

**CITY OF SAN JOSE**  
**2023-2024 PROPOSED OPERATING BUDGET**  
**GENERAL FUND OVERVIEW**

**Introduction**

For 2023-2024, General Fund revenue estimates (excluding Fund Balance) total \$1.4 billion, representing a 3.2% increase from the 2022-2023 Adopted Budget level. When the Fund Balance-Carryover is included, General Fund resources total \$1.5 billion, which is 17.7% below the prior year. This comparison, however, is misleading as the Proposed Budget does not yet contain estimates for carryover rebudget funding, which was a significant portion of the 2022-2023 Adopted Budget Fund Balance total. Rebudgets for the 2023-2024 budget will be brought forward later in the budget process.

Estimates for the 2023-2024 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2024-2028 Five-Year Forecast that was released at the end of February 2023. These estimates have been reviewed continually since the Forecast document was released and have been revised, as appropriate, in the Proposed Budget based on updated information. Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2022-2023; and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for 2023-2024. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2023-2024 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

| Revenue Category                      | 1<br>2021-2022<br>Actuals | 2<br>2022-2023<br>Adopted | 3<br>2023-2024<br>Forecast | 4<br>2023-2024<br>Proposed | 2 to 4<br>%<br>Change | % of<br>Total |
|---------------------------------------|---------------------------|---------------------------|----------------------------|----------------------------|-----------------------|---------------|
| Property Tax                          | \$ 414,123,282            | \$ 427,000,000            | \$ 460,400,000             | \$ 460,400,000             | 7.8%                  | 30.1%         |
| Sales Tax                             | 323,143,574               | 331,000,000               | 336,400,000                | 336,400,000                | 1.6%                  | 22.0%         |
| Transient Occupancy Tax               | 10,515,117                | 11,000,000                | 16,000,000                 | 16,000,000                 | 45.5%                 | 1.0%          |
| Franchise Fees                        | 48,378,348                | 49,168,393                | 50,808,393                 | 51,825,008                 | 5.4%                  | 3.4%          |
| Utility Taxes                         | 103,591,802               | 107,450,000               | 126,550,000                | 126,550,000                | 17.8%                 | 8.3%          |
| Business Taxes                        | 85,375,289                | 86,000,000                | 87,500,000                 | 87,500,000                 | 1.7%                  | 5.7%          |
| Real Property Transfer Tax            | 110,015,391               | 65,000,000                | 50,000,000                 | 50,000,000                 | (23.1%)               | 3.3%          |
| Telephone Line Tax                    | 21,313,810                | 20,000,000                | 22,000,000                 | 22,000,000                 | 10.0%                 | 1.4%          |
| Licenses and Permits                  | 22,032,078                | 20,993,100                | 20,361,969                 | 21,920,622                 | 4.4%                  | 1.4%          |
| Fees, Rates, and Charges              | 22,110,063                | 23,914,232                | 22,145,907                 | 22,377,680                 | (6.4%)                | 1.5%          |
| Fines, Forfeitures and Penalties      | 14,959,847                | 12,232,000                | 15,080,000                 | 15,080,000                 | 23.3%                 | 1.0%          |
| Rev. from Money and Property          | 9,126,202                 | 8,779,000                 | 14,864,000                 | 14,864,000                 | 69.3%                 | 1.0%          |
| Rev. from Local Agencies              | 24,755,916                | 17,107,945                | 16,946,171                 | 16,946,171                 | (0.9%)                | 1.1%          |
| Rev. from State of California         | 26,241,795                | 26,889,687                | 12,900,000                 | 17,811,658                 | (33.8%)               | 1.2%          |
| Rev. from Federal Government          | 3,096,138                 | 7,111,452                 | 0                          | 403,000                    | (94.3%)               | 0.0%          |
| Other Revenue                         | 329,257,694               | 16,823,368                | 9,768,544                  | 9,980,167                  | (40.7%)               | 0.7%          |
| Transfers and Reimbursements          | 171,492,292               | 122,058,848               | 124,161,469                | 125,568,078                | 2.9%                  | 8.2%          |
| <b>Subtotal</b>                       | <b>\$ 1,739,528,638</b>   | <b>\$ 1,352,528,025</b>   | <b>\$ 1,385,886,453</b>    | <b>\$ 1,395,626,384</b>    | <b>3.2%</b>           | <b>91.3%</b>  |
| Fund Balance-Carryover <sup>(1)</sup> | 558,987,400               | 507,133,721               | 76,351,447                 | 134,817,403                | (73.4%)               | 8.7%          |
| <b>Total General Fund Sources</b>     | <b>\$ 2,298,516,038</b>   | <b>\$ 1,859,661,746</b>   | <b>\$ 1,462,237,900</b>    | <b>\$ 1,530,443,787</b>    | <b>(17.7%)</b>        | <b>100.0%</b> |

<sup>(1)</sup> The Fund Balance figure does not include the Reserve for Encumbrances.

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**Economic Performance**

The following is a discussion of both the national and local economic outlooks used to develop the 2023-2024 revenue estimates. Various economic forecasts and models were reviewed in the development of the 2023-2024 revenue estimates. The City also uses an economic forecasting consultant and consultants that focus on particular revenue categories, such as Sales Tax and Transient Occupancy Tax, to assist in the development of the revenue estimates and provide information on the future outlook in these areas. A more detailed discussion on forecasted economic conditions can be found in the 2024-2028 Five-Year General Fund Forecast

**National 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.

The United States economy ended 2022 with the Gross Domestic Product (GDP) reaching an annualized growth rate of 2.9% in the 4<sup>th</sup> quarter. The increase in GDP reflected increases in consumer spending, private inventory investment, and federal, state, and local government spending. While the 4<sup>th</sup> 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”<sup>4</sup>

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<sup>4</sup> The Conference Board, Consumer Confidence Survey, February 28, 2023

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**National Outlook**

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.

**City of San José Outlook**

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.

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.<sup>1</sup>



<sup>1</sup> State of California Employment Development: Labor Market Information Division Press Release, January 20, 2023

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**Economic Performance**

**City of San José Outlook**

| <b>Unemployment Rate (Unadjusted)</b>   |                  |                  |                    |
|---|------------------|------------------|--------------------|
|   | <b>Dec. 2021</b> | <b>Nov. 2022</b> | <b>Dec. 2022**</b> |
| 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.

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.

| <b>Private Sector Construction Activity<br/>(Valuation in \$ Millions)</b> |                                  |                                  |                       |
|--|----------------------------------|----------------------------------|-----------------------|
|  | <b>YTD<br/>December<br/>2021</b> | <b>YTD<br/>December<br/>2022</b> | <b>%<br/>Increase</b> |
| Residential  | \$ 149.2                         | \$ 121.4                         | (18.6%)               |
| Commercial   | \$ 235.8                         | \$ 363.6                         | 54.2%                 |
| Industrial   | \$ 163.1                         | \$ 184.7                         | 13.3%                 |
|  | <b>\$ 548.1</b>                  | <b>\$ 669.8</b>                  | <b>22.2%</b>          |

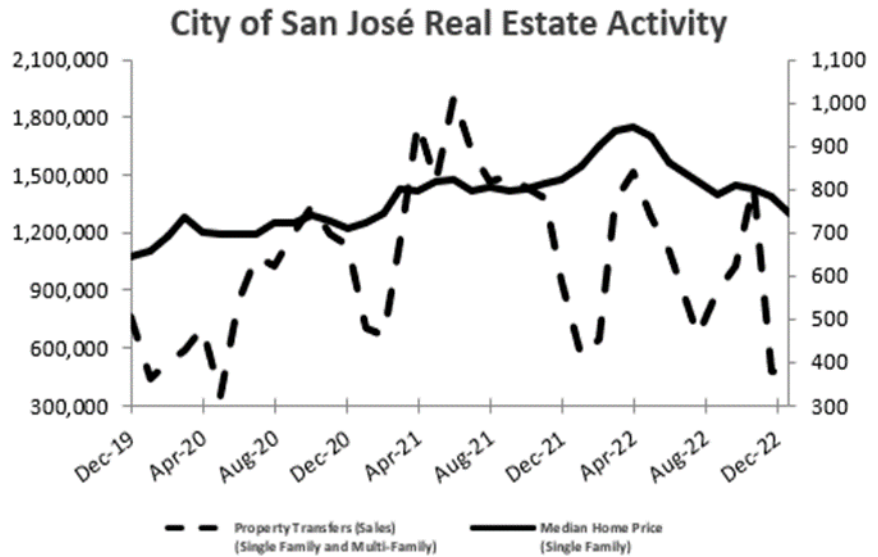
Industrial construction valuation through December was 13.3% higher than prior-year levels, with receipts totaling \$184.7 million in 2022-2023 and \$163.1 million in 2021-2022. Alterations accounted for almost 50% of all the industrial activity in November and all the activity in December. A notable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

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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.

**Economically Sensitive and Non-Economically Sensitive Revenue Drivers**

Economic conditions are the primary drivers for a number of the City’s revenues, with the most significant impacts in the Property Tax, Sales Tax, Business Taxes, Real Property Transfer Tax, and Transient Occupancy Tax revenue categories. Collectively, in 2023-2024 these revenue sources constitute almost 70% of total total General Fund revenue. Although the economically sensitive revenues make up a large portion of the General Fund, there are also many revenue categories that are considered non-economically sensitive and are typically driven by outside factors. For example, the Utility Tax and Franchise Fees categories have historically been more heavily impacted by utility rate changes, energy prices, and weather-based consumption levels. As a result, in the past these General Fund revenues have experienced no significant net gain or loss in times of an economic expansion or slowdown.

**Revised General Fund Forecast**

Between the issuance of the Five-Year Forecast in February 2023 and the release of the Proposed Budget in May 2023, revenue collections for 2023-2024 continued to be reviewed and updated. Based on this analysis, several of the revenue estimates presented in the February Forecast were revised in this budget to reflect more recent information. These adjustments resulted in a \$2.2 million net decrease to the General Fund Forecast, decreasing the revenue estimate from \$1.464 billion to \$1.462 billion (including fund balance). Below is a summary table of the changes incorporated into the Revised Forecast, which were used as the starting point in preparing the 2023-2024 Proposed Budget.

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**Revised General Fund Forecast**

| <b>Category</b>                      | <b>\$ Change</b>      | <b>Description</b>  |
|--------------------------------------|-----------------------|---|
| Property Tax                         | \$ 1,700,000          | Increase of \$1.7 million reflects updated information received in April 2022 from the County of Santa Clara regarding Successor Agency to the Redevelopment Agency Property Tax revenue.   |
| Beginning Fund Balance               | 351,447               | Increase of \$351,447 to reflect the liquidation of three reserves; Vehicle Abatement Program Enhancements Reserve (\$177,000) and East San Jose Small Business Corridor Staffing Reserve (\$174,447). These reserves are being liquidated as the staffing associated with the programs were added in the respective departments 2023-2024 Base Budget. |
| Licenses and Permits                 | 136,408               | Net increase of \$136,408 aligns revenues with estimated base costs and activity levels for Planning, Building and Code Enforcement Department, Police Department, Public Works Department, and Transportation Department permits.  |
| Revenue from Local Agencies          | 25,000                | Increase of \$25,000 reflects an updated revenue estimate for payments from other agencies for Animal Care services.  |
| Other Revenue                        | (1,720)               | Net decrease of \$1,720 aligns revenues with the estimated base costs and activity levels for Transportation Department revenues.   |
| Fines, Forfeitures, and Penalties    | (50,000)              | Decrease of \$50,000 aligns revenues with estimated base costs and activity levels for Public Works Department fines.   |
| Fees, Rates, and Charges             | (177,821)             | Net decrease of \$177,821 aligns revenues with estimated base costs and activity levels for Miscellaneous fees (-\$179,611), and Transportation Department fees (\$1,790).  |
| Revenue from the State of California | (900,000)             | Net decrease of \$900,000 reflects updated information from the State of California regarding Tobacco Settlement funds (-\$1.1 million) and Vehicle License Fee revenue (\$200,000).  |
| Transfers and Reimbursements         | (2,974,020)           | Net decrease of \$3.0 million reflects updated overhead reimbursements from capital and operating funds based on the final 2023-2024 base budget and overhead rates (-\$2.8 million) and lower transfers and reimbursements to the General Fund (-\$191,837).   |
| <b>Total</b>                         | <b>(\$ 1,890,706)</b> |   |

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**Changes from Revised Forecast to Proposed Budget**

From the Revised Forecast of \$1.46 billion, a net increase of \$68.2 million to the General Fund revenue estimates are included in the Proposed Budget, bringing the 2023-2024 revenue estimate to \$1.53 billion (including fund balance). The components of this change include an increase to the estimate for 2022-2023 Ending Fund Balance/2023-2024 Beginning Fund Balance (\$58.5 million) and an increase to various revenue categories (\$9.7 million). The revenue changes are summarized in the table below.

| <b>Category</b>                      | <b>\$ Change</b> | <b>Description</b>  |
|--------------------------------------|------------------|---|
| Beginning Fund Balance               | \$ 58,465,956    | Net increase of \$58.5 million reflects: the liquidation of various reserves (\$23.5 million), which includes various Measure E Reserves (\$17.5 million), Fire Station FF&E Reserve (\$3.8 million), 2023-2024 Recruitment Centralization Pilot Program Reserve (\$1.1 million), Solid Waste Code Enforcement Reserve (\$600,000), and Climate and Seismic Resilience Planning Reserve (\$463,000); and fund balance from additional revenue and expenditure savings that is anticipated to be received in 2022-2023 and be available for use in 2023-2024 (\$35.0 million). |
| Revenue from the State of California | 4,911,658        | Increase of \$4.9 million reflects three new State grants; the CaliforniansForAll Youth Workforce Development Program (\$2.9 million), 280 Almaden Avenue Beautification Improvement Project (\$1.85 million), and Regional Early Action Planning (REAP) Program (\$163,154).   |
| Transfers and Reimbursements         | 1,406,609        | Net increase of \$1.4 million reflects additional overhead from the budget actions that change the staffing levels funded by special and capital funds.   |
| Licenses and Permits                 | 1,558,653        | Net increase of \$1.6 million reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Planning, Building, and Code Enforcement Department (\$943,364), Fire Department (\$610,000), Police Department (\$5,269), and Finance Department (\$20).  |
| Franchise Fees                       | 1,016,615        | Increase of \$1.0 million reflects an increase in the Commercial Solid Waste fees by 7.8% based on cost changes including a Consumer Price Index adjustment.  |
| Revenue from Federal Government      | 403,000          | Increase of \$403,000 reflects a grant from the Urban Areas Security Initiative (UASI) for the Office of Emergency Management.  |

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**Changes from Revised Forecast to Proposed Budget**

| <b>Category</b>          | <b>\$ Change</b>     | <b>Description</b>  |
|--------------------------|----------------------|---|
| Fees, Rates, and Charges | \$ 231,773           | Net increase of \$231,773 reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Miscellaneous fee revenue (\$236,834), Parks, Recreation and Neighborhood Services department fee revenue (\$101,901), Police Department fee revenue (\$168), and Transportation Department fee revenue (-\$107,130). |
| Other Revenue            | 211,623              | Net increase of \$180,000 reflects a grant from Destination Home Silicon Valley (\$180,000) and reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Transportation Department (\$31,623).   |
| <b>Total</b>             | <b>\$ 68,205,887</b> |   |