

# 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**

	<b>2023-2024</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>	<b>2027-2028</b>	<b>Five-Year Surplus</b>
Incremental Surplus/(Shortfall) <sup>1</sup>	\$29.9 M	(\$18.8 M)	(\$0.1 M)	\$9.4 M	\$0.1 M	<b>\$20.5 M</b>
% 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)**

	<b>2023-2024</b>
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)
<b>Estimated Service Level/Structural Shortfall for Planning Purposes</b>	<b>(\$32.3M)</b>

- 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
<b>Carry-Over from 2022-2023 Adopted Budget</b>	<b>\$ 0</b>
<b>Revenue Changes</b>	
- 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
<b>Total Revenue Changes (Increase)</b>	<b>\$ 78.22</b>
<b>Expenditure Changes</b>	
- 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
<b>Total Expenditure Changes (Increase)</b>	<b>\$ 48.30</b>
<b>2023-2024 Projected General Fund Surplus</b>	<b>\$ 29.92</b>

- 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)**

	<b>2023-2024</b>
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)
<b>Estimated Service Level/Structural Shortfall for Planning Purposes</b>	<b>(\$32.3 M)</b>

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)

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

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**

	<b>2023-2024</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>	<b>2027-2028</b>
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
<b>Total</b>	<b>\$3,090,000</b>	<b>\$16,789,000</b>	<b>\$27,630,000</b>	<b>\$36,551,000</b>	<b>\$40,626,000</b>

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
<b>Base Case</b>	<b>\$29.9 M</b>	<b>(\$18.8 M)</b>	<b>(\$0.1 M)</b>	<b>\$9.4 M</b>	<b>\$0.1 M</b>	<b>\$20.5 M</b>
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)**

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

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.

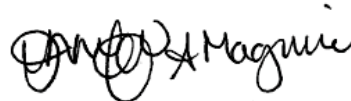
HONORABLE MAYOR AND CITY COUNCIL

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

<b>Program Service</b>	<b>Amount Budgeted in 2022-2023 on a One-Time Basis</b>
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
<b>General Fund Total</b>	<b>\$15,019,750</b>



## ATTACHMENT A

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

<b>Program Service</b>	<b>2022-2023 Modified Budget</b>
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

<b>Program Service</b>	<b>2022-2023 Modified Budget</b>
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
	<b>\$94,335,000</b>