Footage Permitted: FY17/18 to FY21/22**

Fiscal Year	17/18	18/19	19/20	20/21	21/22
<u>Actual Square Footage¹ (In thousands)</u>					
<u>New Construction</u>					
Commercial	3,235	2,397	3,982	4,118	1,377
Industrial	1,584	1,055	754	875	247
Subtotal	4,820	3,452	4,736	4,993	1,624
<u>Alterations</u>					
Commercial	2,818	2,676	2,140	1,821	2,332
Industrial	1,646	2,253	2,377	806	2,985
Subtotal	4,464	4,929	4,517	2,627	5,317
Total	9,284	8,381	9,253	7,620	6,941

¹Non-residential square footage data based on the Building Division's *Permit Activity Report*.

Residential Construction Permit Activity

The residential construction category includes three types of development: single-family and duplex units, accessory dwelling units (ADUs), and multi-family units. Although permit totals for single-family and duplex units are combined, this category is almost completely single-family units. Within each category, valuation trends are analyzed by permits for new construction, and additions/alteration separately.

New Construction

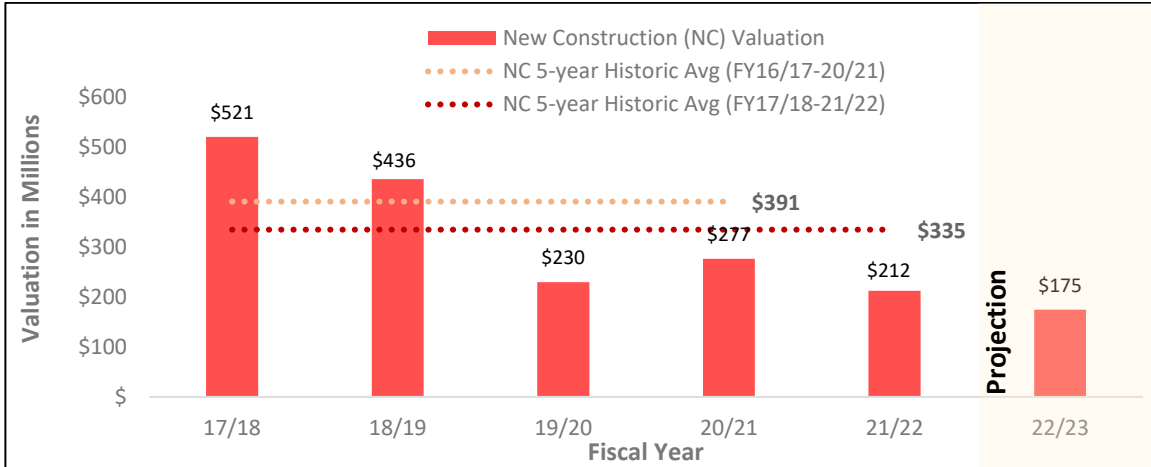


Figure 1 - Residential New Construction Valuation, Fiscal Year 2017/2018 to 2022/2023

The combined valuation of all three types of residential building permits for new construction decreased slightly in the fiscal year 2021/2022 to \$212 million, compared to the previous fiscal year of \$290 million (see Figure 1). This is a decrease of 27% from the previous year and is 51% below the 5-year (FY16/17-20/21) historical average of \$439 million. Valuation of residential construction has remained at this lower level since the start of the Covid-19 pandemic. In the first six months of the fiscal year 2022/2023, valuation of residential construction is trending significantly lower than the same time period of the previous fiscal year. Based on the current pipeline and construction trends, staff anticipates a combined valuation of \$175 million for all residential new construction for the fiscal year 2022/2023. This would represent a 17% decrease from the previous fiscal year and 60% below the five-year (FY17/18-21/22) historical average of \$367 million. This is in line with a slight decrease in residential valuation each year since fiscal year 2019/2020.

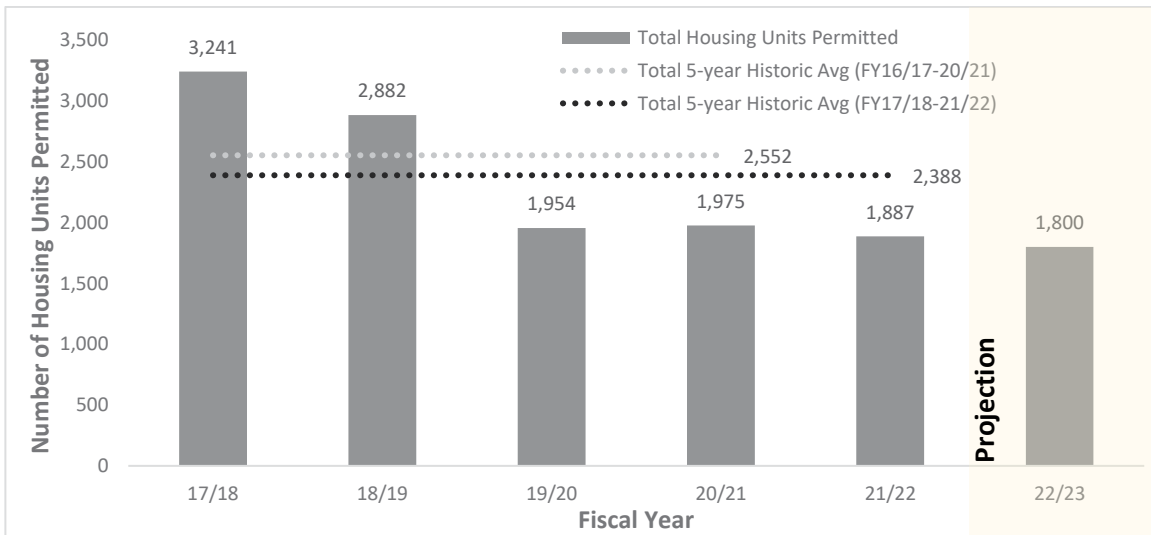


Figure 2 - Residential Units Permitted, Fiscal year 2017/2018 to 2022/2023

The combined totals of all three types of residential permits issued decreased slightly in the fiscal year 2021/2022 to 1,887 units compared to the previous fiscal year with 1,975 units (see figure 2). This is a decrease of 4% from the prior year and is 26% below the five-year (FY16/17-20/21) historical average of 2,552 units. Residential permit totals dropped significantly at the start of the Covid-19 pandemic in fiscal year 2019/2020 but have remained stable at this level since then. In the first six months of this fiscal year, residential permit totals are trending similarly to the previous fiscal year. Staff anticipates combined residential permit total for the fiscal year 2022/2023 at 1,800 units. This is a 6% decrease from the previous fiscal year and 24% below the five-year (FY17/18-21/22) historical average of 2,388 units.

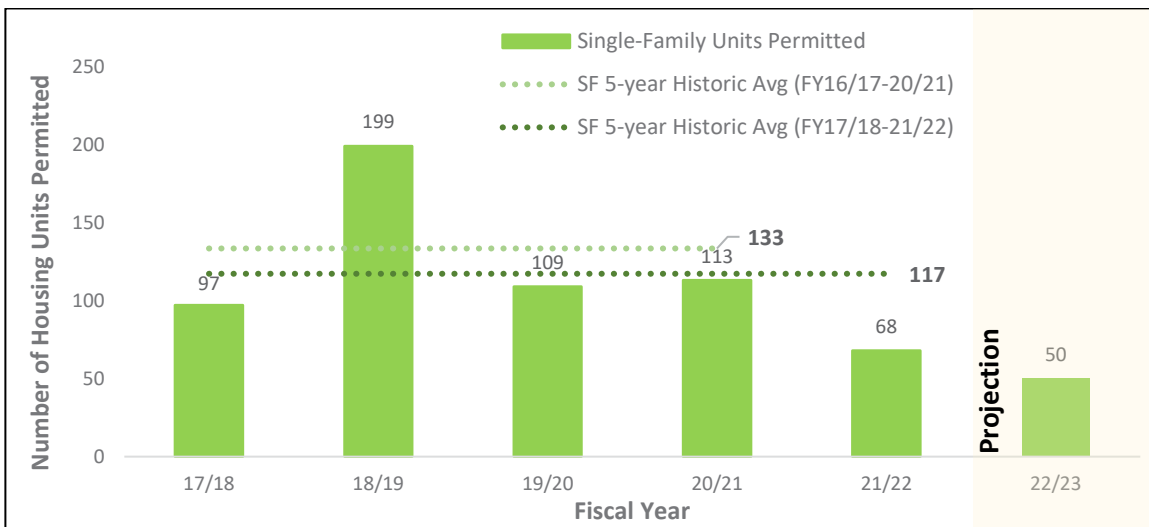


Figure 3 - Single-family Permitted Units, Fiscal Year 2017/2018 to 2022/2023

Though the total number of residential units permitted has been relatively stable over the last few years, the mix of residential units has changed considerably during this time. Single-family/duplex permits significantly decreased in fiscal year 2021/2022, with permits issued for 68 units compared to 113 units in the previous fiscal year (see figure 3). This is a 60% decrease from the previous fiscal year and is 49% below the 5-year (FY16/17-20-21) historical average of 133 units. While single-family/duplex permits slightly increased in the fiscal year 2020/2021 with 113 units compared to 109 units in the previous year, units significantly decreased in the fiscal year 2019/2020 with 109 units compared to 199 units in the previous fiscal year. These numbers show an overall downward trend for single-family/duplex units, which is not unexpected given the City's overall shift away from single-family development typology toward a more dense approach in line with the Envision 2040 General Plan. In the first six months of the fiscal year 2022/2023, only three single-family/duplex permits were issued which puts it on track for significantly lower units for the full fiscal year. Based on these trends, seasonal variation in permitting activity during last few years and considering the pipeline permits in January of 2023, staff anticipates single-family/duplex permits issued for fiscal year 2022/2023 at 50 units. This is a 26% decrease from the previous fiscal year and 57% below the 5-year (FY17/18-21/22) historical average of 117 units.

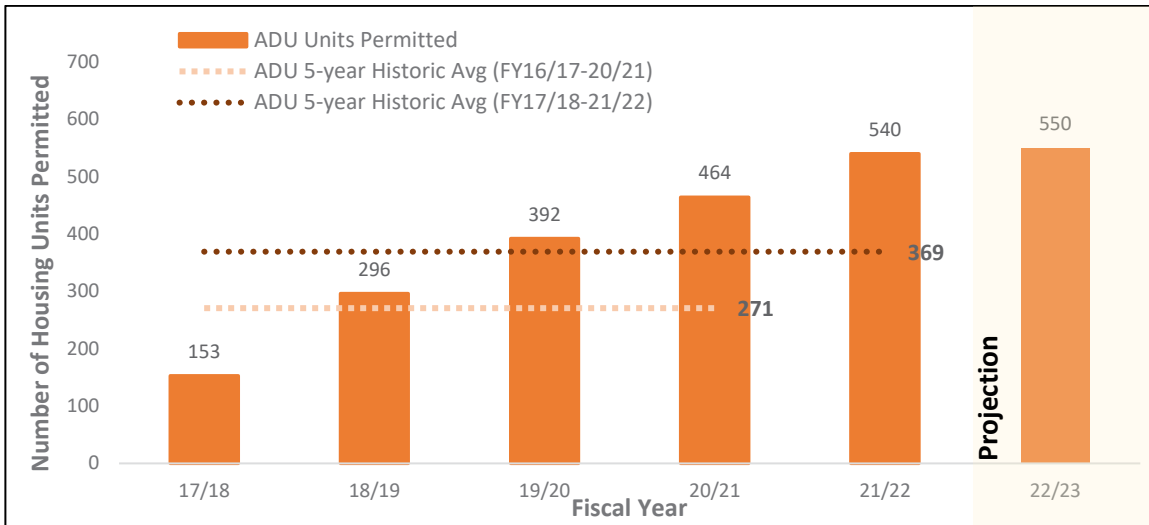


Figure 4 - Accessory Dwelling Units Permitted, Fiscal Year 2017/2018 to 2022/2023

While the number of single-family permits declined, permit activity for accessory dwelling units (ADUs) significantly increased in fiscal year 2021/2022, with 540 permits issued compared to 464 permits issued in the previous fiscal year (see Figure 4). This is an increase of 16% from the previous fiscal year and is significantly above the five-year (FY16/17-20/21) historical average of 271 units. Unlike many other types of new construction, ADU permitting data shows a continuous upward trend from fiscal year 2016/2017 onwards. In the first six months of the fiscal year 2022/2023, data for ADU permits issued is trending similarly to the previous year. Therefore, staff anticipates the number of ADU units permitted for fiscal year 2022/2023 at 550. This is an increase of 2% over the prior year and is 49% higher than the five-year (FY17/18-21/22) historical average of 369 units.

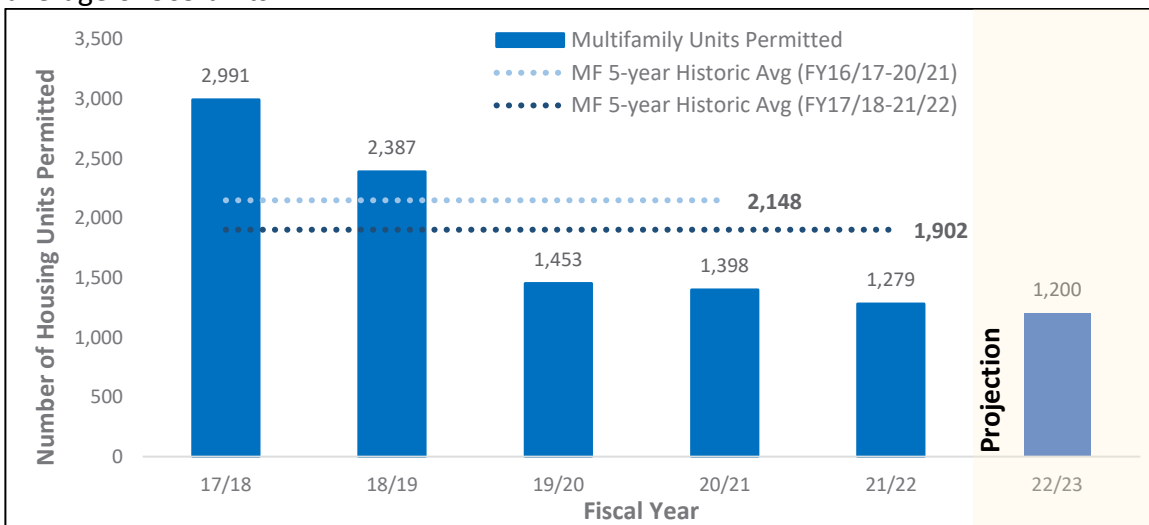


Figure 5 - Multi-family Units Permitted, Fiscal Year 2017/2018 to 2022/2023

The number of permits issued for multi-family units has remained relatively stable over the last three fiscal years after a significant decrease in fiscal year 2019/2020. In

2021/2022, the City permitted 1,279 units compared to 1,398 units (see figure 5) the previous year. This is a decrease of 9%, and it is 40% below the five-year (FY16/17-20/21) historical average of 2,148 units. In the first six months of the fiscal year 2022/2023, multi-family unit permit numbers are trending similarly to the previous fiscal year. Staff anticipates number of permits issued for multi-family units during the fiscal year 2022/2023 is 1,200 units. This is a 6% decrease from the previous fiscal year and 40% below the five-year (FY17/18-21/22) historical average of 1,902 units. This trend is comparable to that of the last few years, with multi-family permits issued decreasing slightly year over year and well below the five-year historical average.

Alterations

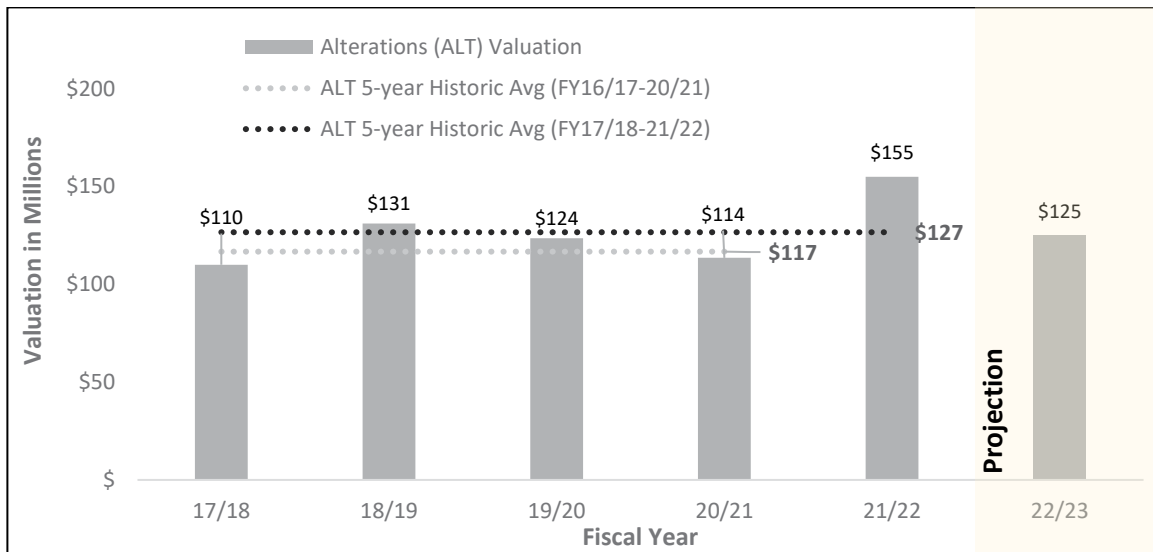


Figure 6 - Residential Alteration Valuation, Fiscal Year 2017/2018 to 2022/2023

Residential alteration category includes additions and alterations of all residential types. The valuation of all permits issued for residential alterations has remained relatively stable for the last five years and seems to be mostly unaffected by the Covid-19 pandemic. The valuation of residential alterations increased in fiscal year 2021/2022 to \$155 million compared to \$119 million in the previous fiscal year (see figure 6). This is a 30% increase and 19% above the five-year (FY16/17-20/21) historical average of \$130 million. In the first six months of fiscal year 2022/2023, residential alteration valuation is trending slightly less than the previous fiscal year. Staff anticipates valuation of residential alterations for fiscal year 2022/2023 will be \$125 million. This is a decrease of 19% from the previous fiscal year and 8% below the five-year (FY17/18-21/22) historical average of \$136 million. While this is lower than the previous fiscal year, this is in line with the relatively stable range of valuations over the last five fiscal years.

Multi-family Residential Rents in San José

Following years of steady increases since 2010, San José residential rents had declined during the start of the COVID-19 pandemic; however, in more recent quarters the City’s rents have returned to positive growth. According to Matrix Multifamily San José Report

of Fall 2021, in 2021, the average effective rents rose to 9.4% to \$2,515 while the average vacancy rate in San José declined from 8.7% in 2020 to 6.1% in 2021.

According to CoStar's fourth quarter 2022 report, metro-wide average asking rent in San José metro area increased by approximately 10% year-over-year, reaching \$2,902/month on average. The metro-wide rent is slightly higher than rent in San José. As of fourth quarter of 2022, the average rent per square foot for multifamily properties in San José was \$3.40, according to the same report. The high demand for rental housing in San José, driven by the city's thriving tech industry and strong job growth, has contributed to the rising rents. Additionally, the vacancy rate decreased to 4.6%, down from 5.1% the previous year.

The increase in average rent and decrease in vacancy is a positive indicator for demand for residential development in San José, however, for many Bay Area communities as well as in San José, rents and housing costs are still unaffordable. Based on the City of San José's Housing Market Update Quarter 3, the median income required for renters to afford the average effective monthly rent for a 2-bedroom apartment is \$58 per hour (\$120,640/year) and buyers must earn \$160 per hour (\$333,494/year) to afford a median-priced single-family home.

Commercial Construction Permit Activity

The commercial construction category includes offices and all other commercial types that are not considered industrial, such as hotels and retail spaces.

New construction

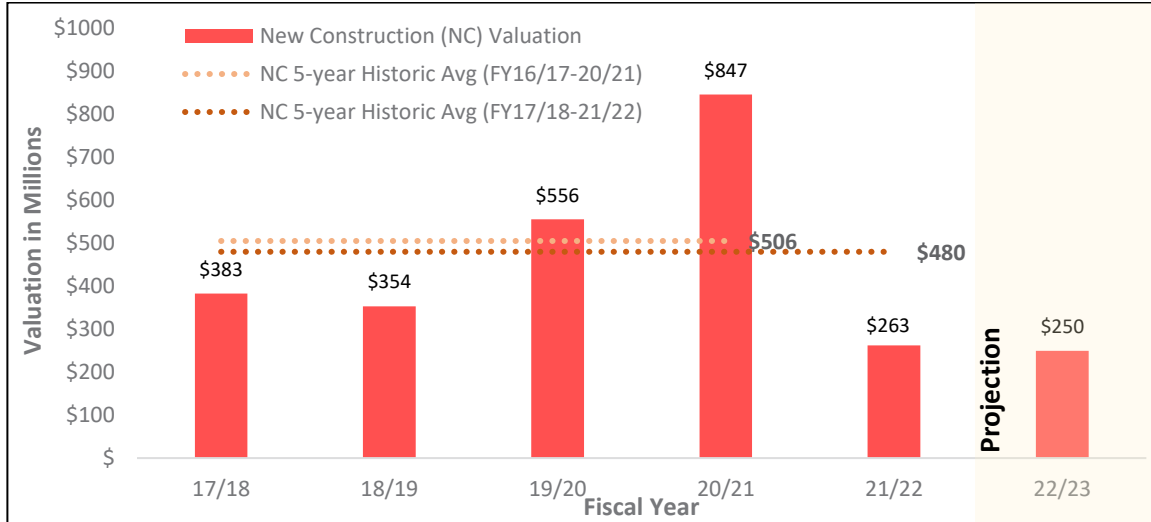


Figure 7 - Commercial New Construction Valuation, Fiscal Year 2017/2018 to 2022/2023

The valuation of building permits for new construction of commercial projects significantly decreased in fiscal year 2021/2022 to \$263 million compared to the previous fiscal year of \$847 million (see figure 7). This is a decrease of 70% from the previous year and is 52% below the five-year (FY16/17-20/21) historical average of \$506 million. In the first six months of fiscal year 2022/2023, valuation of permits for commercial new construction is trending about the same as the previous fiscal year. Staff anticipates valuation of commercial new construction permitted for the current fiscal year 2022/2023 will come in at \$250 million. This represents a decrease of 5% from the previous fiscal year and is 52% below the five-year (FY17/18-21/22) historical average of \$519 million.

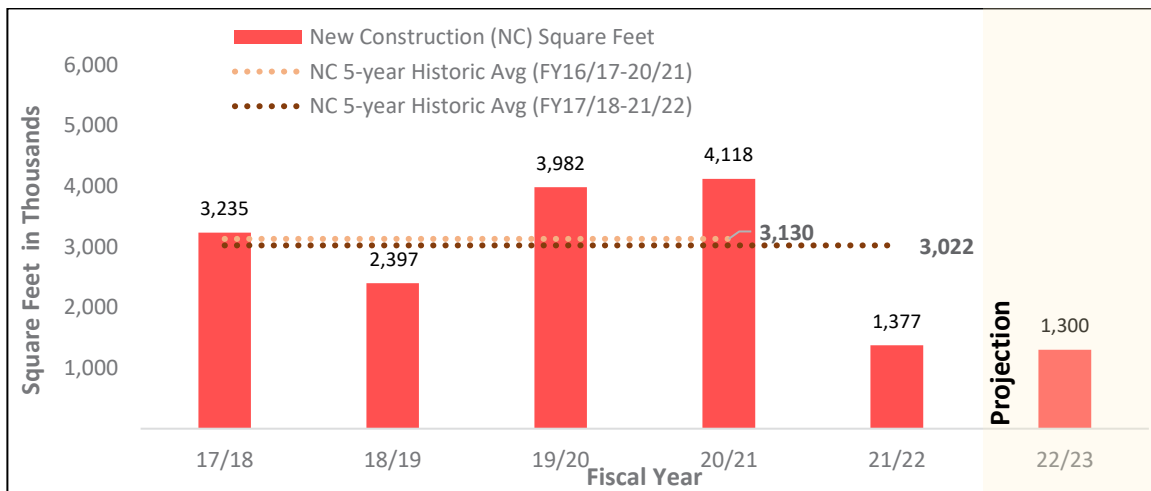


Figure 8 - Commercial New Construction Valuation, Fiscal Year 2017/2018 to 2022/2023

From a square footage standpoint, building permits issued for commercial new construction yielded 1.37 million square feet of commercial development during FY 21/22 compared to 4.11 million square feet the year prior (see figure 8). This is a decrease of 66% from the previous year and is 56% below the 5-year (FY16/17-20/21) historical average of 3.12 million square feet. This trend tracks the decline in permit valuation of commercial new construction. In the first six months of fiscal year 2022/2023, square footage for new commercial construction is trending the same as the last fiscal year. Staff anticipates 1.3 million square feet of commercial development to be permitted in fiscal year 2022/2023. This is a decrease of 5% from the previous fiscal year and 57% below the 5-year (FY17/18-21/22) historical average of 3.02 million square feet.

Alterations

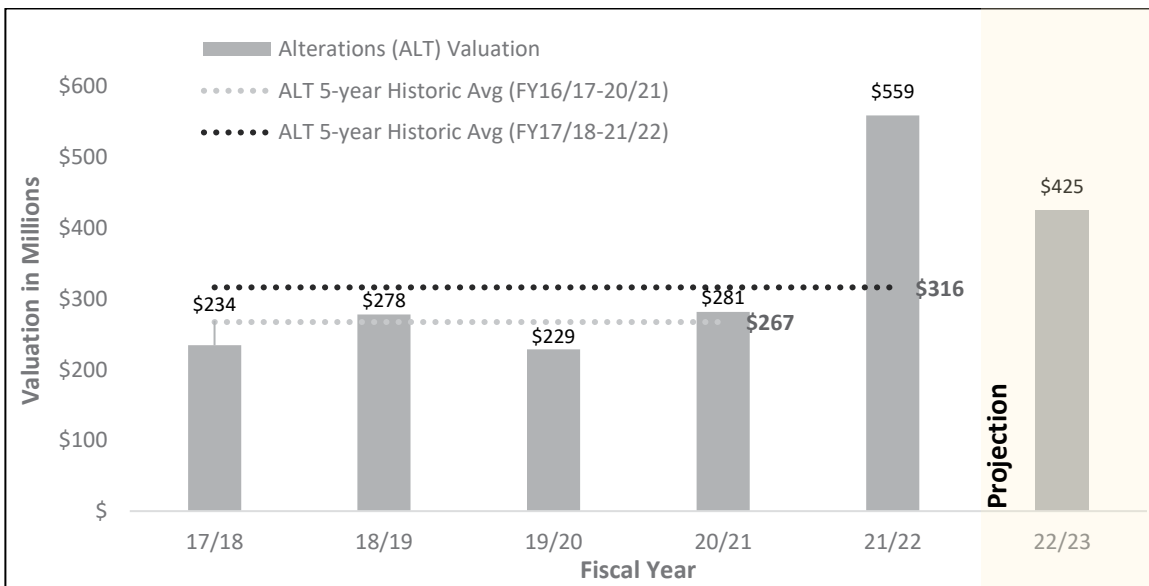


Figure 9 - Commercial Alteration Valuation, Fiscal Year 2017/2018 to 2022/2023

The valuation of building permits issued for commercial alterations activity for the fiscal year 2021/2022 significantly increased to \$559 million compared to the previous fiscal year of \$295 million (see figure 9). This is an increase of 89% and is 88% above the 5-year (FY16/17-20/21) historical average of \$297 million. This is the first significant increase in commercial alterations in many years. In the first six months of the fiscal year 2022/2023, permit valuation of commercial alterations is trending slightly less than the previous fiscal year. Therefore, the anticipated permit valuation of commercial alterations in the fiscal year 2022/2023 is \$425 million. This is a decrease of 24% but is still 26% above the 5-year (FY17/18-21/22) historical average of \$337 million.

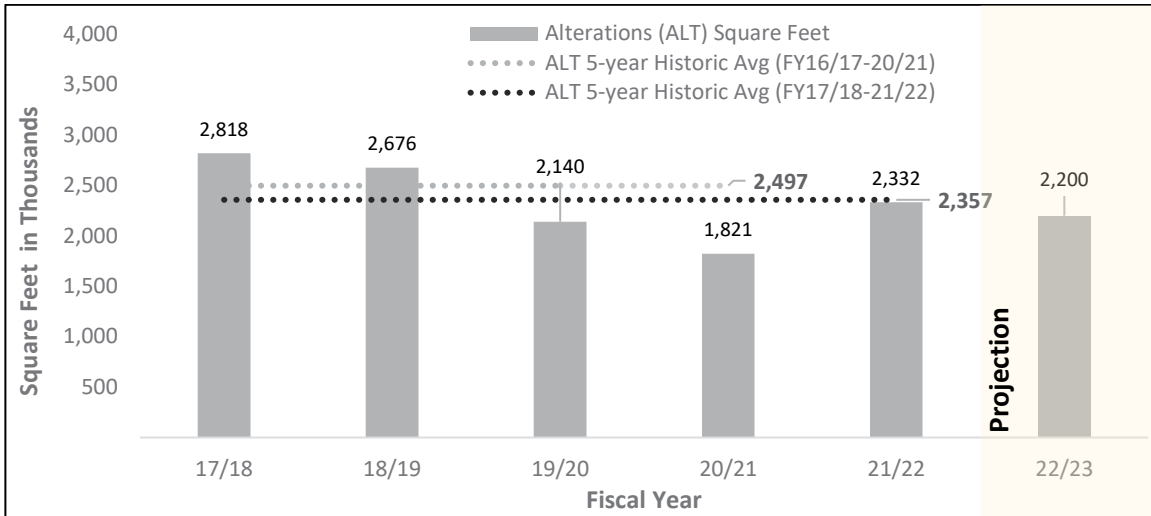


Figure 10 - Commercial Alteration Square Footage, Fiscal Year 2017/2018 to 2022/2023

Building permits issued for commercial alterations for fiscal year 2021/2022 yielded 2.33 million square feet of commercial alterations compared to the previous fiscal year which yielded 1.82 million square feet. This is an increase of 28% from the previous year and 6% below the 5-year (FY16/17-20/21) historical average of 2.49 million square feet. This is in line with the significant increase in the permit valuation for commercial alterations. In the first six months of fiscal year 2022/2023, square footage for commercial alterations is trending similar to the previous fiscal year. Therefore, in fiscal year 2022/2023 commercial alterations square footage is anticipated to yield 2.20 million square feet. This is a decrease of 5% and 6% below the 5-year (FY17/18-21/22) historical average of 2.35 million square feet. This is also in line with commercial alterations valuation, where there seems to be a stabilizing of permit activity. While the demand and rents have dropped for commercial spaces, property owners are investing in their existing buildings as opposed to building new, to retain or attract new tenants.

Industrial Construction Permit Activity

The industrial construction category includes manufacturing buildings, industrial plants, research and development spaces, data centers, and warehouse space.

New Construction

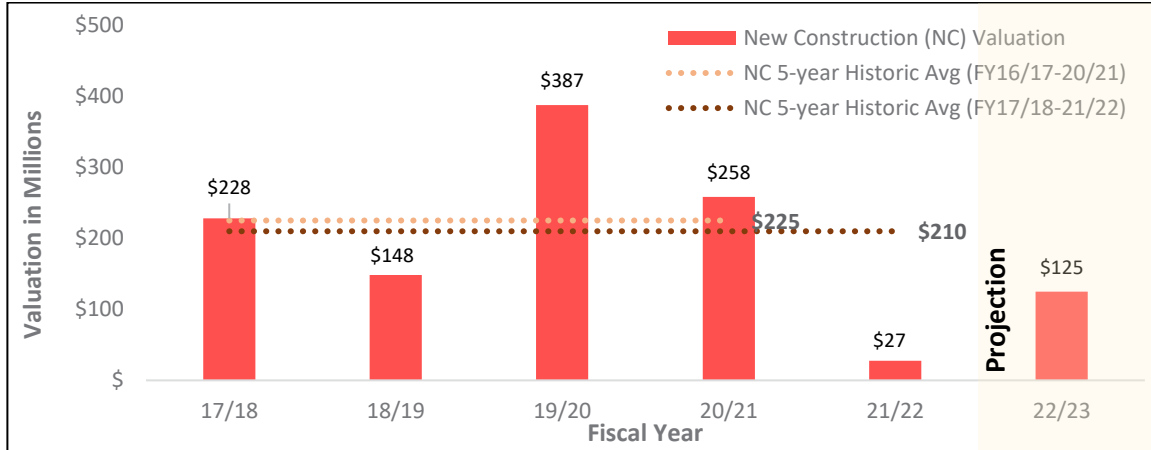


Figure 11 - Industrial New Construction Valuation, Fiscal Year 2017/2018 to 2022/2023

The valuation of building permits issued for industrial new construction activity significantly decreased in the fiscal year 2021/2022 to \$27 million compared to the previous fiscal year of \$271 million (see figure 11). This is a decrease of 90% from the previous year and 89% below the 5-year (FY16/17-20/21) historical average of \$248 million. Permit valuation of industrial new construction projects has been observed to vary greatly year over year, but this is the first decrease of this magnitude for many years. In the first six months of fiscal year 2022/2023, valuation of industrial new construction permits is already double that of the previous fiscal year. Based on this, the anticipated permit valuation of commercial new construction for fiscal year 2022/2023 is \$125 million. This projected number is an increase of 362% from the previous fiscal year but still 45% below the 5-year (FY17/18-21/22) historical average of \$230 million. This indicates that the significant dip in permit valuation in 2021/2022 may not be a continuing trend.

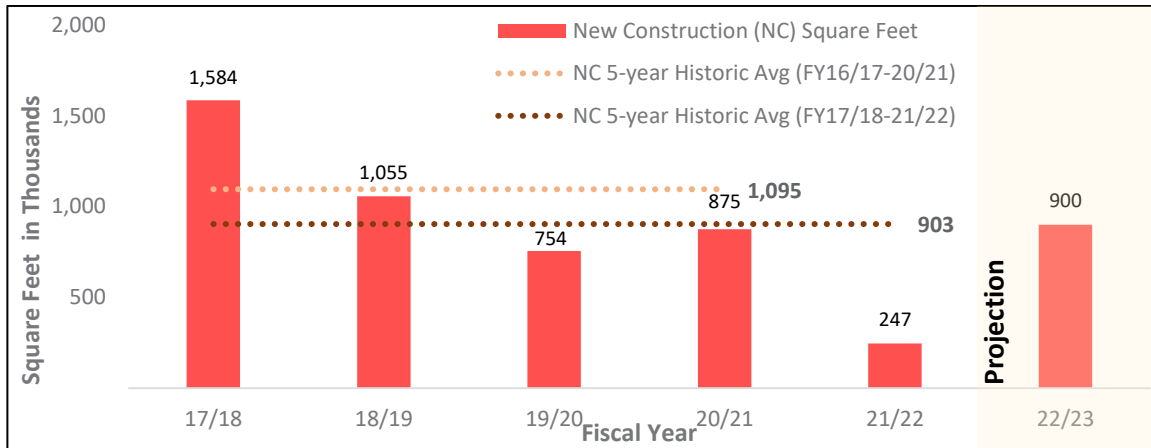


Figure 12 - Industrial New Construction Square Footage, Fiscal year 2017/2018 to 2022/2022

During fiscal year 2021/2022, building permits issued for new construction industrial projects yielded 247 thousand square feet of new construction compared to the previous fiscal year which yielded 875 thousand square feet (see figure 12). This is a decrease of 71% from the previous year and 77% below the 5-year (FY16/17-20/21) historical average of 1.09 million square feet. This is in line with the significant decrease in industrial new construction valuation. In the first six months of fiscal year 2022/2023, square footage for industrial new construction is trending significantly higher than the previous fiscal year. Therefore, industrial new construction square footage is anticipated yield 900 thousand square feet. This is an increase of 72% and less than 1% below the 5-year (FY17/18-21/22) historical average of 903 thousand square feet. This is also in line with the industrial new construction valuation, where there seems to be a rebounding of industrial new construction square footage close to the historical average.

Alterations

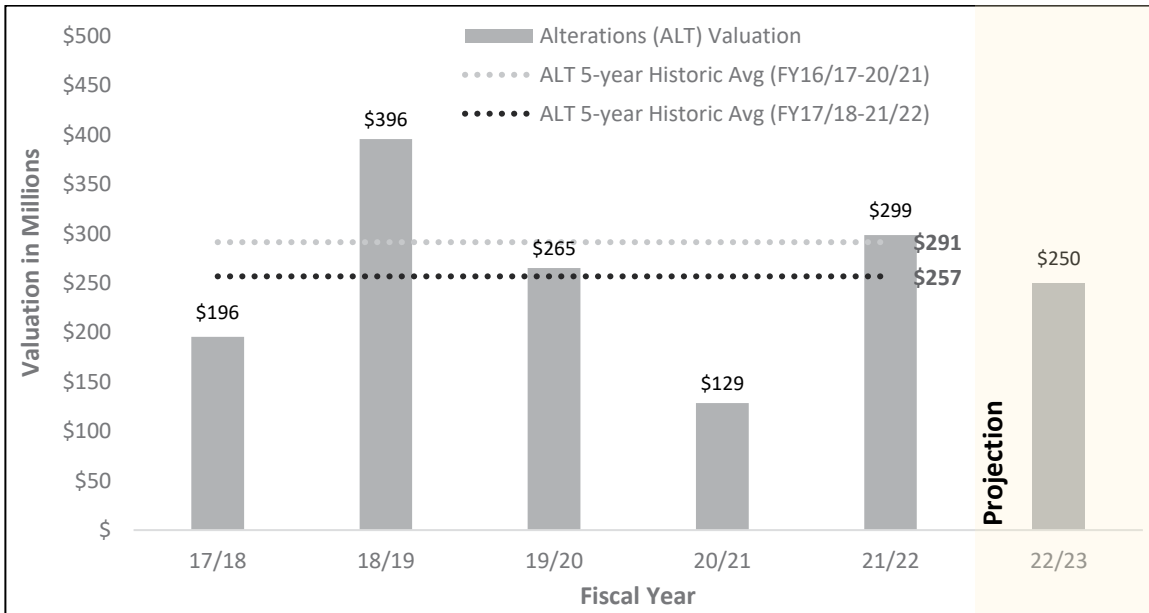


Figure 13 - Industrial Alteration Valuation, Fiscal Year 2017/2018 to 2022/2023

The valuation of industrial alterations activity for fiscal year 2021/2022 significantly increased to \$299 million compared to the previous fiscal year of \$135 million (See figure 13). This is an increase of 121% and 2% above the 5-year (FY16/17-20/21) historical average of \$291 million. This significant increase in the valuation of industrial alterations indicates a return to average alteration activity after a dip in the previous year's activity. In the first six months of fiscal year 2022/2023, valuation of industrial alterations is trending slightly less than the previous fiscal year. Therefore, the anticipated valuation of industrial alterations in fiscal year 2022/2023 is \$250 million. This is a decrease of 16% and 2% below the 5-year (FY17/18-21/22) historical average of \$257 million. This level of industrial alterations seems to be remaining relatively stable but with a slight decline from the previous year.

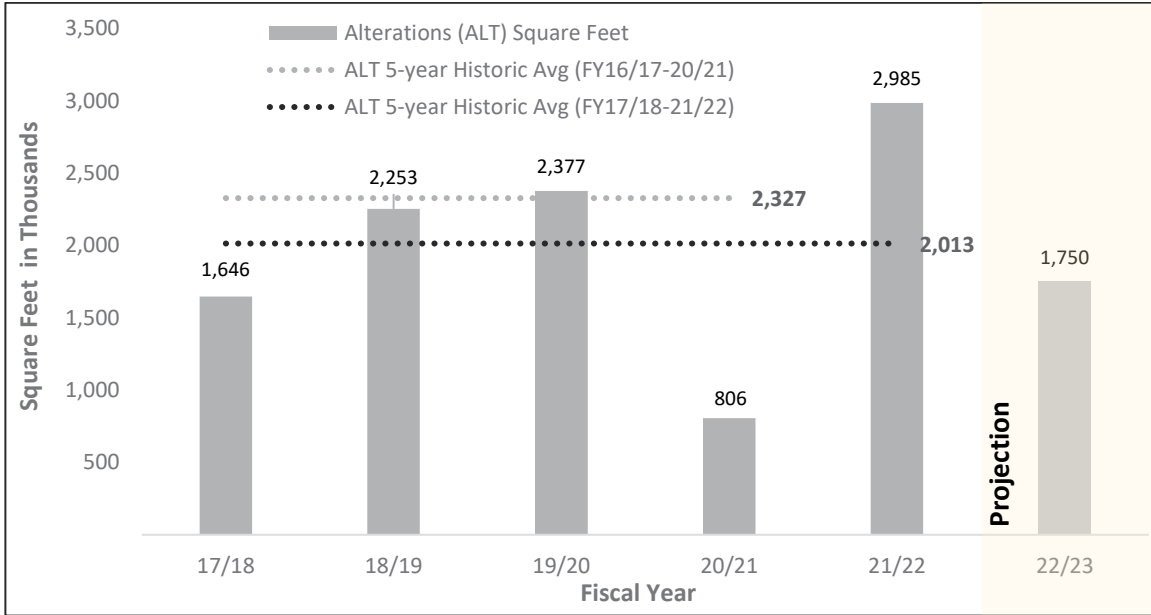


Figure 14 - Industrial Alteration Square Footage, Fiscal Year 2017/2018 to 2022/2023

The industrial alterations square footage for fiscal year 2021/2022 yielded 2.98 million square feet of industrial alterations compared to the previous fiscal year which yielded 806 thousand square feet (see figure 14). This is an increase of 270% from the previous year and 28% above the 5-year (FY16/17-20/21) historical average of 2.32 million square feet. This is in line with the significant increase in industrial alteration valuation. In the first six months of fiscal year 2022/2023, square footage for industrial valuation is trending significantly less than the previous fiscal year, therefore industrial alterations square footage is anticipated to yield 1.75 million square feet. This is a decrease of 40% from the previous fiscal year and 13% below the 5-year (FY17/18-21/22) historical average of 2.01 million square feet. This decrease in square footage is also in line with the decrease of industrial alterations valuation from the previous fiscal year.

Commercial and Industrial Rents and Vacancy

Following the initial economic shock of the Covid-19 pandemic, the regional economy has recovered strongly over the past three years as unemployment continued to decline. As of December 2022, the unemployment rate for both Silicon Valley and San José stood at a remarkably low 2.1%, according to the California Employment Development Department. However, shifting workplace trends including corporate work-from-home policies have resulted in a mixed bag for commercial real estate: In general, office vacancies remain stubbornly high, while industrial/R&D space has shown continued strength. In San José, R&D represents the largest slice of the City’s building base at roughly 46 million square feet with industrial close behind at approximately 44 million square feet. Office space represents about 30 million square feet.

Cushman & Wakefield's fourth-quarter report showed office vacancy in San José at nearly 20%, nearly double its pre-pandemic level. However, average asking rents remained relatively stable over the last several quarters and were reported at roughly \$4 per square foot per month, according to the brokerage.

On the other hand, R&D space – including facilities containing labs or pilot production space that cannot be safely implemented at home – sat at roughly 12% vacancy at the end of 2022, a rate slightly tighter than it was at the end of 2019. Average asking rents were \$2.46 per square foot per month, up slightly from \$2.35 per square foot per month for the same period at the end of 2019.

Industrial space has been at very low vacancy for several years, reflecting strong demand from both warehouse/logistics and advanced manufacturing tenants. In San José, vacancy for this type of space was 3.2% at the end of 2022, while average asking rents sat at \$1.28 per square foot per month, up slightly from 2019.

Retail space by city is not separately tracked by Cushman & Wakefield in Silicon Valley, but CoStar, the commercial real estate information service, shows San José with a roughly 5.5% retail vacancy rate at the end of 2022. This is up about 100 basis points from late 2019.

III. FIVE-YEAR FORECAST (2024-2028)

The Department of Planning, Building and Code Enforcement’s five-year forecast of development activity is summarized in Tables 4, 5, and 6 below.

Table 4 - Construction Valuation of Building Permits Issued: FY 22/23 to FY 27/28

Fiscal Year	22/23	23/24	24/25	25/26	26/27	27/28
Projected Valuation (in millions)						
<u>New Construction</u>						
Residential	\$175	\$200	\$250	\$325	\$325	\$375
Commercial	\$250	\$275	\$325	\$450	\$450	\$500
Industrial	\$125	\$175	\$200	\$200	\$250	\$250
Subtotal	\$550	\$650	\$775	\$975	\$1,025	\$1,125
<u>Alterations</u>						
Residential	\$125	\$125	\$125	\$125	\$125	\$125
Commercial	\$425	\$400	\$400	\$300	\$300	\$300
Industrial	\$250	\$250	\$250	\$250	\$250	\$250
Subtotal	\$800	\$775	\$775	\$675	\$675	\$675
Total	\$1,350	\$1,425	\$1,550	\$1,650	\$1,700	\$1,800

The grand total of all permit valuation is anticipated to remain at the lower levels seen during the last two fiscal years (FY21/22-22/23) for the next few years as uncertainty around the office market and capital markets continues. Still, resilience in the Silicon Valley innovation ecosystem will drive recovery within the construction sector across all asset classes. Overall permit valuation is anticipated to approach pre-pandemic levels further out, though certain sub-sectors will recover more slowly than others.

Table 5 - Residential Units Permitted: FY 22/23 to FY27/28

Fiscal Year	22/23	23/24	24/25	25/26	26/27	27/28
Projected Residential Units						
Single-Family/Duplex	50	75	75	75	75	100
ADU	550	600	650	700	750	800
Multi-Family	1,200	1,200	1,400	1,800	1,800	2,100
Total	1,800	1,875	2,125	2,575	2,625	3,000

Single-family unit production is anticipated to stay low for the next few fiscal years with modest increases expected in the distant future. On the other hand, ADU production is anticipated to grow year after year, continuing the growth trend since fiscal year 2016/2017. Multi-family unit production is anticipated to stay lower than average with

increases in units produced starting in fiscal year 2024/2025 as larger projects become more financially feasible.

Table 6 - Non-Residential Square Footage Permitted: FY22/23 to FY27/28

Fiscal Year	22/23	23/24	24/25	25/26	26/27	27/28
<u>Projected Square Footage (in thousands)</u>						
<u>New Construction</u>						
Commercial	1,300	1,300	1,700	2,500	2,500	3,000
Industrial	900	900	1,000	1,000	1,200	1,200
Subtotal	2,200	2,200	2,700	3,500	3,700	4,200
<u>Alterations</u>						
Commercial	2,200	2,300	2,300	2,500	2,500	2,500
Industrial	1,750	1,500	1,500	1,500	1,750	1,750
Subtotal	3,950	3,800	3,800	4,000	4,250	4,250
Total	6,150	6,000	6,500	7,500	7,950	8,450

New construction square footage for commercial and industrial development is anticipated to remain at low levels for several year and increase more significantly in fiscal year 2024/2025 and for the several years thereafter. On the other hand, alteration square footage for both commercial and industrial development is anticipated to decrease as new construction development begins increasing. This mirrors the trends of the associated construction valuation.

IV. CONSTRUCTION TAXES

As identified in Section I of this report, one purpose of this report is to assist the Office of the City Manager in estimating future construction-related tax revenues that generate funds for the City's Capital Improvement Program. The City of San José imposes a series of construction-related taxes that are generally used to finance the construction and improvement of facilities and infrastructure systems that provide capacity beyond the needs attributed to a particular development. These taxes are in addition to cost-recovery fees charged for processing and reviewing applications for development approvals and permits. The largest construction-related tax revenue sources are described below.

Building and Structure Construction Tax

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

Construction Excise Tax

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

Residential Construction Tax

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

V. MAJOR DEVELOPMENT ACTIVITY DATA

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

The construction of new ownership housing such as single-family detached or townhouse/duplex, is not expected to result in a significant impact. However, there is a surge in ministerial permits for affordable housing projects, and newer large mixed-use developments (e.g. Google, Diridon and Greyhound transit-oriented residential projects). Multi-family residential construction activity could result in approximately 9,000 units over the next few years. The commercial development activity includes new construction proposals such as the Montgomery office, Brokaw project, and Stockton development and smaller hotels. Future activity is expected to be limited to high and mid-rise office developments and hotel projects. The activity levels for industrial construction will likely remain low with fewer major developments that include the Microsoft data center and industrial warehouses.

The development activity data on the following pages is first divided into three major land use categories — residential, commercial, and industrial. Then, individual categories are divided into four subcategories based on project status — projects completed (building construction complete), projects under construction (building permits issued), projects approved (Planning entitlements approved), and projects pending (Planning entitlements pending). Planning department's file number prefixes are as follows: PD= Planned Development Permit; SP= Special Use Permit; H= Site Development Permit; CP= Conditional Use Permit; HA, SPA, CPA, PDA = Amendment to Original Permit.

Major Residential Development Activity Projects of 50+ Dwelling Units								
File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Housing Type	No. of Units	Approval Date
Projects Completed 2021 to 2022								
H12-020	1/16/2013	San Pedro Square	259-32-044	195 W. Julian Street	Central	MF	406	2/24/2014
PD15-013	4/3/2015	Arcadia/Evergreen Part 1	670-29-002	2140 Quimby Road	Evergreen	SF	250	11/30/2015
PD16-005	2/4/2016	Istar/Great Oaks	706-08-008	West side of Great Oaks Blvd approximately 1,000 feet northwesterly of Highway 85	Edenvale	MF	301	5/18/2016
PD16-026	8/11/2016	7th & Empire	249-38-042	535 N. 7th Street	Central	MF	92	4/11/2017
PD15-066	12/21/2015	Santana Row Lot 12	277-40-017	358 Hatton Street	West Valley	MF	258	8/16/2016
H18-026	6/7/2018	S. Market Mixed Use	264-30-034	477 S. Market Street	Central	MF	130	5/1/2019
H19-028	6/20/2019	750 W San Carlos	264-15-003	750 W. San Carlos	Central	MF	80	1/13/2021
						Total	1,517	
Projects Under Construction								
PD15-014	4/16/2015	1807 Almaden Rd	455-21-050	1807 Almaden Road	South	MF	96	10/7/2015
H15-046	9/25/2015	363 Delmas Avenue	264-26-006	341 Delmas Avenue	Central	MF	120	6/21/2016
PD15-055	11/4/2015	Shea Homes/ Japantown Corp. Yard	249-39-039	Bounded by N. Sixth Street, E. Taylor Street, N. Seventh Street, and Jackson Street	Central	MF	520	5/25/2016
PD15-068	12/22/2015	Santana Row Lot 17	277-38-003	544 Dudley Avenue	West Valley	MF	110	5/25/2016
PD16-005	2/4/2016	Istar/Great Oaks	706-08-008	West side of Great Oaks Blvd approximately 1,000 feet northwesterly of Highway 85	Edenvale	MF	301	5/18/2016
PD16-026	8/11/2016	7th & Empire	249-38-042	535 N. 7th Street	Central	MF	92	4/11/2017
PDA14-035-04	4/9/2017	Communication Hill Phase II	455-28-016	Junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	486	7/26/2017
SP17-016	4/24/2017	425 Auzerais Avenue	264-26-017	425 Auzerais Avenue	Central	MF	130	6/19/2017
H17-019	4/25/2017	Spartan Keyes Senior Housing	472-25-092	295 E. Virginia Street	Central	MF	301	1/9/2019

SP17-027	6/26/2017	Roosevelt Park Apartments	467-12-001	21 N. 21st Street	Central	MF	80	2/6/2019
SP17-037	9/1/2017	Page Street Housing	277-20-044	329 Page Street	Central	MF	82	12/5/2018
HA14-023-02	12/6/2017	Post & San Pedro Tower	259-40-088	171 Post Street	Central	MF	228	6/9/2018
H18-057	5/3/2018	Balbach Affordable Housing	264-31-109	South East corner of Balbach and South Almaden Blvd	Central	MF	87	1/30/2019
CP18-022	6/26/2018	Blossom Hill Affordable Apartments	690-25-021	397 Blossom Hill Road	Edenvale	MF	147	12/11/2019
SP18-033	6/28/2018	Mitzi Place	299-16-001	4146 Mitzi Drive	West Valley	MF	50	10/7/2020
PD18-043	10/17/2018	Race Street Housing	261-42-058	253 Race Street	Central	MF	206	8/19/2020
CP18-044	12/19/2018	Affirmed housing	484-41-165	2348 Alum Rock Avenue	Alum Rock	MF	87	1/14/2020
CP19-021	6/18/2019	Bascom Residential Care	412-25-009	2375 South Bascom Avenue	Willow Glen	MF	138	9/29/2020
CP18-025	6/28/2019	Union Assisted Living	421-20-010	0 Union Avenue	Cambrian/ Pioneer	MF	152	11/18/2019
H19-051	11/18/2019	Eden Housing	264-26-088	425 Auzerais Avenue	Central	MF	130	9/18/2020
H19-054	12/18/2019	Moorpark Supportive Housing	282-44-027	1710 Moorpark Avenue	Willow Glen	MF	108	9/11/2020
H20-002	1/15/2020	4th and Younger Apartments	235-09-020	1020 N. 4th Street	Central	MF	96	6/30/2020
						Total	3,747	
Approved Projects (Construction Not Yet Commenced)								
PD12-013	3/29/2012	Ohlone Mixed Use (Block A)	26414131	southwest corner of West San Carlos Street and Sunol Street	Central	MF	263	12/16/2015
H14-037	11/5/2014	NSP3 Tower	259-24-008	201 W. Julian Street	Central	MF	313	8/5/2015
PD15-042	9/11/2015	Montgomery 7	259-47-068	565 Lorraine Avenue	Central	MF	54	6/21/2016
H15-047	9/28/2015	Gateway Tower	264-30-089	455 S. 1st Street	Central	MF	300	12/6/2016
H15-055	11/17/2015	6th Street Project	467-19-059	73 N. 6th Street	Central	MF	126	6/29/2016
PD15-061	12/4/2015	Diridon TOD	259-38-036	402 West Santa Clara	Central	MF	325	5/24/2016
SP16-016	3/8/2016	Park Delmas	259-46-040	201 Delmas Avenue	Central	MF	123	6/29/2016
PD16-013	4/7/2016	777 W San Carlos St	261-39-045	270 Sunol Street	Central	MF	149	6/21/2016
SP16-021	4/11/2016	Greyhound Residential	259-40-012	70 South Almaden Avenue	Central	MF	781	5/23/2017

PD15-059	6/23/2016	Volar (Residential)	277-33-003	350 S. Winchester Boulevard	West Valley	MF	330	6/13/2017
PD16-031	9/27/2016	750 West San Carlos	264-15-003	750 W. San Carlos Street	Central	MF	56	12/12/2017
PD17-014	4/25/2017	Stevens Creek Promenade	296-38-013	4360 Stevens Creek Boulevard	West Valley	MF	499	2/26/2019
CP17-052	11/17/2017	Alum Rock Mixed Use	481-19-003	1936 Alum Rock Avenue	Alum Rock	MF	94	3/27/2019
PD17-027	12/14/2017	Saratoga Ave Mixed Use	299-37-024	700 Saratoga Avenue	West Valley	MF	300	6/11/2019
SP18-001	1/9/2018	Garden Gate Tower	472-26-090	600 S. 1st Street	Central	MF	285	11/19/2019
SP18-016	3/29/2018	27 West	259-40-043	27 S. 1st Street	Central	MF	374	2/27/2019
SP18-059	5/10/2018	McEvoy Affordable Housing	261-38-004	699 W. San Carlos	Central	MF	365	2/11/2020
HA14-009-02	6/5/2018	Parkview Towers	467-01-008	northeast corner of the intersection of 1st Street and St. James Street	Central	MF	220	5/13/2015
SP20-020	6/5/2018	Carlisle	259-35-033	51 Notre Dame Avenue	Central	MF	220	7/8/2020
PD18-015	6/19/2018	Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	MF	590	9/10/2019
PD18-016	6/29/2018	Little Portugal Gateway	481-12-069	1663 Alum Rock Avenue	East San José	MF	121	11/17/2020
SPA17-023-01	12/11/2018	StarCity (Co-Living)	259-23-006	199 Bassett Street	Central	MF	800	5/29/2019
SP19-064	2/19/2019	Roem Affordable Housing	284-03-015	961 Meridian Avenue	Willow Glen	MF	230	12/10/2020
PD19-011	4/10/2019	Meridian Mixed Use	274-14-152	259 Meridian Avenue	Central	MF	241	6/23/2020
SP20-004	4/29/2019	W. San Carlos Mixed Use	277-18-019	1530 West San Carlos	Central	MF	173	8/24/2021
PD19-019	6/4/2019	Winchester Ranch	303-38-001	555 S. Winchester Boulevard	West Valley	MF	688	1/14/2020
PD19-029	10/10/2019	Google/ Downtown West	259-38-132	450 W. San Carlos	Central	MF	5,000	1/4/2023
SP19-068	12/3/2019	Hemlock Mixed Use Project	277-34-051	2881 Hemlock Avenue	West Valley	MF	51	2/10/2021
H20-001	1/3/2020	Dahlia Apartments	467-11-021	1135 E. Santa Clara Street	Central	MF	91	11/19/2020
SP20-002	1/8/2020	S. Winchester Mixed Use	299-25-038	1073 S. Winchester Boulevard	West Valley	MF	61	8/25/2021
SP20-008	2/24/2020	Baywood Mixed Use Project	419-48-014	375 South Baywood Ave	West Valley	MF	79	6/23/2021
H20-007	3/26/2020	488 St John Urban Residential Development	467-17-046	95 N 11th St	Central	MF	33	10/11/2021
SP20-013	4/16/2020	Almaden Villas	259-41-070	1747 Almaden Rd	South	MF	62	8/25/2021

CP20-015	4/30/2020	Villa Del Sol Mixed Use Residential	421-07-029	1936 Alum Rock Ave	Alum Rock	MF	194	4/14/2021
PD20-003	5/6/2020	Tamien Station TOD	434-13-041	1197 Lick Avenue	Central	MF	569	12/9/2020
H20-013	6/9/2020	3090 S Bascom	439-28-007	3090 South Bascom Ave	Willow Glen	MF	90	9/9/2021
CP20-017	6/18/2020	Alum Rock Multifamily	434-11-081	1860 Alum Rock Ave	Alum Rock	MF	65	9/9/2021
SP20-019	6/29/2020	Madera Multifamily	439-05-007	486 West San Carlos	Central	MF	184	3/17/2021
SP20-021	6/29/2020	The Mark	704-35-026	459 S 4th St	Central	MF	222	10/13/2021
SPA18-001-01	6/29/2020	Garden Gate	264-21-066	600 S 1st St	Central	MF	336	4/28/2021
H20-024	7/15/2020	Monterey Mixed Use	684-02-003	4300 Monterey Rd	Edenvale	MF	438	12/17/2021
H20-026	7/27/2020	Eterna Tower	254-32-065	17 East Santa Clara St	Central	MF	96	08/24/2022
H20-028	8/5/2020	605 Affordable	569-14-128	605 S 2nd St	Central	MF	345	12/21/2021
PD20-006	8/18/2020	El Paseo & 1777 Saratoga Ave Mixed Use Village	244-06-002	1312 El Paseo de Saratoga	West Valley	MF	741	9/8/2022
H20-030	9/1/2020	777 West San Carlos Residential	244-17-048	270 Sunol St	Central	MF	154	8/16/2022
CP20-025	10/21/2020	2880 Alum Rock	481-18-067	2880 Alum Rock Ave	Alum Rock	MF	166	12/6/2021
PD20-011	12/18/2020	244 McEvoy	244-23-014	244 McEvoy St	Central	MF	695	6/9/2022
H21-002	1/29/2021	551 Keyes Affordable Housing	447-12-057	551 Keyes St	Central	MF	78	6/1/2021
H21-004	2/10/2021	2350 South Bascom Avenue	2880-50-45	2350 South Bascom Avenue	Central	MF	123	2/4/2022
SP21-006	3/18/2021	S. Winchester Mixed Use	299-25-037	1065 South Winchester Blvd	West Valley	MF	61	10/25/2022
H21-015	4/27/2021	North Capitol Residential Tower	254-29-028	905 North Capitol Ave	Berryessa	MF	383	6/29/2022
SP21-019	6/18/2021	2nd Street Mixed Use	467-47-024	420 South 2nd Street	Central	MF	254	12/14/2022
SP21-031	7/23/2021	Urban Catalyst Icon/Echo	467-20-079	147 East Santa Clara St	Central	MF	415	11/29/2022
H21-044	10/12/2021	W. Julian Affordable	261-02-062	950 West Julian Street	Central	MF	300	8/17/2022
						Total	19,306	
Projects Pending Planning Approval								
PDA14-035-05	4/10/2017	Communication Hill Village Center	455-28-017	Junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	490	---

PDA15-066-01	6/5/2018	Santana Row Lot 12	277-40-017	385 Hatton Street	West Valley	MF	300	---
H19-021	1/30/2019	4th Street Housing	467-20-019	100 N. 4th Street	Central	MF	298	---
PDA14-035-06	4/2/2019	Comm Hill Phase 3	455-28-017	0 Curtner Avenue	South	MF	798	---
PD19-020	6/13/2019	Santa Clara University Mixed Use Housing	230-14-004	1202 Campbell Avenue	West Valley	MF	290	---
SP20-012	4/15/2020	VTA Blossom Hill Station TOD	486-41-033	605 Blossom Hill Rd	Edenvale	MF	328	---
PD20-004	5/20/2020	Japantown Mixed Use	684-22-022	653 N 7th St	Central	MF	65	---
CP20-020	8/25/2020	West San Carlos	442-34-059	17 Boston Avenue	Central	MF	61	---
PD20-007	9/1/2020	Cambrian Park Plaza	684-38-022	14200 Union Ave	Cambrian/Pioneer	MF	378	---
SP21-044	11/25/2020	North 2nd Affordable Senior Housing	484-02-005	19 N 2nd St	Central	MF	210	---
H20-037	12/1/2020	Fountain Alley	373-08-002	35 S 2nd St	Central	MF	194	---
H20-038	12/2/2020	BoTown Residential	676-15-039	409 S 2nd St	Central	MF	520	---
H20-049	1/5/2021	1050 St Elizabeth	665-63-013	1050 St Elizabeth Dr	Willow Glen	MF	150	---
H20-046	1/8/2021	2188 The Alameda Supportive Housing	575-25-043	2188 The Alameda	Central	MF	110	---
SP21-007	3/19/2021	1520 W. San Carlos Mixed Use	277-18-021	1520 West San Carlos St	Central	MF	202	---
PDA12-013-02	3/29/2021	Auzerais Mixed Use	264-14-110	0 Auzerais Ave	Central	MF	263	---
H21-014	4/9/2021	East Alma Residences	477-05-005	0 East Alma Ave	Central	MF	88	---
SP21-020	6/18/2021	3rd Street Mixed Use	467-47-048	420 South 3rd	Central	MF	152	---
H21-027	7/14/2021	Lorraine Residential Towers	259-47-068	565 Lorraine Ave	Central	MF	126	---
H21-028	7/15/2021	Lorraine Residential Towers	259-47-069	543 Lorraine Ave	Central	MF	264	---
H21-031	7/19/2021	Affordable Tripp	249-66-051	1319 Tripp Ave	Central	MF	51	---
PD21-011	8/11/2021	S. 1st Mixed Use	472-17-006	802 S. 1st	Central	MF	246	---
PD21-015	8/19/2021	Bark Residential	372-24-011	7201 Bark Lane	West Valley	MF	85	---
SP21-045	1/6/2022	West Bank Terraine	259-24-041	323 Terraine St	Central	MF	319	---
PD22-002	1/21/2022	Seely Mixed Use	097-15-033	0 Seely Ave	North	MF	1,480	---
H21-050	2/13/2022	1298 Tripp Avenue	249-66-040	1298 Tripp Avenue	Central	MF	235	---

H22-005	2/23/2022	650 E Santa Clara Street	467-27-039	650 E Santa Clara Street	Central	MF	45	---
H22-001	3/1/2022	1347 E Julian St	249-65-060	1347 E Julian St	Central	MF	45	---
SP22-004	3/21/2022	70 N 27th St	467-09-076	70 N 27th St	Central	MF	198	---
H22-012	3/29/2022	1325 E Julian St	249-65-061	1325 E Julian St	Central	MF	633	---
H22-034	7/26/2022	1271 E Julian St	249-66-010	1271 E Julian St	Central	MF	140	---
H22-033	8/10/2022	1530 San Carlos St	277-18-019	1530 San Carlos St	Central	MF	237	---
SP22-031	11/17/2022	Maple Wood Plaza	412-22-022	2628 Union Avenue	Central	MF	260	---
PD21-015	8/19/2021	Bark Residential	372-24-011	7201 Bark Lane	West Valley	MF	85	---
H19-019	5/6/2019	Kelsey Ayer	259-20-015	447 North 1 st Street	Central	MF	115	---
SP21-044	11/25/2020	Affordable Senior	467-21-028	19 North 2 nd Street	Central	299,135	220	---
						Total	9,681	
						GRAND TOTAL	34,251	

Major Commercial Development Activity Projects of 25,000+Square Feet								
File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Approval Date
Projects Completed 2021-2022								
H13-048	12/16/2013	Hampton Inn	237-17-063	2116 N 1st St	Central	182,577	210	8/15/2016
H14-021	5/29/2014	William Plaza	472-04-125	1162 Williams Ct	South	20,000		9/14/2015
H15-023	5/4/2015	Holiday Inn Expansion	497-38-013	2660 Monterey Road	South	48,100	81	7/13/2016
HA06-027-04	7/31/2015	Valley Fair Expansion	274-43-035	2855 Stevens Creek Boulevard	West Valley	684,550		6/5/2016
PDA12-031-01	11/13/2015	The Platform Retail	241-04-011	North side of Berryessa Road on the southern portion of the parcel just west of Union Pacific Railroad tracks (Flea Market)	Berryessa	37,000		4/13/2016
PD15-067	12/22/2015	The Reserve	299-26-059	877/919 S Winchester Boulevard	West Valley	22,104		4/27/2016
CP16-029	6/16/2016	Oakmont Residential Care	659-04-015	Easterly side of San Felipe Road approximately 360 feet northerly of Fowler Road	Evergreen	91,714		4/26/2017
SP17-009	2/22/2017	Miro Retail/Office	467-20-086	39 N. 5th Street	Central	39,074		3/15/2017
PD16-034	4/14/2017	Topgolf	015-39-026	4701 N. 1st Street	Alviso	71,182		12/13/2017
H18-037	8/16/2018	Adobe North Tower	259-39-127	333 W San Fernando Street	Central	1,315,000		5/29/2019
PDA08-069-01	9/17/2018	Market Park Shopping Center	254-17-084	1590 Berryessa Road	Berryessa	101,000		5/8/2019
SP18-054	10/3/2018	China Mobile	706-09-023	6320 San Ignacio Avenue	Edenvale	67,265		3/27/2019
PDA12-019-04	12/10/2018	Coleman Hotel	230-46-093	1125 Coleman Avenue	North	115,392	175	6/26/2019
PDA18-045-01	3/9/2020	Santana West Phase 2	429-09-045	3161 Olsen Drive	Central	376,250		12/9/2020
					Total	3,171,208	466	
Projects Under Construction								
PD08-001	1/7/2008	Pepper Lane Mixed Use	254-15-072	southeast corner of Berryessa and Jackson Avenue	Alum Rock	30,000		10/10/2008

PD14-035	3/15/2013	Communications Hill	455-09-040	On the hills from the junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	68,000		11/21/2014
PD16-025	8/16/2016	The Capitol (Formerly The Orchard)	254-06-042	641 N. Capitol Avenue	Alum Rock	38,000		1/24/2017
H17-044	8/2/2017	Hilton Garden Inn Hotel	235-03-002	111 E Gish Road	Central	96,260	150	3/19/2018
CP17-047	10/20/2017	Williams Rd Residential Care Facility	299-18-147	3924 Williams Road	West Valley	31,801		11/14/2018
H18-002	1/9/2018	Silver Creek Valley Rd Hotel	678-93-015	5952 Silver Creek Valley Road	Edenvale	73,862	127	5/1/2019
PD18-015	6/19/2018	South Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	213,500		9/10/2019
H18-045	9/27/2018	DiNapolo Office	259-43-076	200 Park Avenue	Central	717,246		10/9/2019
SP20-032	10/31/2018	Park habitat formerly Museum Place	259-42-023	180 Park Avenue	Central	1,241,820		11/1/2021
					Total	2,510,489	277	
Approved Projects (Construction Not Yet Commenced)								
H15-014	3/30/2015	Tropicana Shopping Center Expansion	486-10-091	1664 Story Road	Alum Rock	31,744		8/17/2021
PD15-053	10/29/2015	America Center	015-45-047	6250 America Center Drive	Alviso	192,350		1/23/2018
PD15-061	12/4/2015	Diridon TOD (Office)	259-38-036	402 W. Santa Clara Street	Central	1,040,000		5/24/2016
PD15-062	12/9/2015	Bay 101 Technology Place office (Phase II)	235-01-020	1740 N. 1st Street	North	234,192		12/7/2016
H16-010	2/29/2016	Cambria Hotel	277-34-014	2850 Stevens Creek Boulevard	West Valley	173,043	175	12/7/2016
H16-032	9/7/2016	Hampton Inn	372-25-015	1090 S. De Anza Boulevard	West Valley	51,279	90	8/14/2018
H16-042	10/18/2016	Tribute Hotel	259-42-079	211 S. 1st Street	Central	186,426	279	1/28/2020
H17-023	5/18/2017	AC Hotel Stevens Creek Blvd	375-12-017	5696 Stevens Creek Boulevard	West Valley	62,868	168	1/16/2019
CP17-046	10/26/2017	Holden Assisted Living	282-11-014	1015 S. Bascom Avenue	Willow Glen	156,022		9/12/2018
H17-059	10/28/2017	Hotel Clariana Addition	467-23-088	10 S. 3rd Street	Central	51,573	63	3/11/2020
CP17-052	11/17/2017	Alum Rock Mixed Use (Retail Component)	481-19-003	1936 Alum Rock Avenue	Alum Rock	39,000		3/27/2019
SP18-008	1/30/2018	Presentation High School Master Plan	446-38-035	2281 Plummer Avenue	Willow Glen	106,248		7/29/2020
SP18-005	2/1/2018	Bark Lane Hotel	372-24-033	7285 Bark Lane	West Valley	45,306	126	6/4/2019

SP18-012	2/27/2018	West San Carlos Hotel	277-20-035	1470 W. San Carlos Street	Central	64,262		4/24/2021
SP18-048	3/27/2018	Hotel Baywood	277-34-038	375 South Baywood Avenue	West Valley	123,120	105	2/27/2018
SP18-016	3/29/2018	27 West (Retail Component)	259-40-043	27 South 1st Street	Central	35,712		2/27/2018
H18-016	4/11/18	Piercy Hotel	678-93-040	469 Piercy Road	Edenvale	119,333	175	5/29/2019
H18-033	7/24/2018	2nd Street Hotel	472-26-070	605 S. 2nd Street	Central	90,263	106	10/2/2019
SP19-063	8/7/2018	Stockton Ave Hotel	259-28-028	292 Stockton Avenue	Central	356,470		3/13/2020
H18-038	8/28/2018	Almaden Corner Hotel	259-35-055	8 N. Almaden Boulevard	Central	153,275	272	1/14/2020
CP18-034	9/4/2018	995 Oakland Road Hotel & Carwash	235-16-011	955 Oakland Road	Central	67,766	116	12/4/2019
SP18-049	9/5/2018	335 Winchester Office	303-39-047	335 S. Winchester Boulevard	West Valley	94,996		11/19/2019
PD18-042	10/9/2018	Oakland Road Comfort Suites	241-13-019	Northeast corner of Oakland Road and Faulstich Court	Berryessa	38,400	61	3/1/2022
PDA16-034-02	11/5/2018	Shilla Stay Hotel	015-39-026	4701 N. 1st Street	Alviso	109,991	200	6/19/2019
SP20-005	1/31/2019	South Almaden Office	264-28-023	Northwest corner of Almaden Boulevard and Woz Way	Central	1,952,045		9/14/2021
H19-016	4/19/2019	City View Plaza	259-41-068	150 Almaden Boulevard	Central	3,640,033		6/16/2020
H19-041	9/19/2019	Fountain Alley Office	467-22-002	26 S. 1st Street	Central	90,829		8/12/2020
CP19-031	10/10/2019	Stevens Creek Fitness	303-25-016	3806 Stevens Creek Boulevard	Central	150,000		3/9/2021
PD19-029	10/10/2019	Google - Downtown West Mixed Use	259-38-132	West of Downtown	Central	500,000	800	5/21/2021
PDA13-049-03	2/21/2020	Bay 101 Hotel	235-01-019	1770 North 1st Street	North	94,040	171	2/23/2022
HA13-040-03	4/6/2020	Brokaw Rd Office Parcel 3	414-22-028	1801 Bering Drive	North	1,297,000		11/18/2020
CP20-013	4/8/2020	SRM San José Assisted Living	451-09-067	3315 Almaden Expressway	Cambrian/ Pioneer	195,840	195*	5/12/2021
H20-004	4/9/2020	Woz Way	264-31-067	276 Woz Way	Central	1,837,673		6/29/2021
SP20-020	6/18/2020	The Carlyse	259-35-033	51 Notre Dame Avenue	Central	131,082		7/8/2020
CP20-019	6/26/2020	Delmas Senior Living	264-20-088	323 Gifford Avenue	Central	185,054	116*	1/26/2021
H20-021	6/29/2020	Almaden Tower	421-23-041	Southwest corner of S Almaden Avenue & Post Street	Central	596,750		12/9/2020

PD20-007	9/1/2020	Cambrian Park Plaza	419-08-013	14200 Union Avenue	Cambrian/ Pioneer	374,170	157*	11/14/2022
SP21-037	12/1/2020	Westbank's The Arbor	299-32-033	255 West Julian Street	Central	512,031		11/21/2021
H20-037	12/1/2020	Fountain Alley	373-08-002	35 S. 2nd Street	Central	437,883		12/22/2022
PD20-012	1/8/2021	Stevens Creek Hotel	296-40-009	4300 Stevens Creek Boulevard	West Valley	161,430	250	8/30/2022
					Total	15,779,499	3,625	
Projects Pending Planning Approval								
CP20-001	1/6/2020	Sunset Mixed Use Complex	481-07-028	2101 Alum Rock Avenue	Alum Rock	28,690		---
CP20-008	3/30/2020	Hotel	467-47-098	490 S 1st Street	Central	131,600	144	---
CP20-020	8/25/2020	West San Carlos	274-16-070	17 Boston Avenue	Central	107,013		---
H21-005	3/18/2021	Office Buildings	237-08-079	550 E Brokaw Road	Central	1,647,920		---
H20-047	11/12/2021	Hotel	261-07-001	615 Stockton Ave	Central	58,198	64	---
CP21-022	11/17/2021	Prospect Rd Costco	381-36-021	5287 Prospect Rd	West Valley	166,058	210*	---
H21-052	12/15/2021	High Rise Office Building	259-28-024	250 Stockton Ave	Central	1,328,970		---
PD22-010	12/22/2021	Hotel	456-02-019	1669 Monterey Road	South	60,716	120	---
PD22-002	1/21/2022	Seely Mixed Use	097-15-033	0 Seely Avenue	North	54,000		---
PD22-004	1/31/2022	Coleman Highline	230-46-072	1185 Coleman Ave	North	288,419		---
H22-031	8/16/2022	Commercial Space	261-34-012	33 S Montgomery Street	Central	1,200,000		---
PD22-026	10/10/2022	Samaritan Medical Phase 1	421-38-006	2512 Samaritan Drive	Cambrian/ Pioneer	46,000		---
H22-039	10/20/2022	Medical Office Building	282-10-074	951 S Bascom Avenue	West Valley	53,481		---
PD22-027	11/9/2022	Samaritan Medical Phase 1	421-37-001	2505 Samaritan Drive	Cambrian/Pioneer	350,000		---
PD22-030	12/2/2022	Academic Building	261-12-087	960 W Hedding Street	Central	44,698		---
CP22-028	12/6/2022	Memory Care Facility	414-21-062	0 Union Avenue	West	48,051	94*	---
H22-047	12/23/2022	Kia Auto Sales Office	303-29-022	3566 Stevens Creek Boulevard	West Valley	34,420		---
					Total	5,648,234	632	
* Residential Care Facility					GRAND TOTAL	27,109,430	5,000	

Major Industrial Development Activity Projects of 75,000+Square Feet							
File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
Projects Completed 2021-2022							
PD13-012	3/20/2013	237 @ First Street (balance)	015-39-006	4353 N. 1st Street	Alviso	368,702	12/4/2013
PD16-037	11/29/2016	Self-storage (King Rd)	670-12-006	2905 South King Road	Evergreen	198,000	4/12/2017
PD16-027	8/29/2016	Oakland Rd Self Storage	235-18-001	645 Horning Street	Central	91,875	5/8/2018
SP18-054	10/3/2018	China Mobile	706-09-023	6320 San Ignacio Avenue	Edenvale	238,322	3/27/2019
PDA15-031-01	9/1/2020	Bloom Energy at Equinix	647-25-043	5 Great Oaks Boulevard	Edenvale	92,350	5/26/2021
					Total	989,249	
Projects Under Construction							
H15-037	8/25/2015	Broadcom /Innovation Place	097-33-116	3130 Zanker Road	North	536,949	12/2/2015
PD16-016	4/28/2016	Winchester Ministorage	279-01-017	780 S. Winchester Boulevard	West Valley	84,000	11/9/2016
H16-035	9/27/2016	Edenvale Self Storage	678-93-005	5880 Hellyer Avenue	Edenvale	149,301	5/3/2017
SP18-020	12/15/2017	Akatiff/Platform 16	259-29-104	440 W. Julian Street	Central	982,128	5/30/2018
H18-024	5/31/2018	Winfield Self Storage	694-06-009	5775 Winfield Boulevard	Edenvale	109,527	9/4/2019
SPA15-031-01	7/1/2015	Equinix Data Center	706-02-053	123 Great Oaks Blvd	Edenvale	547,050	3/3/2020
PDA16-027-02	1/9/2020	645 Horning Self Storage	462-01-016	623 Horning Street	Central	152,512	3/10/2021
PDA15-031-01	9/1/2020	Bloom Energy at Equinix	647-25-043	5 Great Oaks Boulevard	Edenvale	92,350	5/26/2021
					Total	2,653,817	
Approved Projects (Construction Not Yet Commenced)							
H14-029	8/14/2014	The Station on North First	101-30-006	2890 N. 1st Street	North	1,653,731	12/10/2014
PDA16-025-03	8/16/2016	Self-Storage	254-06-042	641 N Capitol Avenue	Alum Rock	111,000	2/13/2016
SP16-053	11/4/2016	Microsoft Data Center	015-31-054	1657 Alviso-Milpitas Road	Alviso	376,519	10/24/2017
PDA14-005-10	5/3/2018	Western Digital Great Oaks	706-07-020	5601 Great Oaks Parkway	Edenvale	73,400	11/14/2018
PD18-039	9/12/2018	Cloud 10 Skyport Plaza	230-29-117	1601 Technology Drive	North	350,000	12/23/2019

CP20-003	10/11/2018	Capitol Public Storage	462-19-013	231 W. Capitol Expressway	South	179,916	2/26/2020
H21-003	2/5/2021	1953 Concourse	467-47-053	1953 Concourse Drive	Berryessa	126,700	4/29/2022
PD21-016	8/20/2021	Second Harvest	015-39-056	4553 North 1st. Street	Alviso	249,320	8/9/2022
					Total	3,120,586	
Projects Pending Planning Approval							
SP19-066	11/11/2019	Microsoft Data Center/Industrial	015-31-054	1657 Alviso-Milpitas Road	Alviso	397,205	---
H20-033	10/13/2020	Warehouse	477-08-037	1605 S 7th Street	Central	94,325	---
H20-045	12/17/2020	Warehouse	237-28-034	2237 Junction Avenue	Edenvale	26,000	---
PD20-013	1/11/2021	Granite Rock	462-17-024	120 Granite Rock Way	Edenvale	40,000	---
PDA14-005-012	11/4/2021	Western Digital	706-07-020	5601 Great Oaks Pkwy Building 1	Edenvale	580,000	---
H21-040	9/23/2021	Industrial Warehouse	244-15-030	2222 Qume Drive	Berryessa	714,419	---
PD22-028	5/4/2022	370 W Trimble Road	101-02-018	370 W Trimble Road	North	208,000	---
H22-014	3/28/2022	Xebec Warehouse	678-93-040	469 Piercy Road	Edenvale	132,790	---
H22-015	4/22/2022	Industrial building	678-08-043	550 Piercy Road	Edenvale	422,670	---
H22-022	5/3/2022	Industrial Tilt Up	679-01-020	0 Hellyer Avenue	Edenvale	121,400	---
H22-026	6/17/2022	Industrial Warehouse	477-11-023	750 Story Road	Evergreen	70,938	---
H22-028	6/27/2022	Industrial Building	244-18-007	2105 Lundy Avenue	Berryessa	96,256	---
H22-035	8/24/2022	Industrial Building	678-08-055	0 Piercy Road	Edenvale	216,244	---
SP22-029	11/15/2022	Data Center	101-02-020	370 W Trimble Road Building 91	Central	631,542	---
PD22-009	3/28/2022	Warehouse	670-12-015	2919 S King Road Building 1	Evergreen	93,000	---
PD22-001	2/17/2022	Data Center	244-17-009	1849 Fortune Drive	Edenvale	522,194	---
					Total	4,366,983	
					GRAND TOTAL	11,130,635	
File Number Prefixes: PD= Planned Development Permit; SP= Special Use Permit; H= Site Development Permit; CP= Conditional Use Permit; HA, SPA, CPA, PDA = Amendment to Original Permit							

VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

San José is divided into a total of fifteen (15) planning areas (see Figure 15, below). The individual planning area maps at the end of this report include projects in all status categories. These maps can be used in conjunction with the data contained in Section V of this report to allow closer analysis of the rate, type, and location of major development activity in the City.

Note: map exhibits are not provided for the Almaden, Calero, Coyote, and San Felipe planning areas, as no major development activity have occurred there and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary.

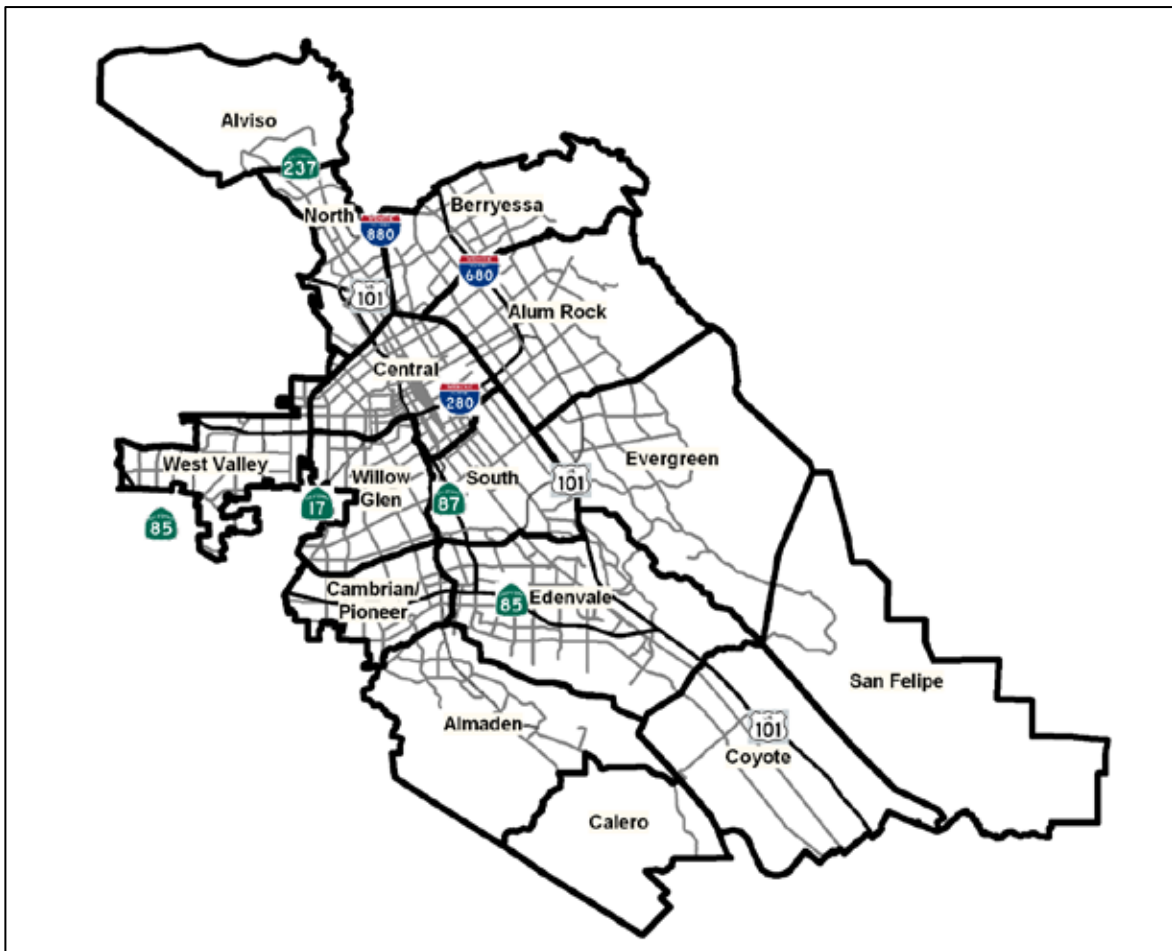


Figure 15 - San José Planning Areas

VII. APPENDIX: SOURCES

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

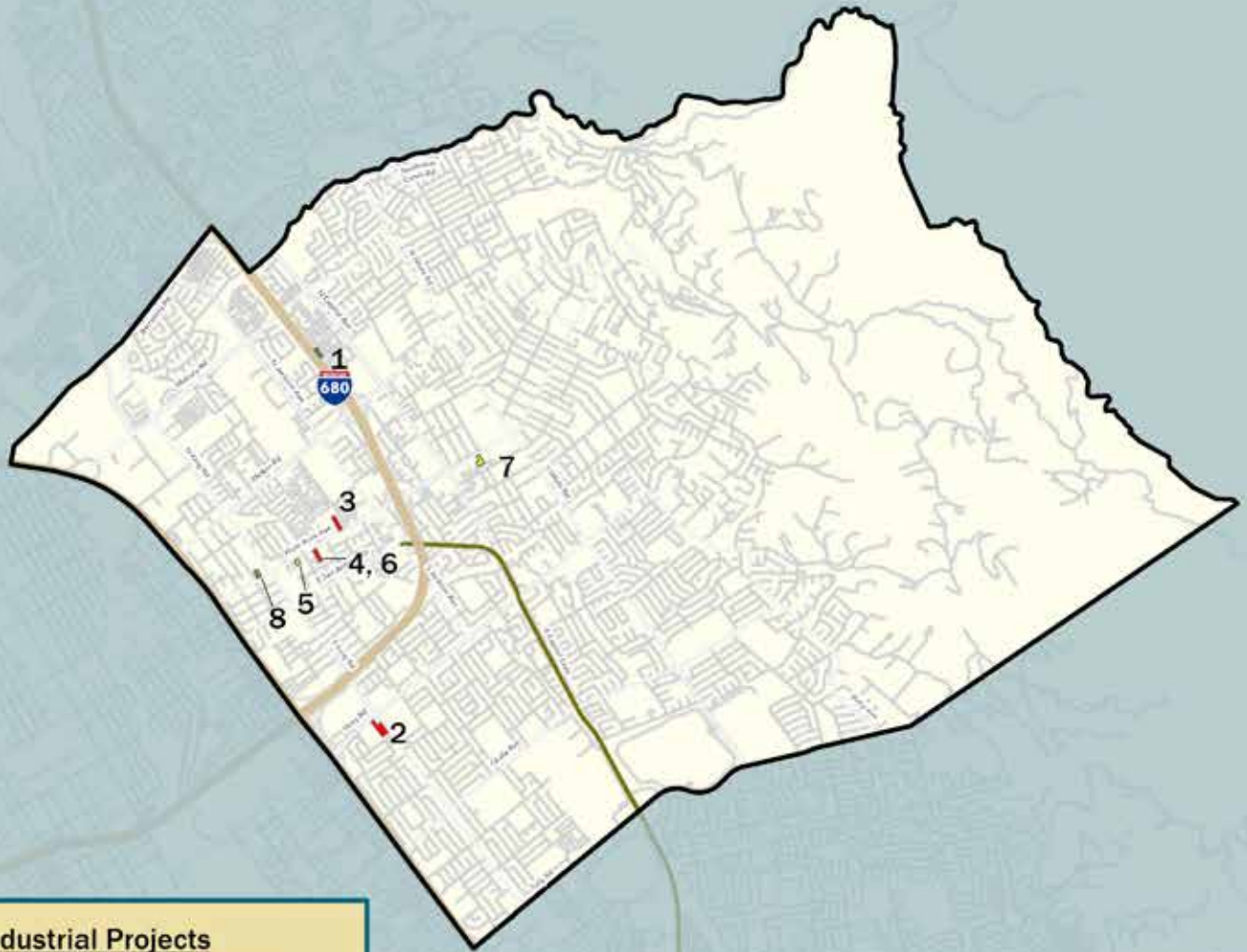
Data Collection and Analysis

The Department's Planning entitlement application and building permit database is the primary initial resource for information on applications submitted to the City. Architectural drawings, GIS tools, aerial photographs, and Google Street View were used to evaluate site-specific issues that could have affected the anticipated cost or timing of a project's construction. Planning staff conducted and/or participated in a series of discussions with people with a variety of perspectives, including City staff processing development applications, developers or their representatives, and others working in the development industry or related fields.

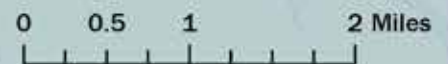
Review of Publications

Planning staff consulted several publications that made contributions to the preparation of this report, including: the Yardi Matrix Multi-family San José Report – Fall 2022, Colliers Silicon Valley 2022 Q4, CoStar Q4 2022, and Cushman & Wakefield's 2022Q4 MarketBeat reports.

Alum Rock Planning Area Major Development Activity



- Industrial Projects**
 1. Oakland Rd Self StorageTotal Industrial Sq. Feet = 187,011
- Commercial Projects**
 2. Tropicana Shopping Center Expansion
 3. Sunset Mixed Use Complex
 4. Alum Rock Mixed Use (Retail Component)Total Commercial Sq. Feet = 239,744
- Residential Projects**
 5. Alum Rock Multifamily
 6. 7144 Webb Canyon Dr
 7. 2880 Alum Rock Ave
 8. Little Portugal GatewayTotal Dwelling Units = 546



Alviso Planning Area Major Development Activity



Industrial Projects

- 1. Microsoft data center/industrial
- 2. 237 @ First Street (balance)
- 3. Second Harvest

Total Industrial Sq. Feet = 1,290,222

Commercial Projects

- 4. Shilla Stay Hotel
- 5. American Center (America Center (balance))

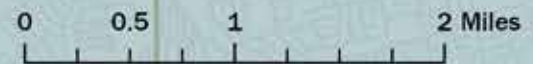
Total Commercial Sq. Feet = 109,991



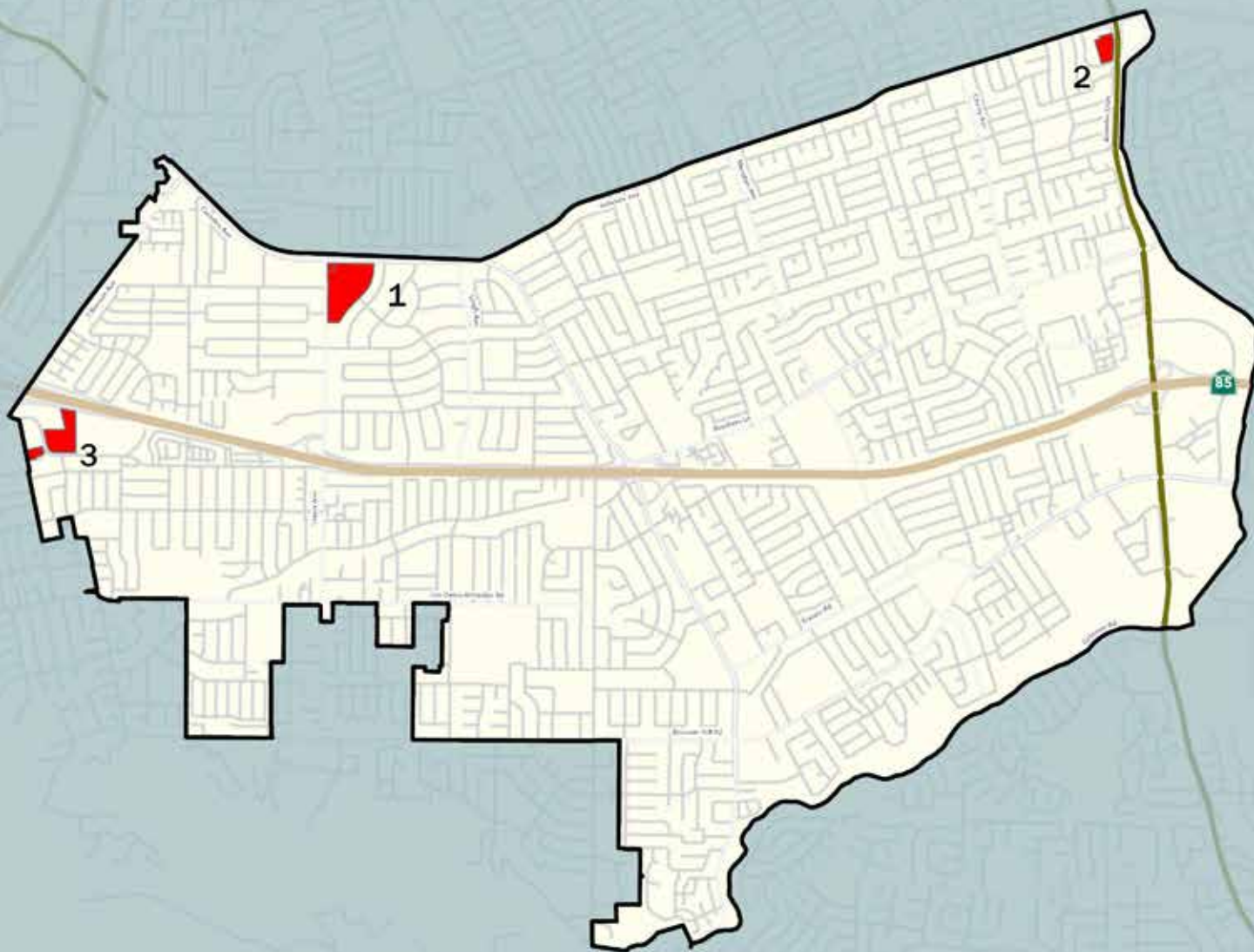
Berryessa Planning Area Major Development Activity



<p>Commercial Projects</p> <p>1. Oakland Road Comfort Suites</p> <p>Total Commercial Sq. Feet = 38,400</p>	<p>Industrial Projects</p> <p>3. 1953 Concourse Dr.</p> <p>4. 2222 Qume Dr</p> <p>5. Data Center</p> <p>6. Industrial Warehouse</p> <p>Total Industrial Sq. Feet = 1,434,251</p>
<p>Residential Projects</p> <p>2. North Capitol Residential</p> <p>Total Dwelling Units = 383</p>	



Cambrian/Pioneer Planning Area Major Development Activity



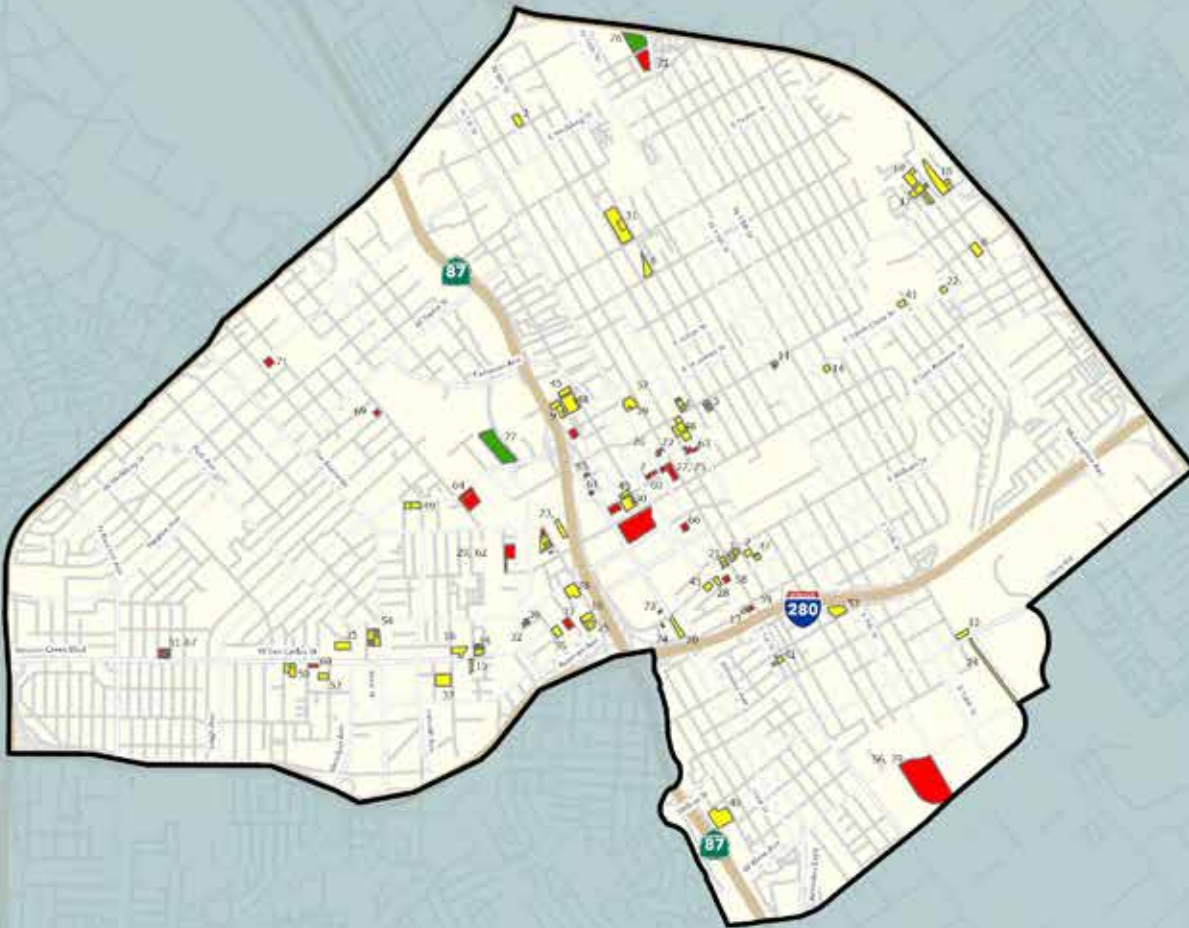
Commercial Projects

1. Cambrian Park Plaza
2. SRM San Jose Assisted Living
3. Samaritan Medical

Total Commercial Sq. Feet = 770,170

0 0.5 1 Miles

Central Planning Area Major Development Activity



Residential Projects

1. 2nd Street Mixed Use
2. 3rd Street Mixed Use
3. 4th and Younger Apartments
4. 4th Street Housing
5. 6th Street Project
6. 7th & Empire
7. 27 West
8. 70 N 27th St
9. 323 Terraine St
10. 363 Delmas Avenue
11. 488 St John Urban Residential Development
12. 551 Keyes Affordable Housing
13. Garden Gate Tower
14. 650 E Santa Clara Street
15. 750 W San Carlos
16. 777 West San Carlos St
17. 1298 Tripp Avenue
18. 1325 E Julian St
19. Affordable Tripp
20. Balbach Affordable Housing
21. BoTown Residential
22. Dahlia Apartments
23. Diridon TOD
24. East Alma Residences
25. Eden Housing
26. Eterna Tower
27. Fountain Alley
28. Gateway Tower
29. Google/ Downtown West
30. Greyhound Residential

Total Dwelling Units = 34,401

31. Japantown Mixed Use
32. Lorraine Residential Towers
33. Madera Multifamily
34. McEvoy Affordable Housing
35. Meridian Mixed Use
36. Montgomery 7
37. Ohlone Mixed Use (Block A)
38. Park Delmas
39. Parkview Towers
40. Post & San Pedro Tower
41. Roosevelt Park Apartments
42. S. 1st Mixed Use
43. S. Market Mixed Use
44. San Pedro Square
45. StarCity (Co-Living)
46. Tamien Station TOD
47. The Mark
48. Urban Catalyst Icon/ Echo
49. W. Julian Affordable
50. W. San Carlos Mixed Use
51. West San Carlos
52. Page Street Housing
53. Spartan Keyes Senior Housing
54. Race Street Housing
55. Madera Multifamily

Commercial Projects

56. 1605 S 7th St
57. 240 2nd St
58. Hotel
59. 2nd Street Hotel
60. 27 West (Retail Component)
61. Almaden Corner Hotel
62. Google - Downtown West Mixed Use
63. Hotel Clariana Addition
64. Stockton Ave Hotel
65. The Carlisle
66. Tribute Hotel
67. West San Carlos
68. West San Carlos Hotel
69. Hotel
70. Academic Building
71. 995 Oakland Road Hotel & Carwash
72. North 2nd Affordable Senior Housing
73. South Almaden Office
74. Woz Way
75. Fountain Alley

Total Commercial Sq. Feet = 21,514,628

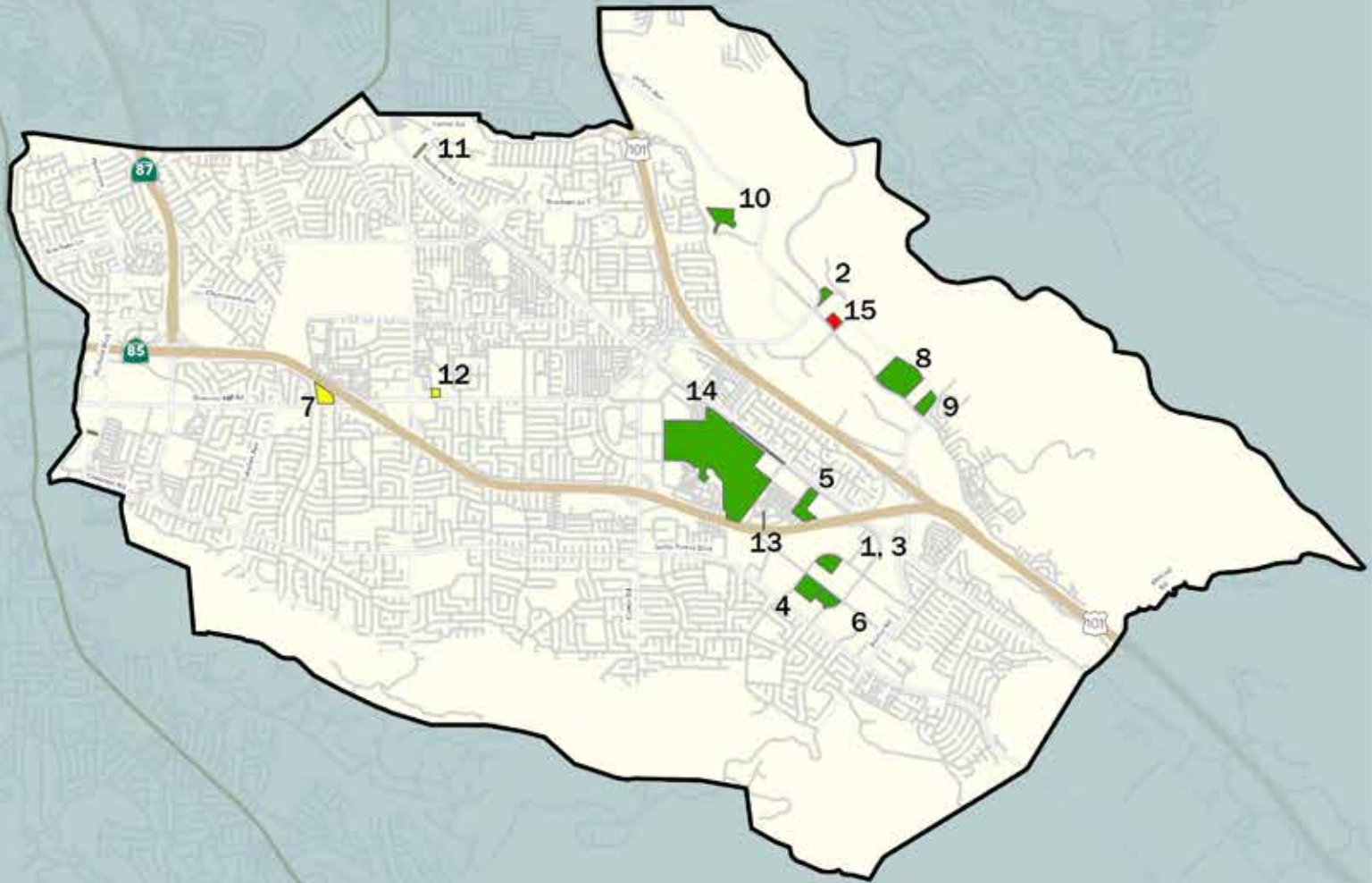
Industrial Projects

76. 645 Horning Self Storage
77. Akatiff/ Platform 16
78. Oakland Rd Self Storage
79. Warehouse

Total Industrial Sq. Feet = 1,226,515

0 0.75 1.5 Miles

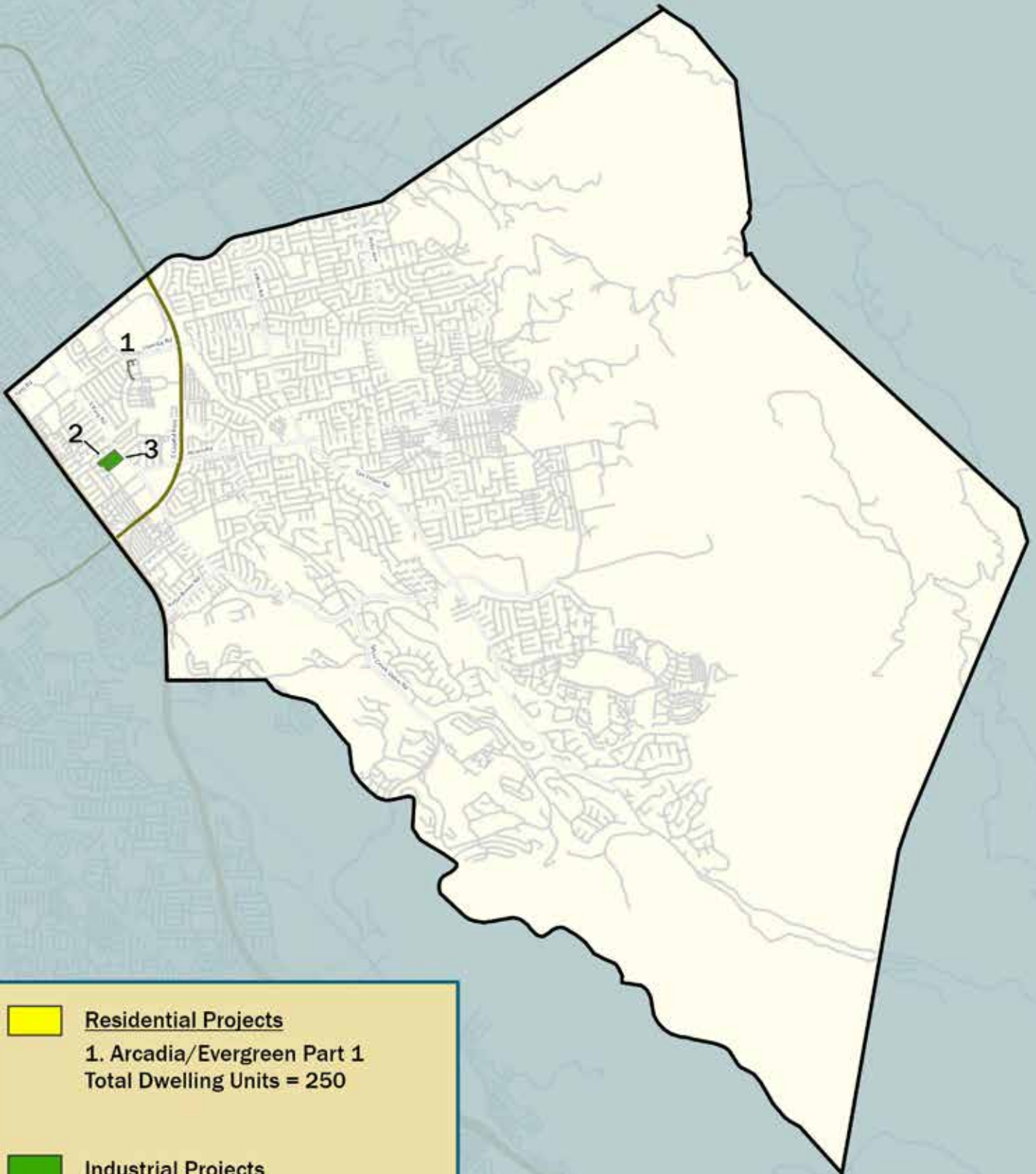
Edenvale Planning Area Major Development Activity



	Industrial Projects		Residential Projects
1. Bloom Energy at Equinix		11. Monterey Mixed Use	
2. Edenvale Self Storage Facility		12. VTA Blossom Hill Station	
3. Equinix (iStar)		13. Istar/Great Oaks	
4. Equinix Data Center		14. Blossom Hill Affordable Apartments	
5. Western Digital		Total Dwelling Units = 1,214	
6. China Mobile			
7. Winfield Self Storage			Commercial Projects
8. Industrial Building		15. Piercy Hotel	
9. Industrial Building		Total Commercial Sq. Feet = 119,333	
10. Industrial Tilt Up			
Total Industrial Sq. Feet = 7,851,577			

0 0.5 1 2 Miles

Evergreen Planning Area Major Development Activity



Residential Projects

1. Arcadia/Evergreen Part 1
- Total Dwelling Units = 250

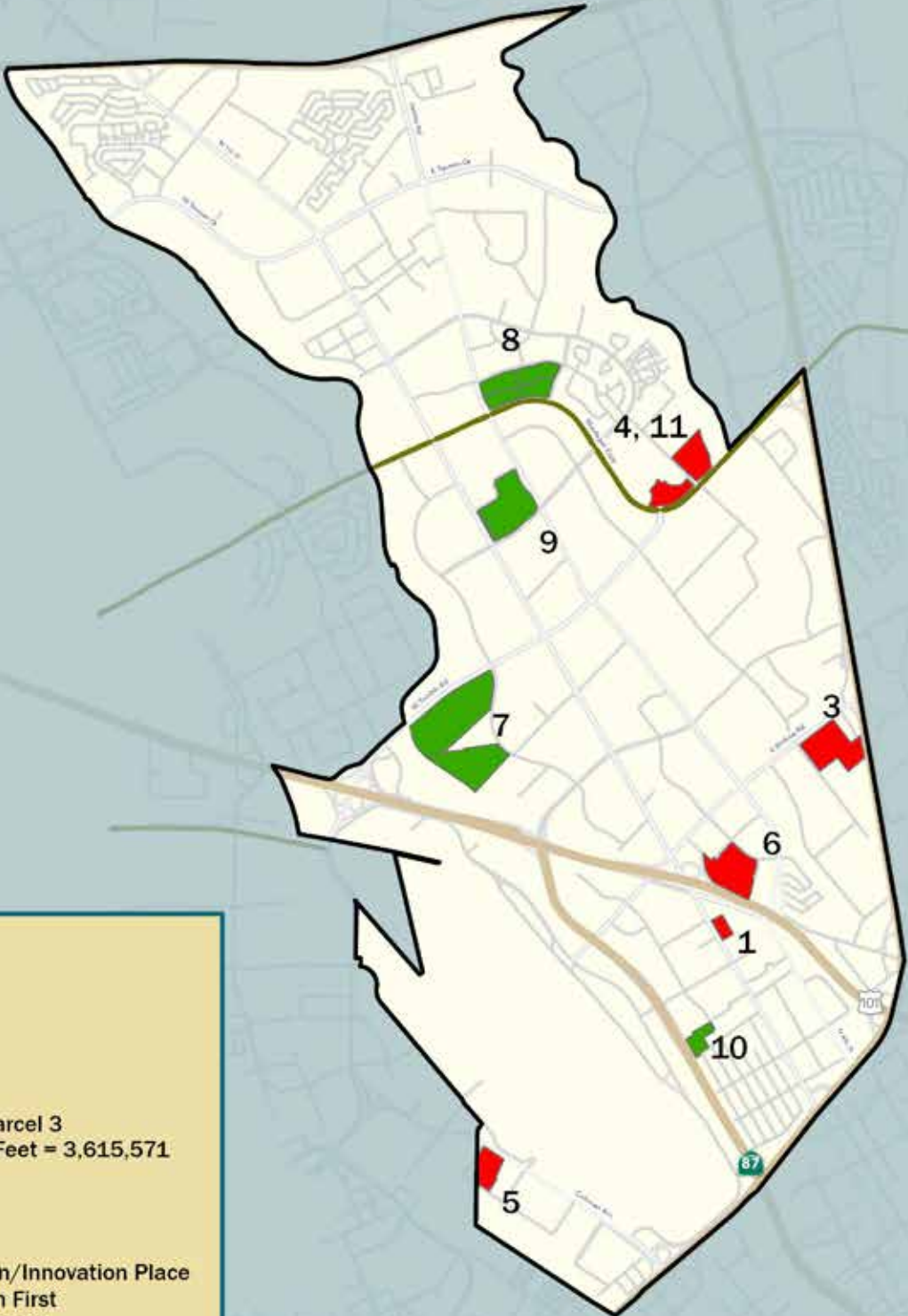



Industrial Projects

2. Self-storage (King Rd)
 3. Ware House
- Total Industrial Sq. Feet = 291,000



North Planning Area Major Development Activity

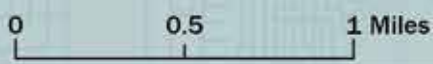


	Commercial Projects 1. Bay 101 2. 370 Trimble Rd 3. Office Buildings 4. Seely Mixed Use 5. Coleman Highline 6. Brokaw Rd Office Parcel 3 Total Commercial Sq. Feet = 3,615,571
	Industrial Projects 7. 370 Trimble Rd 8. Broadcom expansion/Innovation Place 9. The Station on North First 10. Cloud 10 Skyport Plaza Total Industrial Sq. Feet = 2,748,680
	Residential Projects 11. Seely Mixed Use Total Dwelling Units = 1,480

South Planning Area Major Development Activity

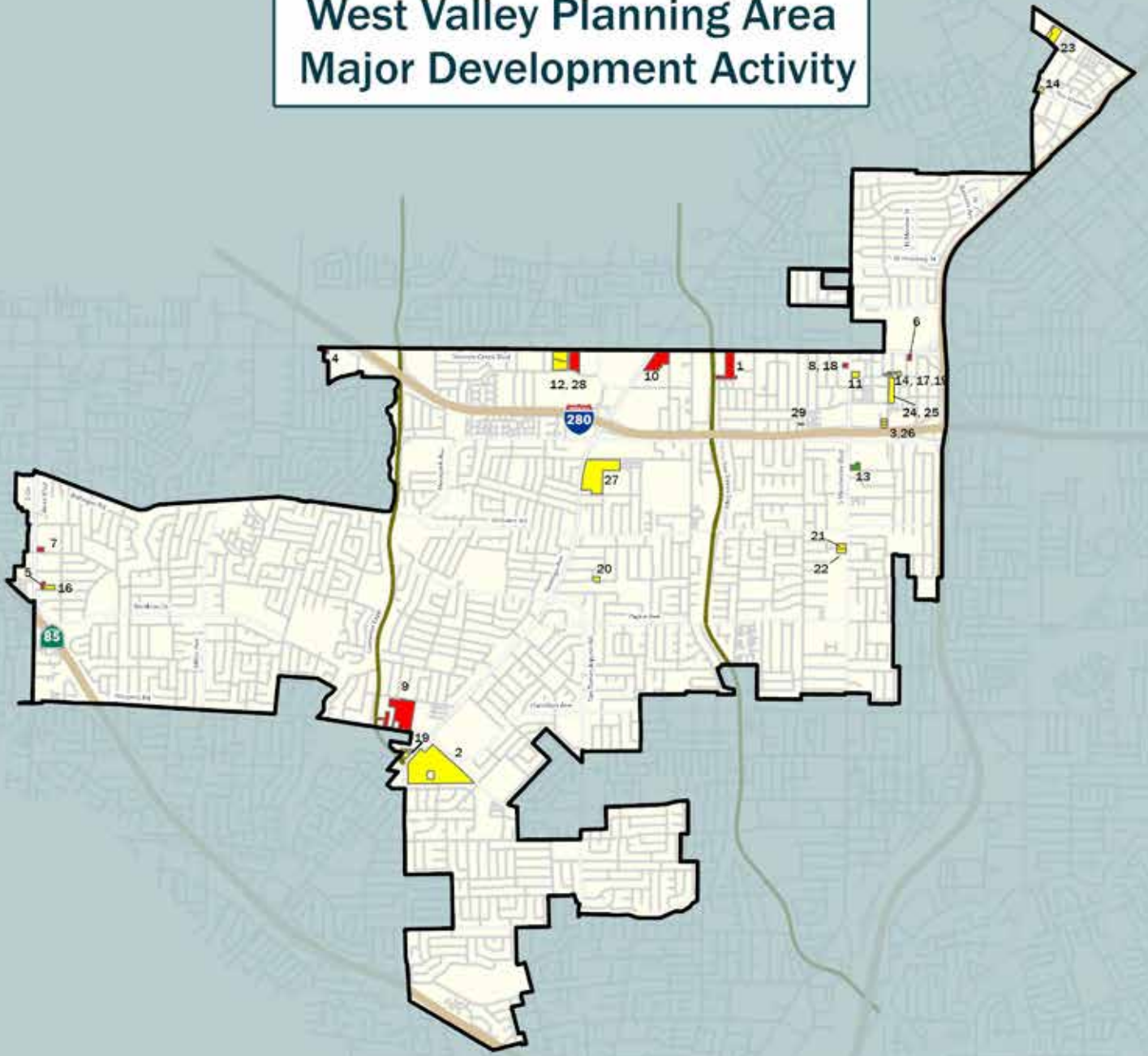


<p>Commercial Projects</p> <p>1. 1669 Monterey Rd Total Commercial Sq. Feet = 60,716</p>	<p>Industrial Projects</p> <p>7. 231 Capitol Public Storage 8. Industrial Warehouse Total Industrial Sq. Feet = 276,172</p>
<p>Residential Projects</p> <p>2. 1807 Almaden Rd 3. Communication Hill Village Center 4. Almaden Villas 5. Comm Hill Phase 3 6. Communication Hill Total Dwelling Units = 1,932</p>	





West Valley Planning Area Major Development Activity



	Commercial Projects		Residential Projects
	<ol style="list-style-type: none"> 1. Stevens Creek Fitness 2. 1200 El Paseo De Saratoga 3. AC Hotel Stevens Creek Blvd 4. Bark Lane Hotel 5. Cambria Hotel 6. Hampton Inn 7. Hotel Baywood 8. Prospect Rd Costco 9. 355 Winchester Office 10. Kia Auto Sales Office 11. Stevens Creek Promenade (Hotel) <p>Total Commercial Sq. Feet = 912,520</p>		<ol style="list-style-type: none"> 13. Winchester Ranch 14. 2188 The Alameda Supportive Housing 15. 2881 Hemlock Ave 16. Bark Residential 17. Baywood Mixed Use Project 18. El Paseo & 1777 Saratoga Ave Mixed Use 19. Hemlock Mixed Use Project 20. Mitzi Place 21. S. Winchester Mixed Use 22. S. Winchester Mixed Use 23. Santa Clara University Mixed Use Housing 24. Santana Row Lot 12 25. Santana Row Lot 12 26. Santana Row Lot 17 27. Saratoga Ave Mixed Use 28. Stevens Creek Promenade 29. Volar (Residential) <p>Total Dwelling Units = 3,988</p>
	Industrial Projects		
	<ol style="list-style-type: none"> 12. Winchester Ministorage <p>Total Industrial Sq. Feet = 84,000</p>		





Willow Glen Planning Area Major Development Activity



Commercial Projects	Residential Projects
1. Silverado Memory Care	5. 3090 S Bascom
2. Medical Office Building 951 Bascom Ave	6. 1050 St. Elizabeth
3. Presentation High School Master Plan	7. 1240 South Bascom Ave
4. Holden Assisted Living	8. Bascom Gateway Station
Total Commercial Sq. Feet = 363,802	9. Maple Wood Plaza
	10. Moorpark Supportive Housing
	11. Roem Affordable Housing
	Total Dwelling Units = 1,306

