
2023-2024 PROPOSED OPERATING BUDGET OVERVIEW

May 10, 2023



PRESENTATION AGENDA

- Opening Remarks
- Proposed Budget Overview
- Budget Balancing Strategy and Recommended Budget Actions
- Next Steps in the Budget Process
- Economic Outlook

2023-2024 PROPOSED OPERATING BUDGET GENERAL FUND OPERATING MARGIN



2024-2028 Revised General Fund Five-Year Forecast (\$ in millions)¹

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Five-Year Surplus/ (Shortfall)
Incremental Surplus/ (Shortfall)	\$35.3 ²	(\$18.8)	(\$0.1)	\$9.4	\$0.1	\$25.9

¹ 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.

² This figure was revised from the \$29.9 million surplus as presented in the February 2023 Forecast as a result of continued analysis of projected revenues and expenditures.

2023-2024 PROPOSED BUDGET OVERVIEW



- Balanced all funds (General Fund, Special and Capital Funds)
- General Fund projected surplus of \$35.3 million fully allocated, included reserving ongoing funding of \$18.8 million to resolve the shortfall anticipated in 2024-2025
- Investment Priorities:
 - Increasing Community Safety
 - Reducing Unsheltered Homelessness
 - Cleaning Up Our Neighborhoods
 - Attracting Investment in Jobs and Housing

Other select areas of urgent, important, and continuing work within other community services, strategic support services, and deferred infrastructure

- Budgeted Positions (all funds) are up 2.1%, from 6,884 to 7,033

2023-2024 PROPOSED BUDGET OVERVIEW

BUDGET BALANCING CONSIDERATIONS



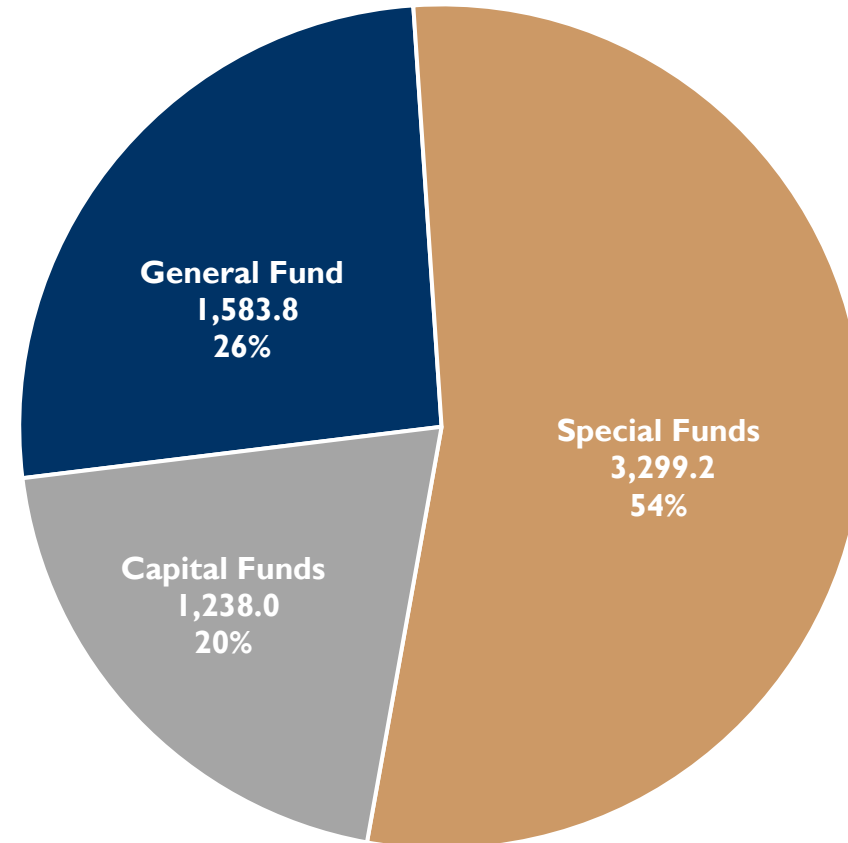
CITY OF SAN JOSE PROPOSED OPERATING BUDGET OVERVIEW



2023-2024 PROPOSED CITY BUDGET ¹: \$5.2 billion

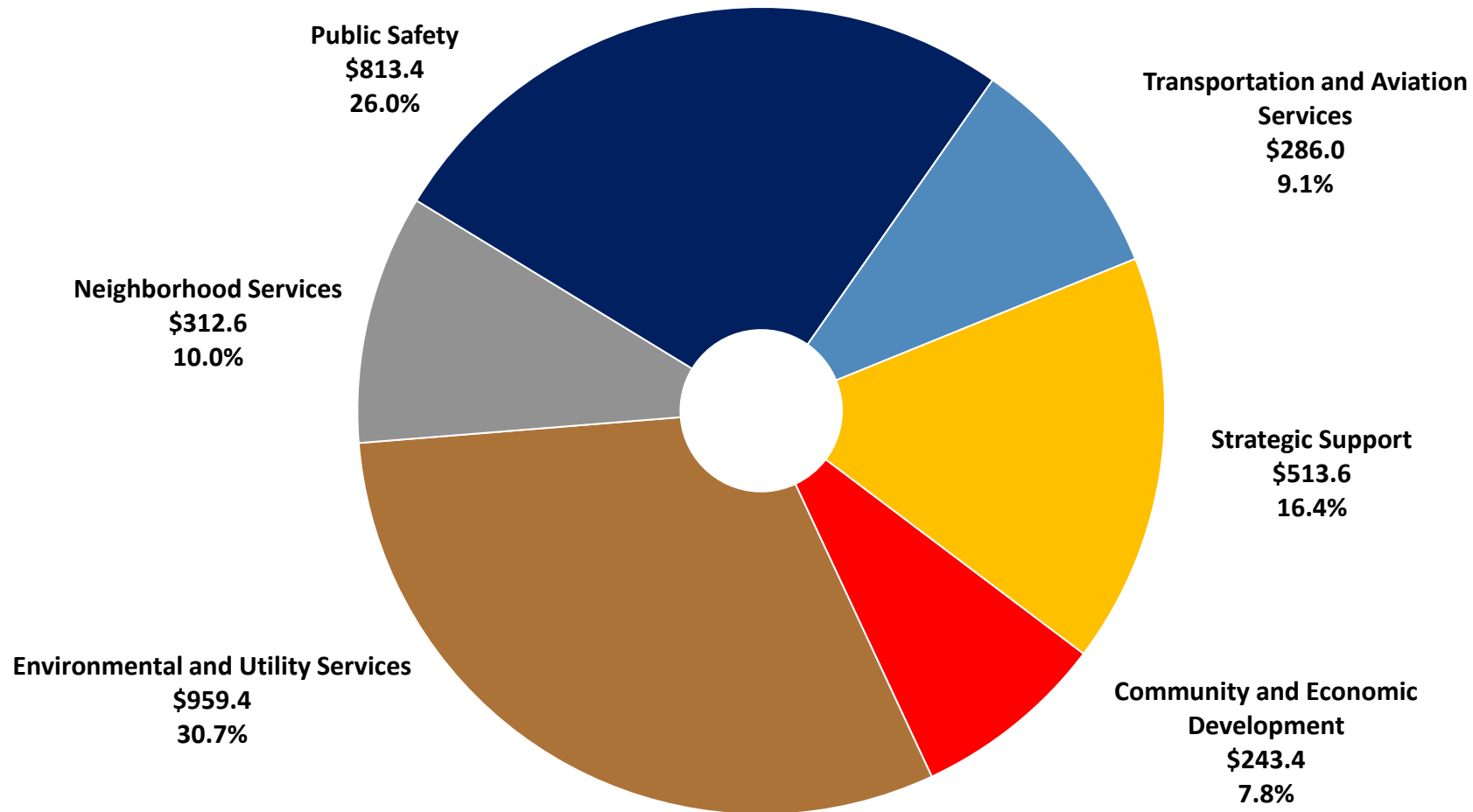
TOTAL NUMBER OF FUNDS: 137

TOTAL NUMBER OF POSITIONS (FTE): 7,033



¹ An adjustment of \$880 million is necessary to arrive at the \$5.2 billion net 2023-2024 Proposed City Budget to avoid the double-counting of transfers, loans and contributions between City funds.

2023-2024 PROPOSED OPERATING BUDGET USES BY CITY SERVICE AREA (ALL FUNDS; \$ IN MILLIONS)

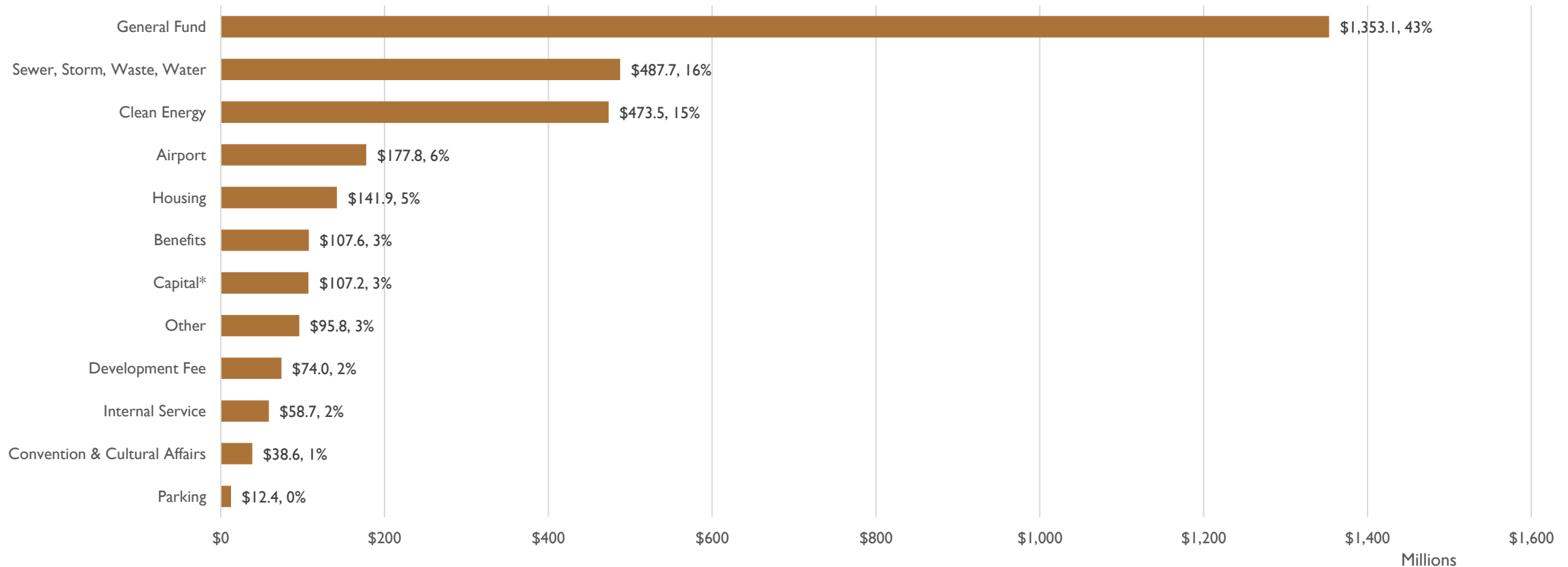


* Excludes Fund Balance, Transfers, Reserves, and Capital Fund (project) expenditures.

CITY OF SAN JOSE PROPOSED OPERATING BUDGET OVERVIEW – FUND CATEGORIES



2023-2024 Proposed Operating Budget by Fund Category (exc. Transfers, Reserves, and Fund Balance)

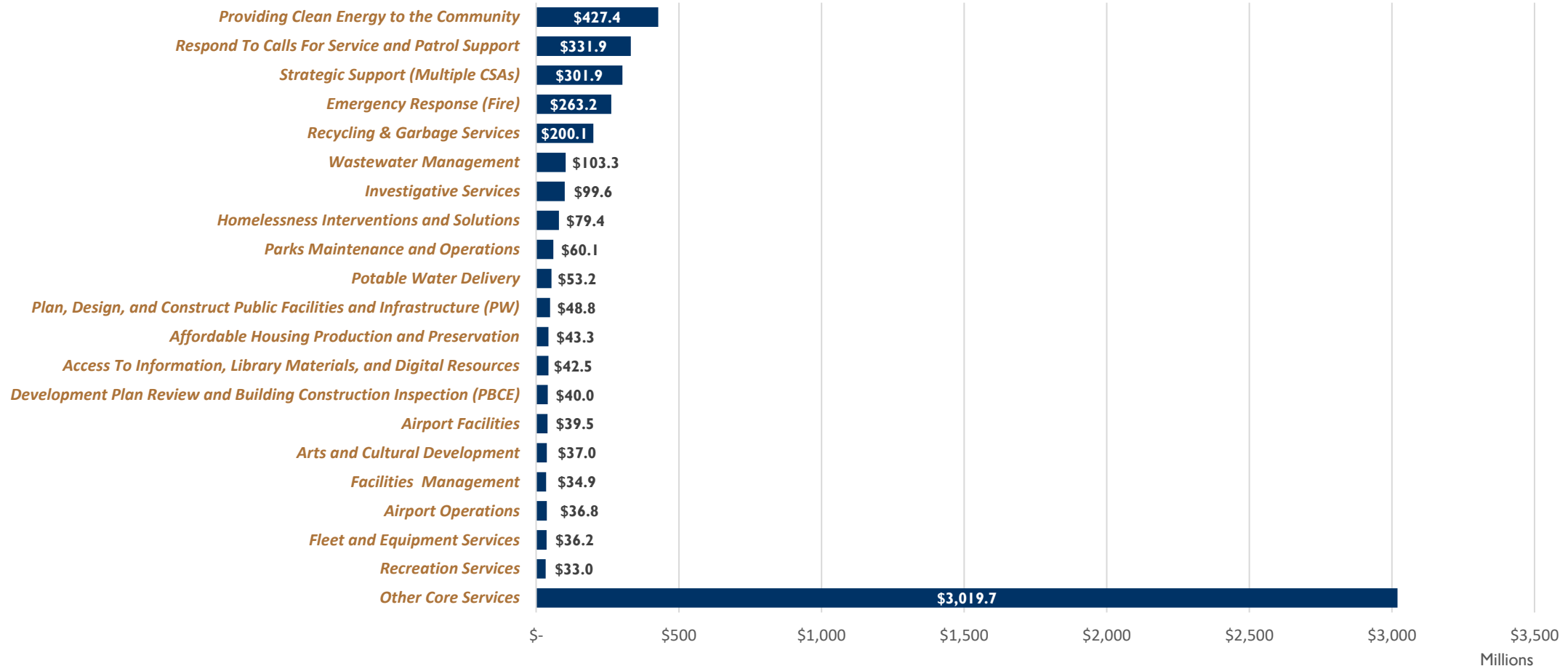


* Capital Fund expenditures include only personal services and overhead reimbursements.

CITY OF SAN JOSE PROPOSED OPERATING BUDGET OVERVIEW – CORE SERVICES

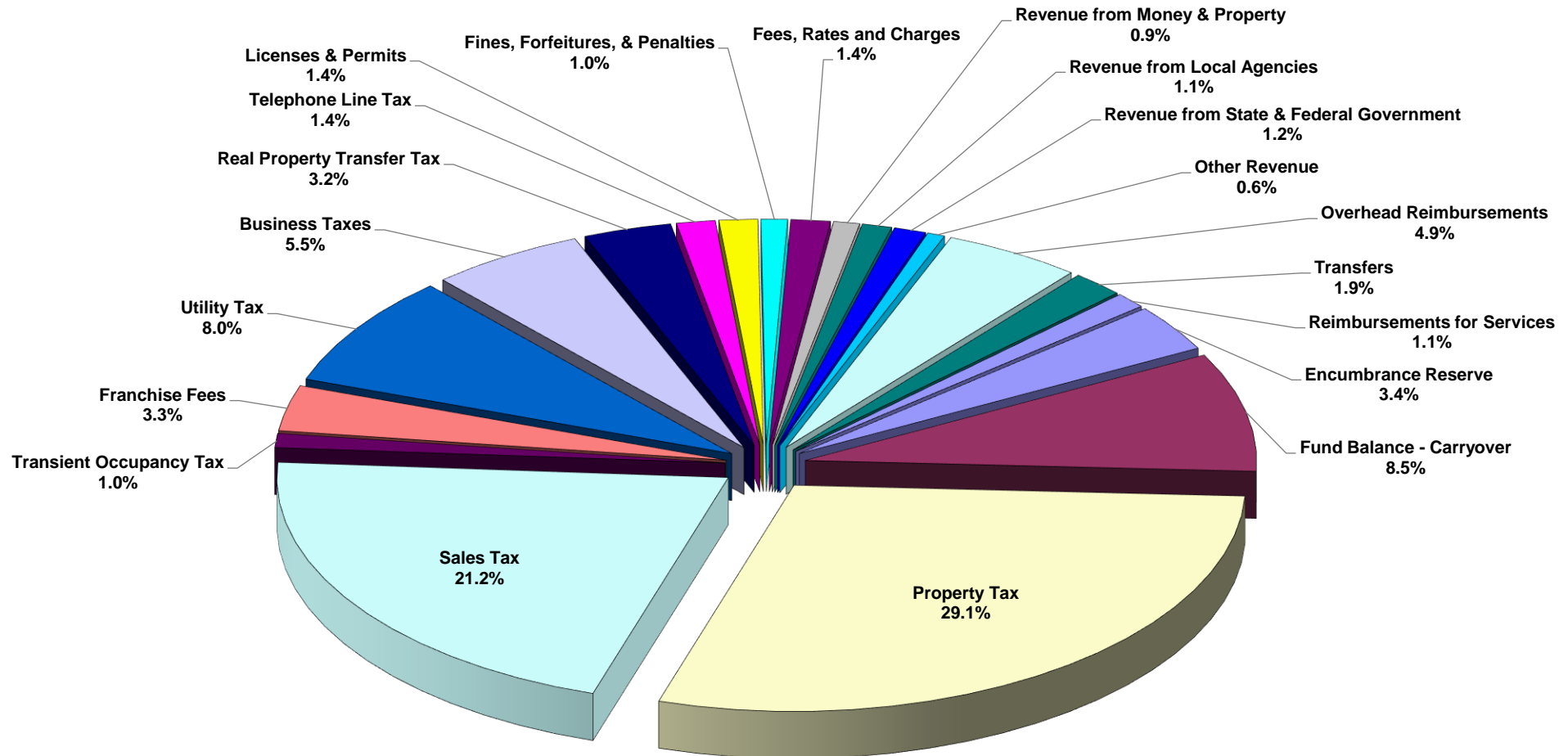


2023-2024 Proposed Budget by Core Service - All Funds (excl. Transfers, Reserves and Fund Balance)



2023-2024 PROPOSED OPERATING BUDGET

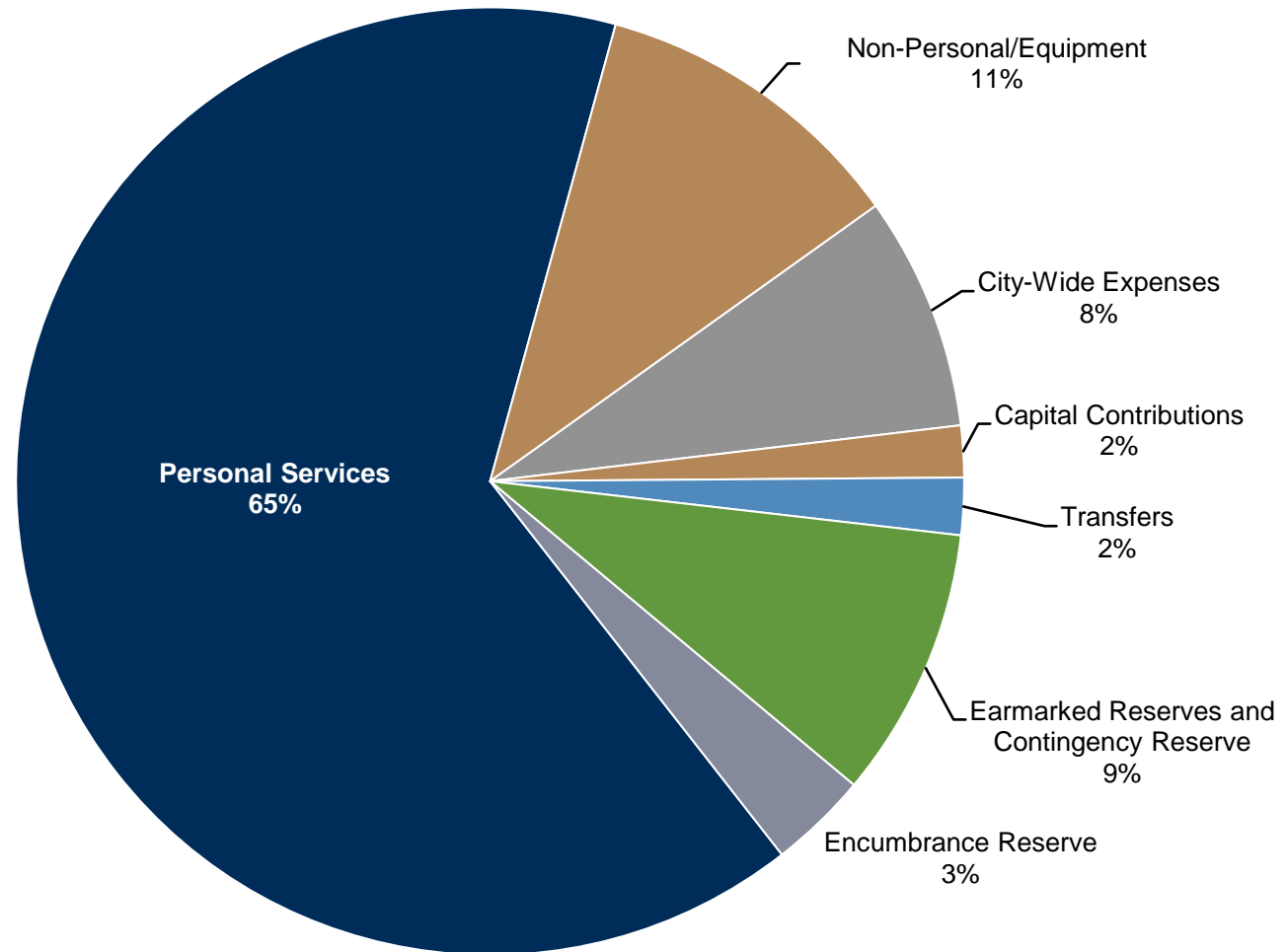
GENERAL FUND SOURCES



Total General Fund Sources: \$1,583,796,728

2023-2024 PROPOSED OPERATING BUDGET

GENERAL FUND USES BY CATEGORY



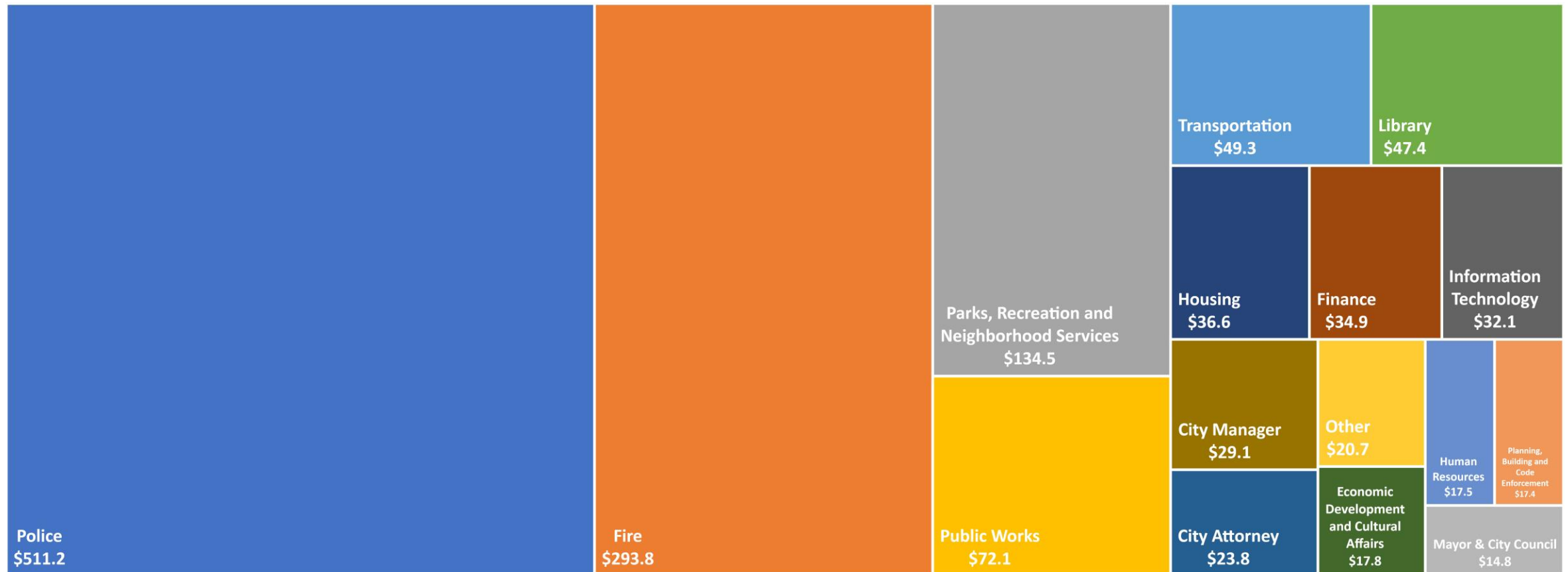
Total General Fund Uses: \$1,583,796,728

2023-2024 PROPOSED OPERATING BUDGET

GENERAL FUND USES BY DEPARTMENT



2023-2024 General Fund Budget by Department (excl. Transfers and Reserves)



2023-2024 BUDGET BALANCING STRATEGY

GENERAL FUND



	2023-2024	Ongoing
Total General Fund Surplus	\$ 35.3	\$ 35.3
Recommended Balancing Strategy		
– Changes in Sources	\$ 68.2	\$ 4.5
– Changes in Uses	103.5	39.8
Total Balancing Strategy	\$ (35.3)	\$ (35.3)
Amount Remaining	\$ 0	\$ 0

2023-2024 PROPOSED BUDGET INVESTMENTS

GENERAL FUND*



Investment Priority	2023-2024 Adjustments	Ongoing Adjustments
Increasing Community Safety	\$22.9 million	\$6.1 million
Reducing Unsheltered Homelessness	\$38.0 million	\$0.5 million
Cleaning Up Our Neighborhoods	\$15.6 million	\$8.9 million
Attracting Investments in Jobs and Housing	\$3.5 million	\$0.2 million
Other Community Services	\$19.0 million	\$4.3 million
Strategic Support Services	\$4.9 million	\$3.2 million
Deferred Infrastructure	\$27.5 million	\$0.9 million
Investment Priority Total	\$131.4 million	\$24.1 million
Measure E Revenue Stabilization Reserve	\$15.1 million	
2024-2025 Future Deficit Reserve	-	\$18.8 million
Use of Reserves	(\$43.0 million)	(\$3.1 million)
Total	\$103.5 million	\$39.8 million

* While only the General Fund is shown in this table, other Special and Capital Funds may also contribute funding to these Investment Priorities.

RECOMMENDED BUDGET ACTIONS (PARTIAL LIST)

INCREASING COMMUNITY SAFETY

- Police Department Sworn Backfill Reserve (\$5.0 million)
- Fire Station 32 – Fixtures, Furniture, and Equipment (\$1.8 million)
- Firefighter/Paramedic Lateral Recruiting Academy (\$1.6 million)
- Fire Battalion Staffing (\$1.2 million)
- Police Field Patrol Staffing (\$1.1 million)
- Community Services Officer Downtown Ambassador (\$907,000)
- Community-Based Violence Solutions (\$400,000)
- Vision Zero and Grants Evaluation Staffing (\$280,000)



RECOMMENDED BUDGET ACTIONS

REALLOCATION OF UNCOMMITTED MEASURE E RESOURCES



Direction in the City Council-approved Mayor’s March Budget Message: for the Administration “to explore the use of uncommitted Measure E resources for reallocation to homeless prevention, support, and management investments as part of the overall strategy to fund the priorities described in this message.”

Considerations to determine the amount of uncommitted Measure E resources recommended for reallocation to meet this direction:

- Funding levels for homelessness prevention and support should be significant – for City staffing capacity, for outreach capacity, and to drive the development of EIH and safe parking sites – to provide resources in 2023-2024 that can be expended over a multiyear period;
- Program sufficient levels of Measure E resources to support previously approved affordable housing projects and those projects that successfully competed for an allocation of funding from recent Notice of Funding Availability;
- To provide maximum flexibility to meet the above objectives, take into consideration both Measure E resources received in prior years through 2022-2023 and anticipated revenues for 2023-2024; and
- Ensure that a portion of uncommitted Measure E resources remain unspent to absorb the likelihood that Measure E revenues in 2022-2023 will fall short of the \$65 million revenue estimate so funding commitments stay intact. Slide 16

RECOMMENDED BUDGET ACTIONS

REALLOCATION OF UNCOMMITTED MEASURE E RESOURCES



Determination of the Level Of Uncommitted Measure E Resources

Uncommitted Affordable Housing Allocation

Current and Prior Year Uncommitted Affordable Housing Allocation	\$70.3 million
2023-2024 Uncommitted Affordable Housing Allocation	\$35.6 million
Total Uncommitted Measure E	\$105.9 million

Amount Retained for Affordable Housing Purposes

Inflation Reserve for Previously Approved Projects	\$11.0 million
Commercial Space for Previously Approved Projects	\$1.3 million
Fully Fund Affordable Housing Projects from Recent NOFA (partially supports 519 affordable housing units)	\$35.5 million
Affordable Housing Acquisition Reserve	\$5.0 million
Total Amount Retained for Affordable Housing (50% of Uncommitted)	\$52.8 million

Measure E Revenue Stabilization Reserve (14% of Uncommitted) \$15.1 million

Amount Recommended for Reallocation to Homelessness Prevention, Support, and Management Services (36% of Uncommitted) \$38.0 million

RECOMMENDED BUDGET ACTIONS REDUCING UNSHELTERED HOMELESSNESS



Recommended One-Time Reallocation of Uncommitted Measure E Resources

Recommended Investments	Reallocated Amount	Anticipated Expenditure Timeframe
Interim Housing - Site Acquisition, Development, and Operations (including Safe Parking)	\$20.9 million	Multi-year
Homelessness Response and Outreach	\$10.5 million	3-year
Homelessness Prevention	\$4.8 million	1-year
Homelessness Coordination Team	\$1.8 million	3-year
Investments to Reduce Unsheltered Homelessness	\$38.0 million	

RECOMMENDED BUDGET ACTIONS (PARTIAL LIST)

CLEANING UP OUR NEIGHBORHOODS



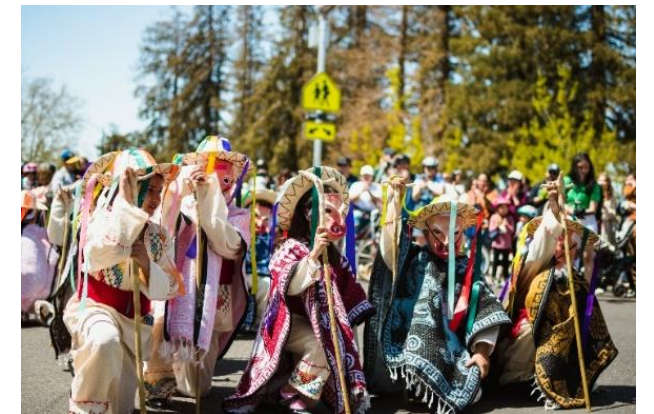
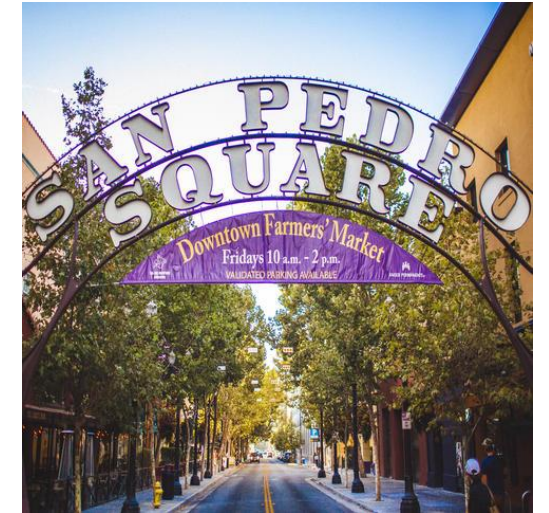
- Beautify San José (\$12.3 million)
- 280 Almaden Avenue Beautification Improvement Project (\$1.9 million)
- Automated Public Toilets (\$438,000)



- San José 311 Program (\$500,000)
- “Beautify Your Block” BSJ Grants (\$150,000)

RECOMMENDED BUDGET ACTIONS (PARTIAL LIST) ATTRACTING INVESTMENTS IN JOBS AND HOUSING

- Supplemental Arts + Cultural Funding (\$1.0 million)
- Storefront Activation Grant Program (\$750,000)
- Downtown Management and Citywide Business Development Staffing (\$318,000)
- Permit Center General Customer Support Staffing (\$280,000)
- Market Ready Urban Villages (CEQA – Pre-Clearance, \$300,000)
- Mobile Home Park Protections (\$240,000)
- Anti-Displacement Strategy Staffing (\$210,000)



RECOMMENDED BUDGET ACTIONS (PARTIAL LIST)

OTHER COMMUNITY SERVICES

- Digital Equity Program (\$1.8 million)
- Animal Care and Services Staffing (\$1.4 million)
- Youth Scholarship Funding (\$1.0 million)
- Recycling Contamination Reduction (\$840,000)
- Storm and Sanitary Sewer Infrastructure and Regulatory Investment Needs (\$812,000)
- Child and Youth Services Programming Staffing (\$529,000)
- Disability Community Engagement and Service Evaluation (\$180,000)



RECOMMENDED BUDGET ACTIONS

STRATEGIC SUPPORT AND DEFERRED INFRASTRUCTURE



- IT Sinking Fund Reserve (\$4.5 million)
- Transfer to the Vehicle Maintenance and Operations Fund (Fleet Replacement, \$4.0 million)
- Windows 11 Upgrade, Equipment, and Resources (\$3.2 million)
- Disaster Recovery and Grants Management Staffing (\$1.3 million)
- Recruitment Centralization Pilot Program (\$1.0 million)
- Pipeline Development Staffing (\$479,000)



Cultural Facilities Capital Rehabilitation Projects (General Fund)	
Center for the Performing Arts – Chiller, Cooling Tower, and Boiler Replacement	\$7.6 million
San José Museum of Art – Cooling Tower Replacement	\$2.9 million
The Tech Interactive – Chiller and Cooling Tower Replacement	\$1.2 million
Children’s Discovery Museum – Curb and Walkway Rehabilitation	\$0.4 million
Total	\$12.1 million

RECOMMENDED BUDGET ACTIONS

FEE AND CHARGES ADJUSTMENTS



- **Utilities:**
 - Storm Sewer Service Fee: No increase
 - Sewer Service and Use Charge Fee: No increase
 - Recycle Plus Rates: 4% increase for single-family and 2% for multi-family dwellings
 - Municipal Water System Rates: revenue increase of 14.6% increase (rates will vary by user)
- **Development Fee Programs:** fee increases of approximately 5% to 10% recommended
- **Other Fee Programs:** fee changes to generally maintain cost recovery, with exceptions

NEXT STEPS



- | | |
|---|---|
| May 10 th through 17 th | City Council Budget Study Sessions |
| May 8 th , 10 th , 20 th , 22 nd
31 st , and June 6 th , 7 th | Community Budget Meetings |
| May 16 th /June 12 th | Public Budget Hearings |
| June 2 nd | Mayor's June Budget Message Released |
| June 13 th | Council Review/Approval of Mayor's June Budget Message and Budget |
| June 20 th | Adoption of the 2023-2024 Budget and Fees and Charges |

2023-2024 PROPOSED OPERATING BUDGET OVERVIEW

Jim Shannon
Budget Director

Bonny Duong
Assistant Budget Director

Claudia Chang
Deputy Budget Director

Selena Ubando
Financial Status Coordinator

Bryce Ball
Operating Budget Coordinator

Stewart Patri
Capital Budget Coordinator



FY23/24 Economic Outlook

May 10, 2023 Office of Economic Development and Cultural Affairs

Nanci Klein, Director of OEDCA

Key Topics

1 **General Fund Revenue Sources**

2 **National and Local Economic Outlook**

3 **Factors Impacting Revenue Sources**

4 **Fiscal Impact of Land Use Decisions**

What are the major General Fund revenue sources and how are they collected and distributed?



Economically Sensitive General Fund Revenue Sources

\$5.2B
Total City Budget



\$1.6B
Total General Fund



Property Tax
\$460.4M
29.1%



Sales Tax
\$336.4M
21.2%



Business Tax
\$87.5M
5.5%

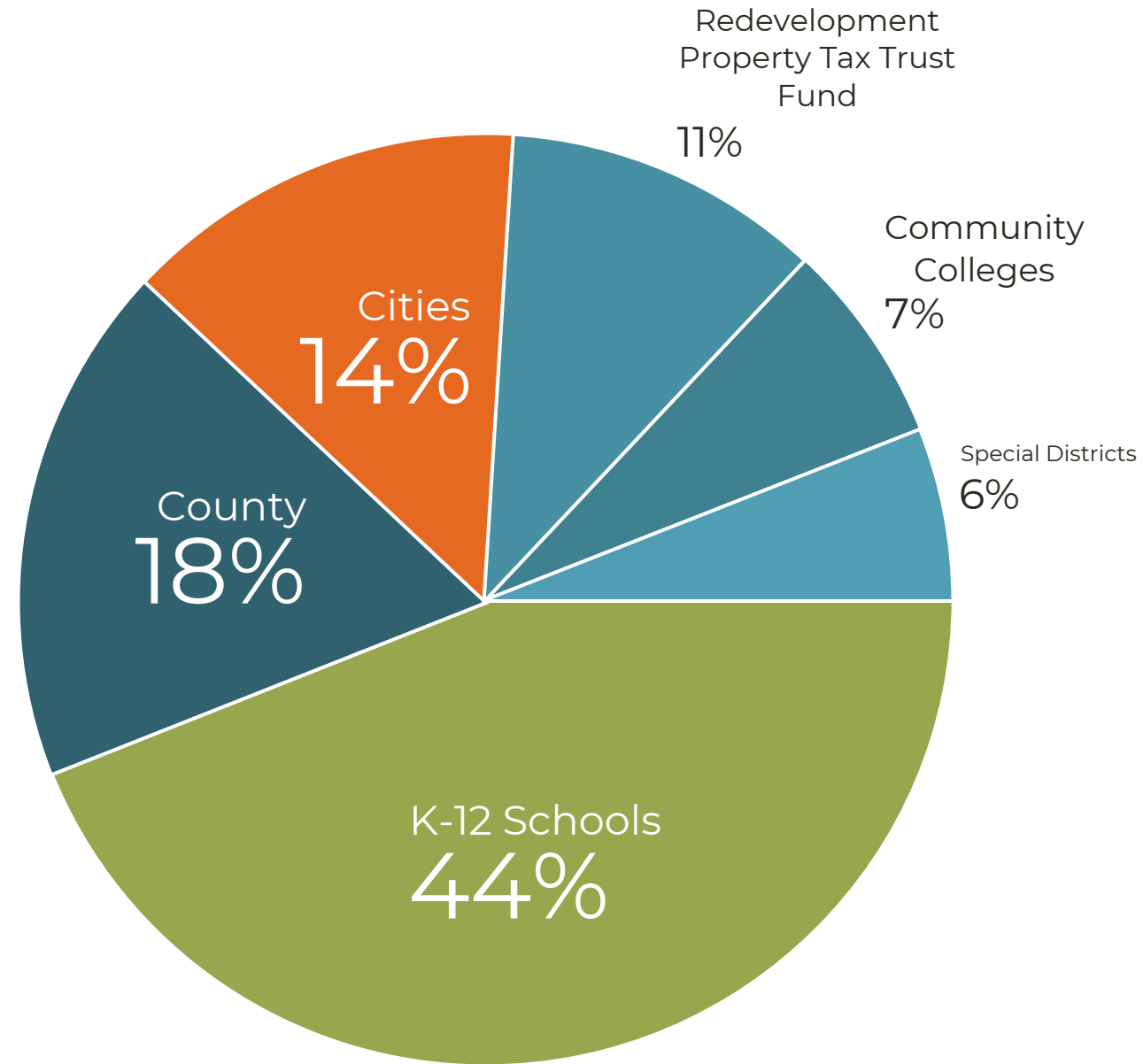


Transient
Occupancy Tax
\$16M
1%

460.4 million is 29.1% of the
General Fund

Property Tax

City of San Jose receives ~14%
of the Countywide 1%
Property Tax



Example:

Property
Tax paid by
a major
employer

Assessed Value: \$133.7M

1% Tax Charge: \$1.37M

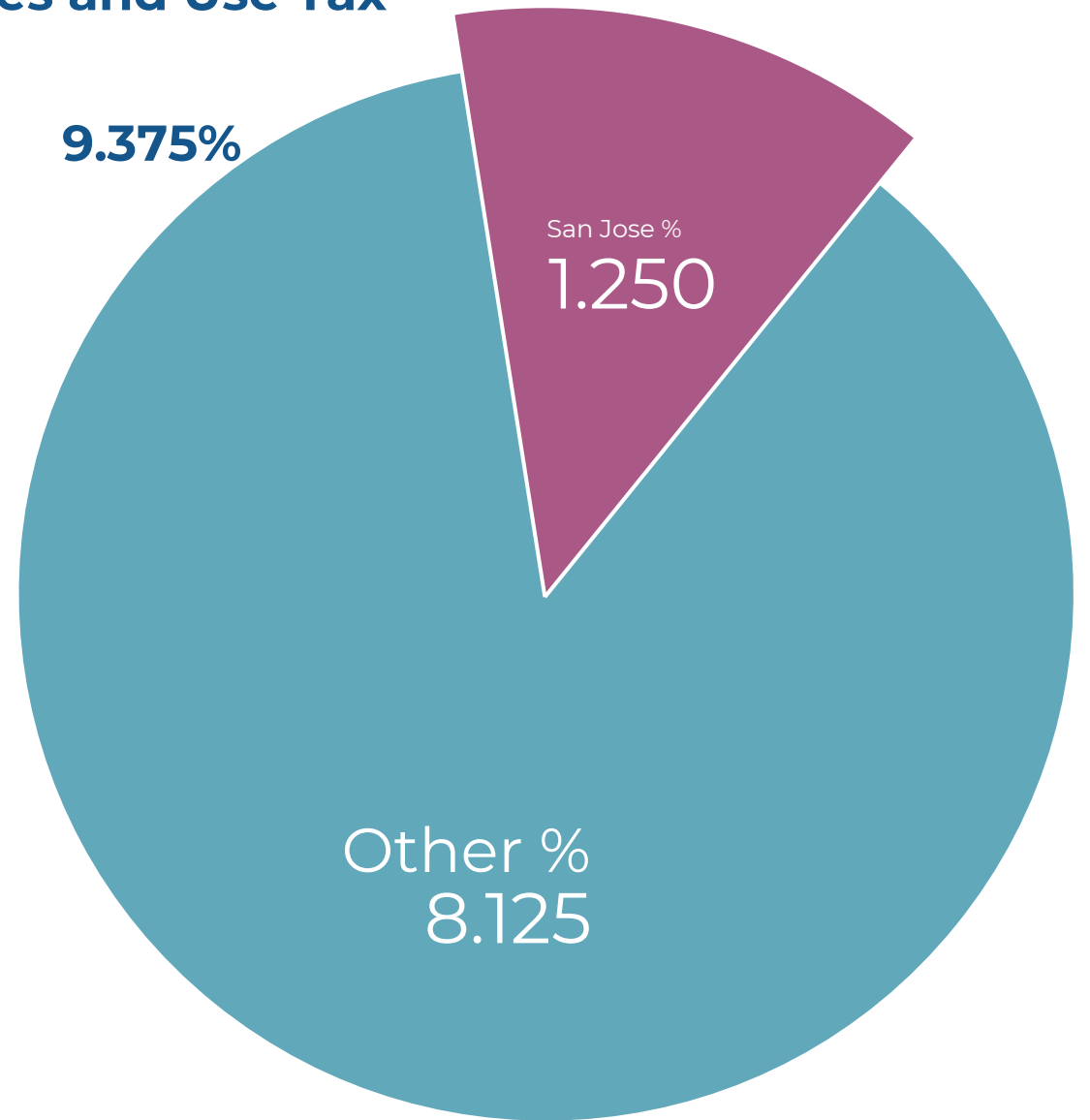
Government Entity	Amount	Tax Rate
San Jose Unified	\$623,681	46.66%
Santa Clara County	\$199,161	14.90%
Education Revenue Augmentation Funds	\$180,448	13.50%
San Jose City	\$167,750	12.55%
San Jose Evergreen Community College	\$92,228	6.90%
County School Service	\$44,109	3.30%
Santa Clara Valley Water District Central Zone	\$15,639	1.17%
SCC importation Water-Misc District	\$6,951	0.52%
Bay Area Air Quality Management District	\$2,673	0.20%
Santa Clara Valley Water District	\$2,272	0.17%
Santa Clara Valley Water District West Zone 4	\$1,738	0.13%
Total	\$1.3M	100%

\$336.4 million is 21.2% of the General Fund

Sales and Use Tax

City of San Jose receives 1.25% of the overall **9.375%** statewide sales and use tax

Sales and Use Tax





**Every person engaged in
business in the City shall
pay a business tax**

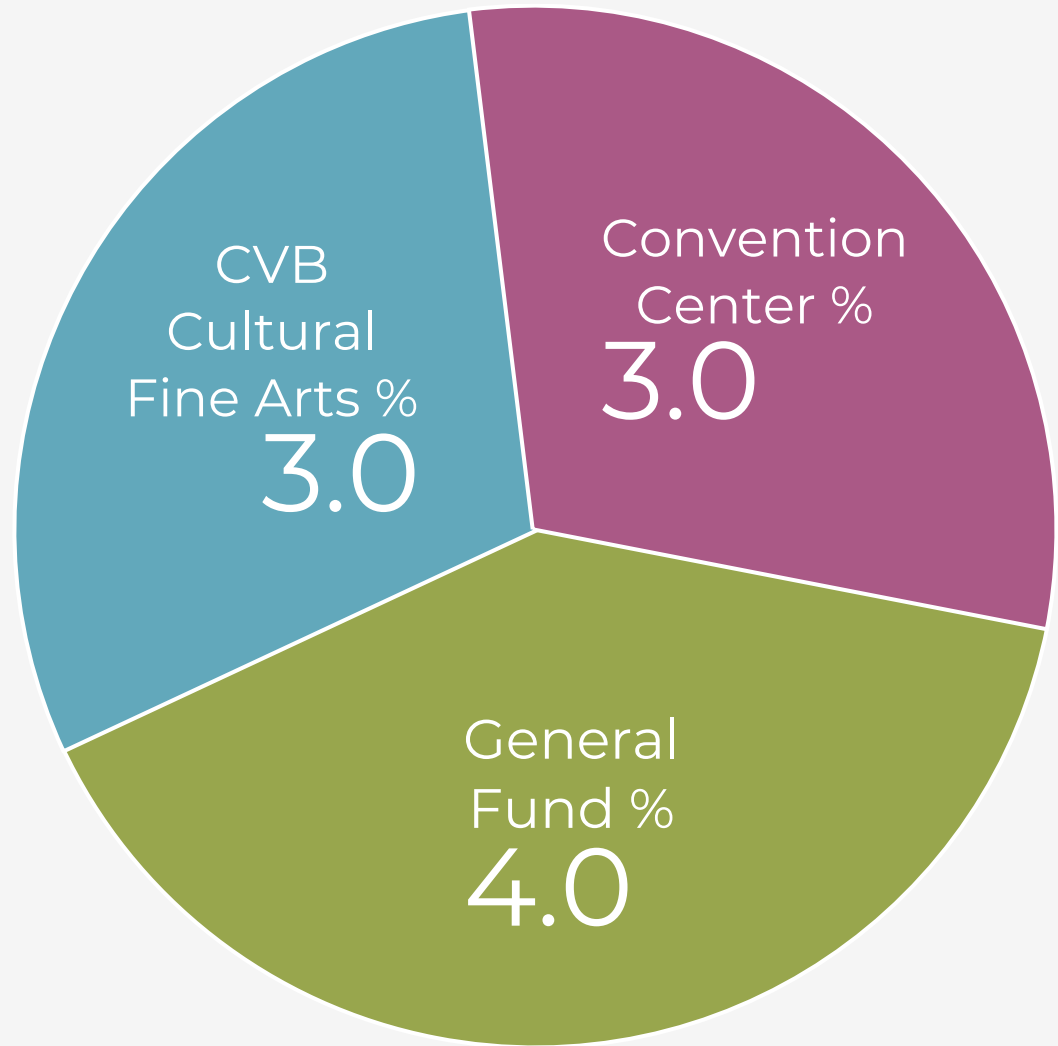
Business Taxes

**\$87.5 million is 5.5% of the
General Fund**



\$16 million is 1% of the
General Fund

Transient Occupancy Tax (10%)



How is our economy performing?



National Economic Outlook

Macroeconomic Uncertainty: Slow Growth, Possible Recession

- Significant progress has been made towards recovery from the pandemic-induced economic slowdown: V-shaped recovery
- Strong job growth has been attained, but challenges to achieving a full and equitable recovery lie ahead, especially with the emergence of inflation in 2021 and tightening monetary policy in 2022

Indicators to Watch



Gross Domestic Product (up 2.1%)

Lower than expected growth but back to a normal pattern



Unemployment Rate (3.4%)

Added more than 250K jobs-above expectations



Consumer Price Index (up 5%)

Declining but still far from the 2% norm



Federal Funds Rate (5-5.25%)

10th hike in 14 months

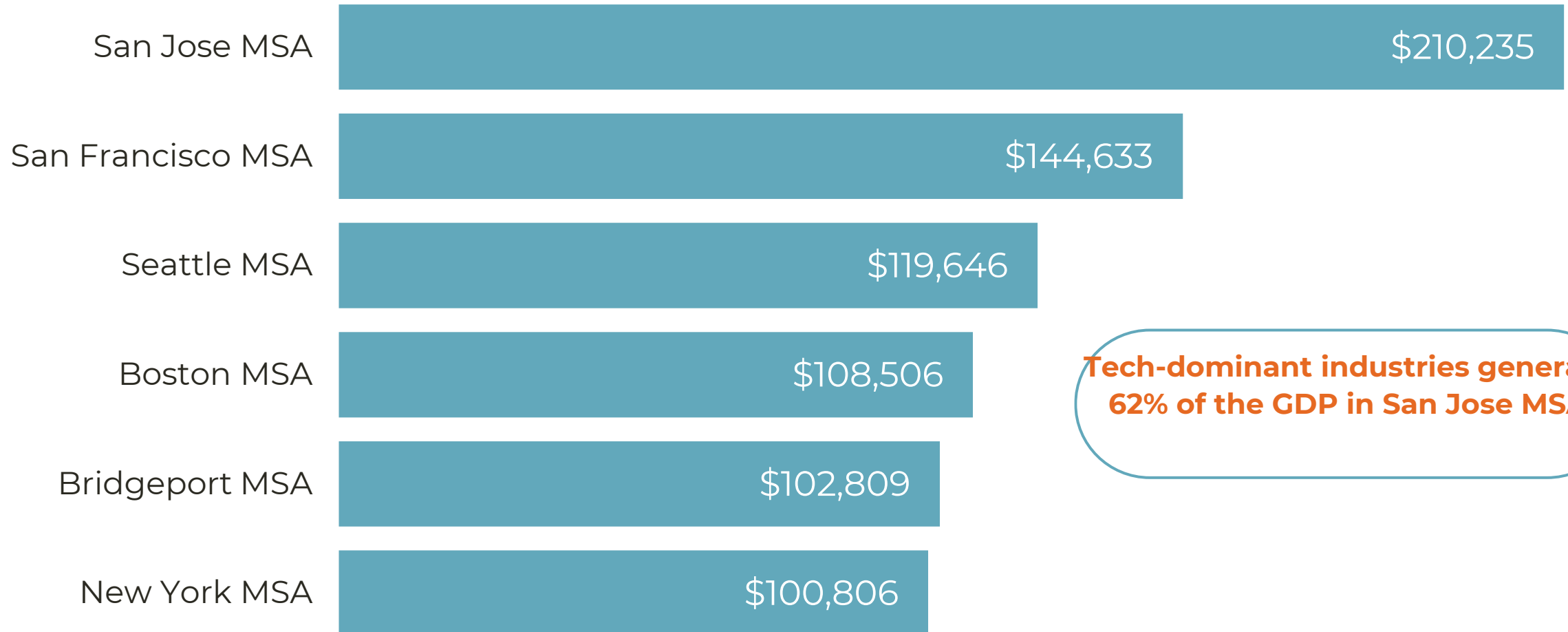
Local Economic Outlook

Struggling but not in Crisis

- The interplay between interest rates and inflation has various impacts on the local economy
- Despite major challenges such as tech layoffs, bank runs, declining venture capital investments, remote work and recent falls in commercial real estate valuations, economy is not in crisis (yet)

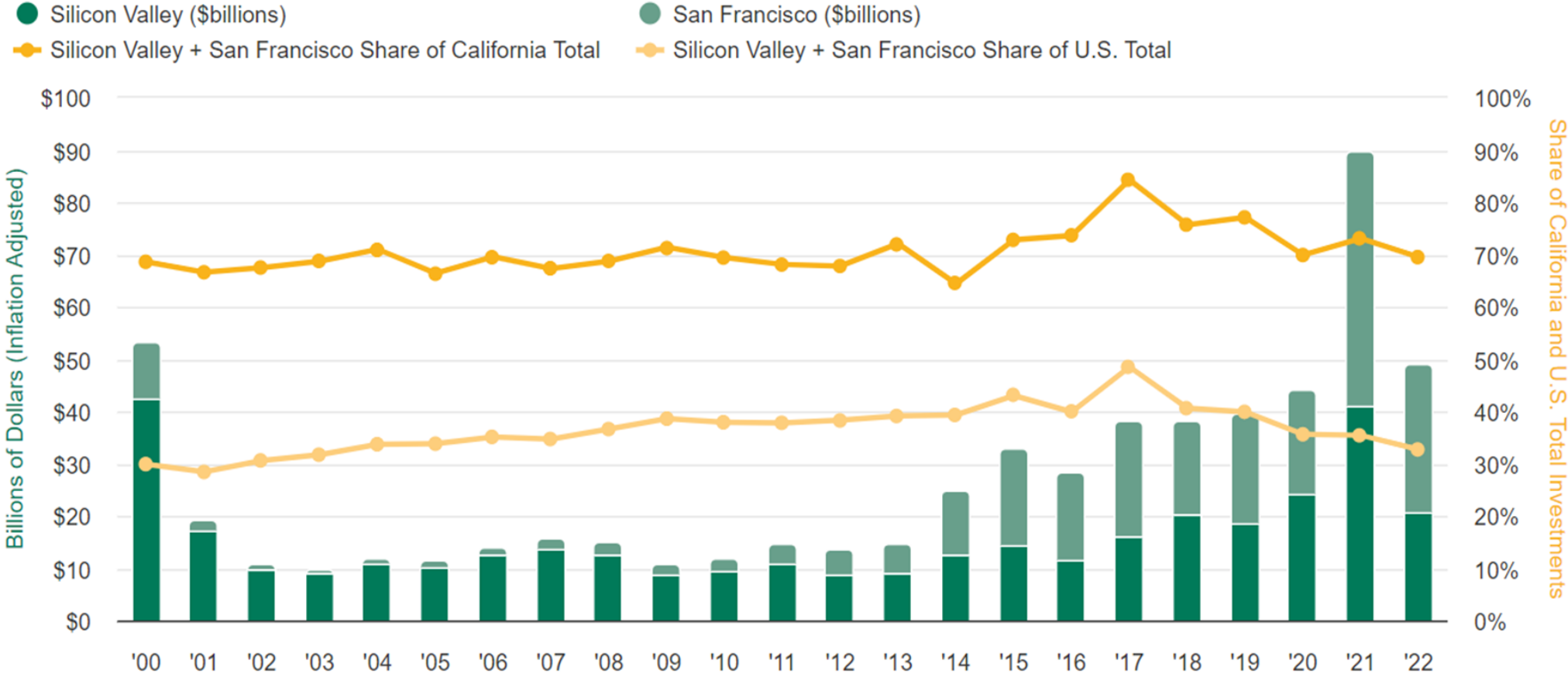
Strong Economic Base Driven by Tech

Largest GDP per Capita



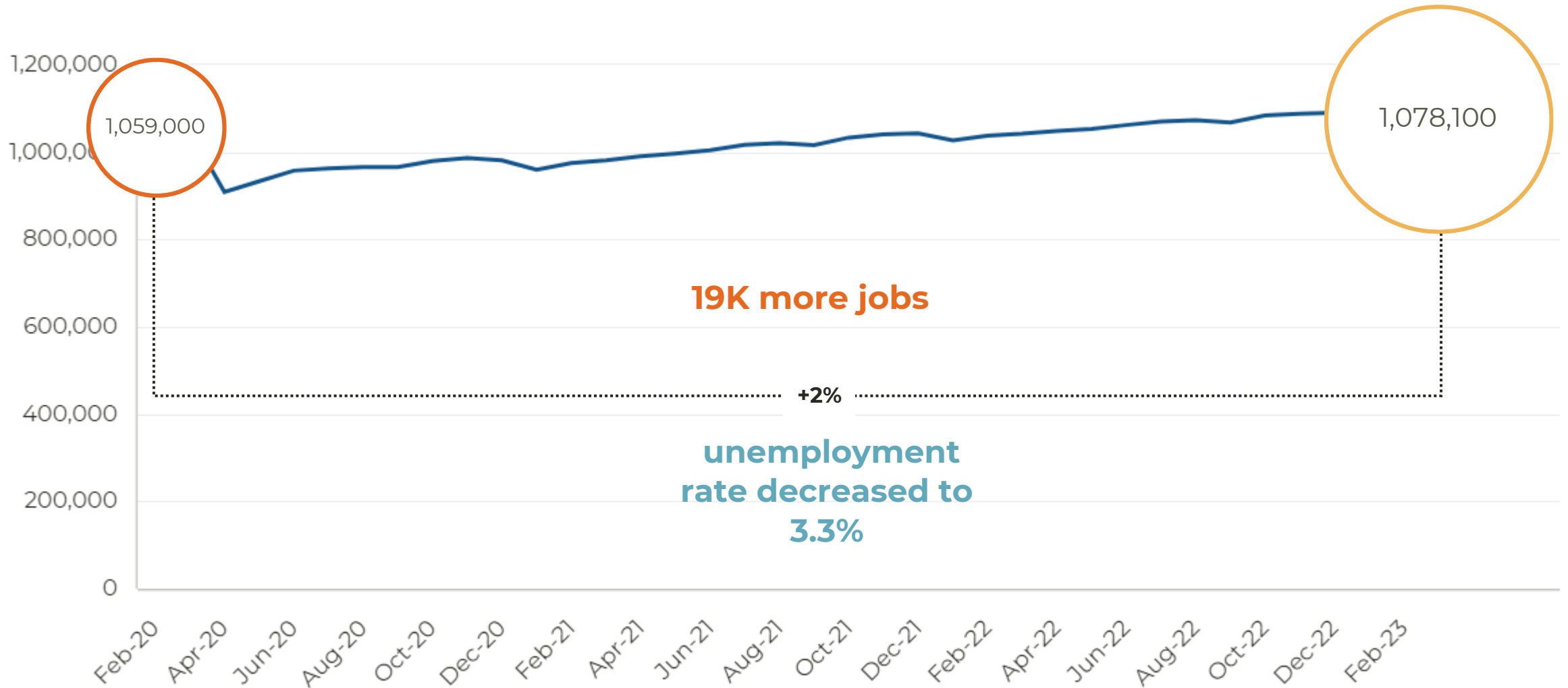
Tech-dominant industries generate 62% of the GDP in San Jose MSA

Venture Capital is Down but not Collapsing



All Lost Jobs are Recovered Over the Last 3 Years

San Jose MSA



-7,700



Retail Trade

-4,300



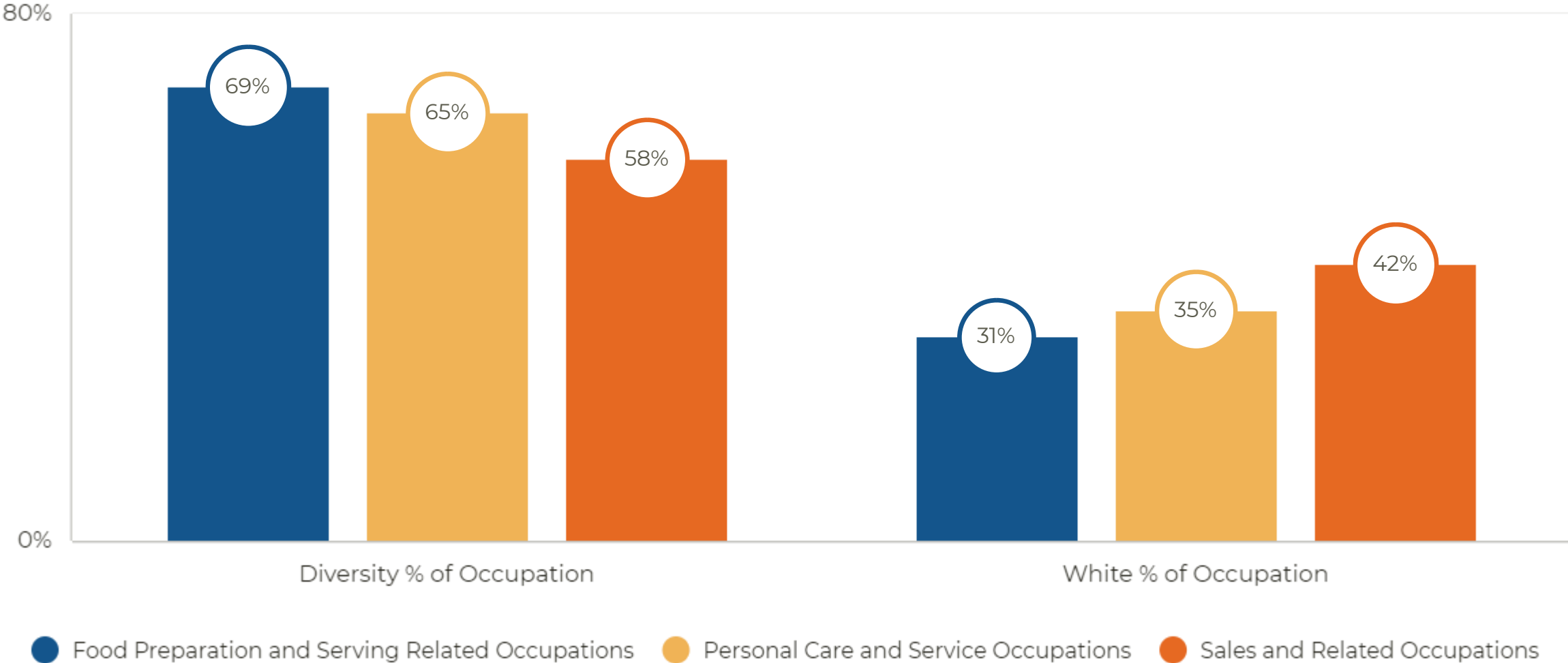
Personal Services

-2,100

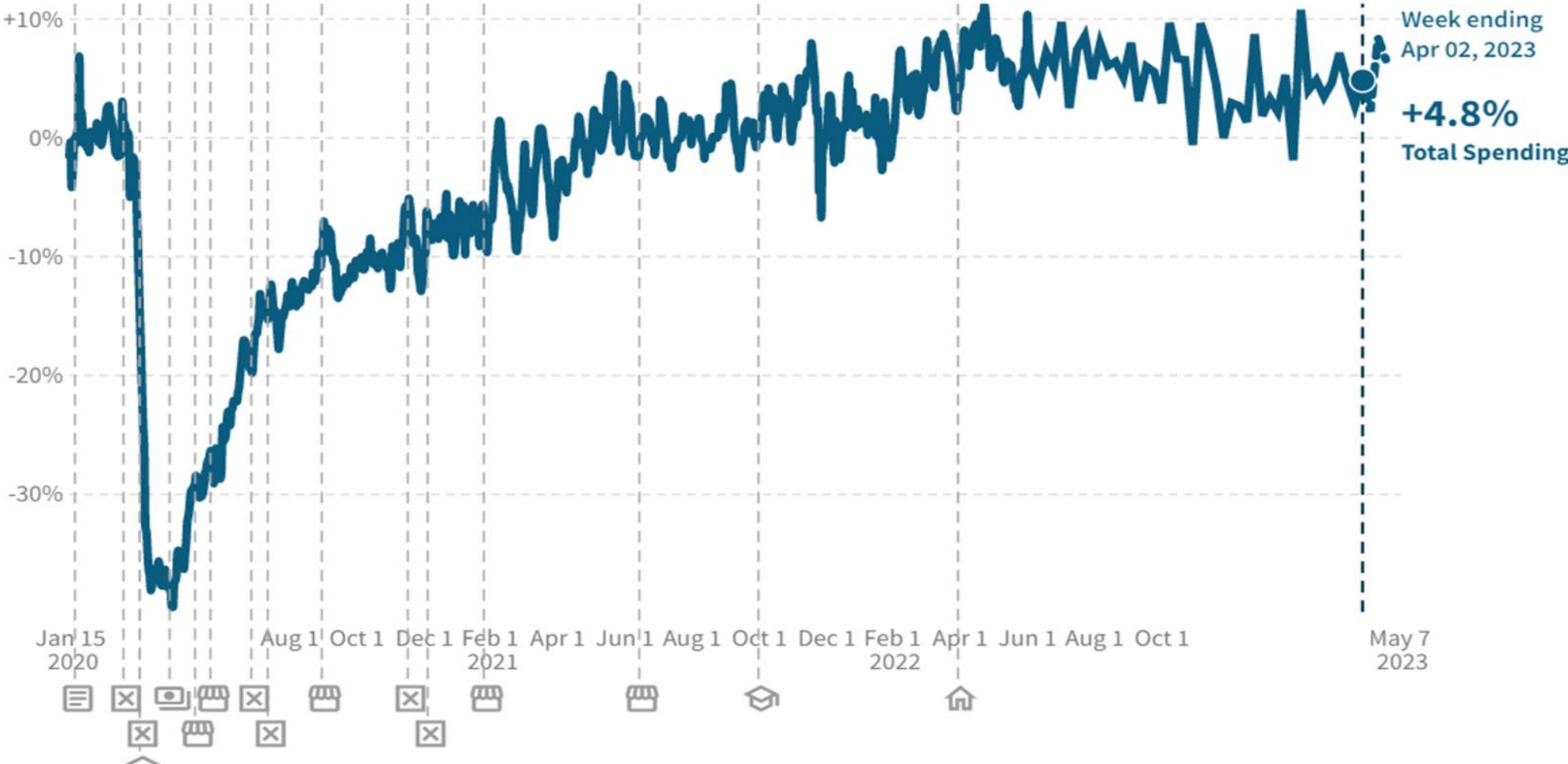


Leisure and Hospitality

Low Paying Jobs Dominated by People of Color



Consumer Spending



Which factors impact city budget drivers?



Economically Sensitive Budget Drivers

Property Tax

- Commercial Real Estate Market
- Residential Real Estate Market

Sales Tax

- Employment Trends
- Consumer Trends
- Industry Trends

Business Tax

- New Business Development
 - Major and small employers

Transient Occupancy Tax

- Hotel Occupancy

Commercial Real Estate Vacancy Varies

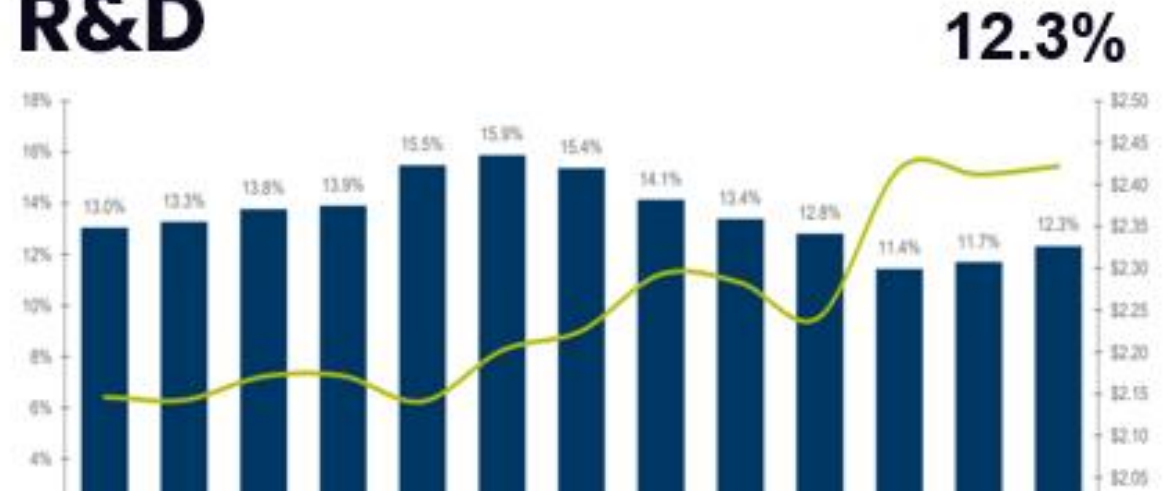
Industrial



Office



R&D



San Jose has Lower Property and Sales Tax per Capita



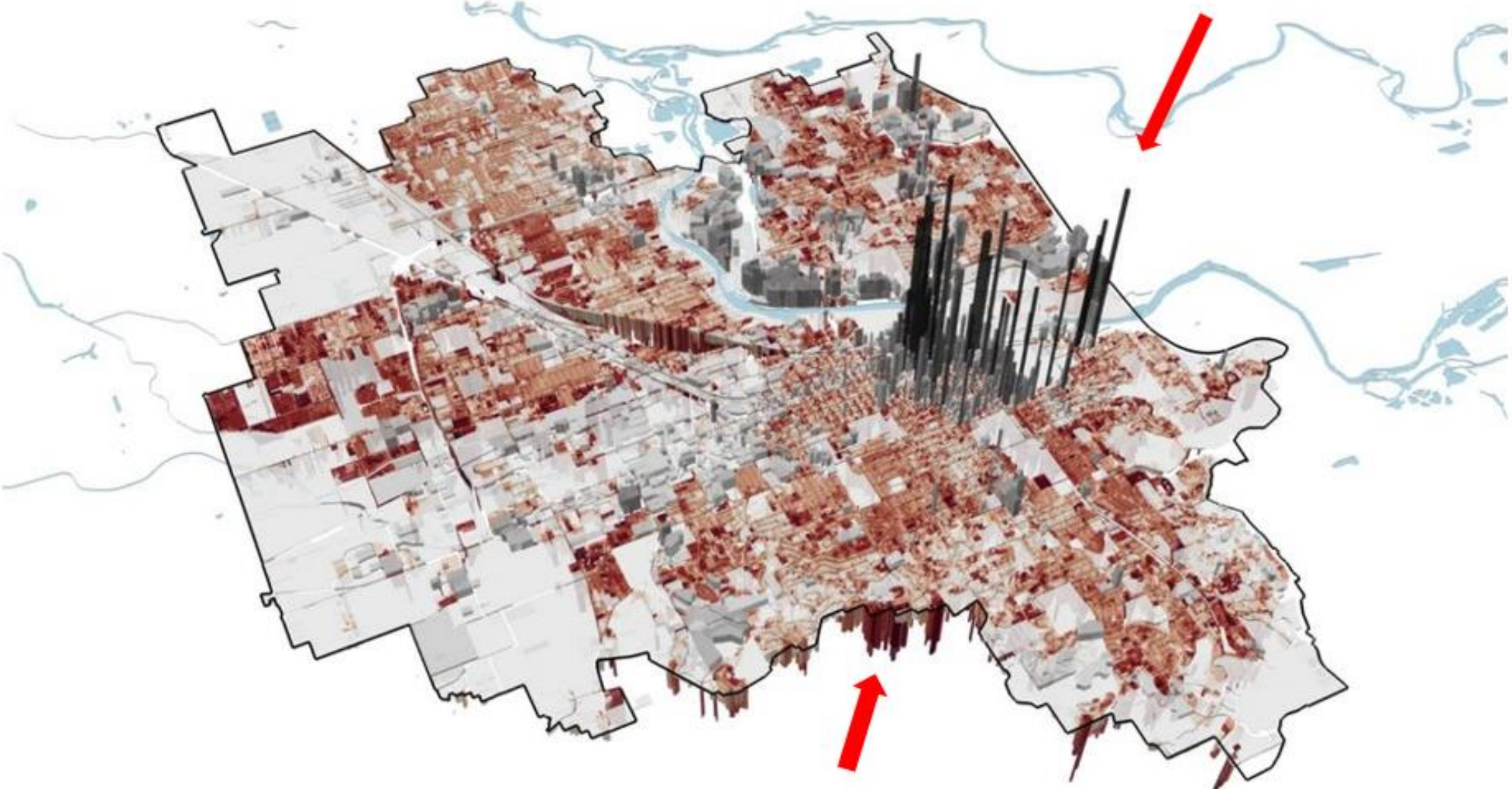
Land Use and Revenue

Every Land Use Decision Has a Fiscal Impact



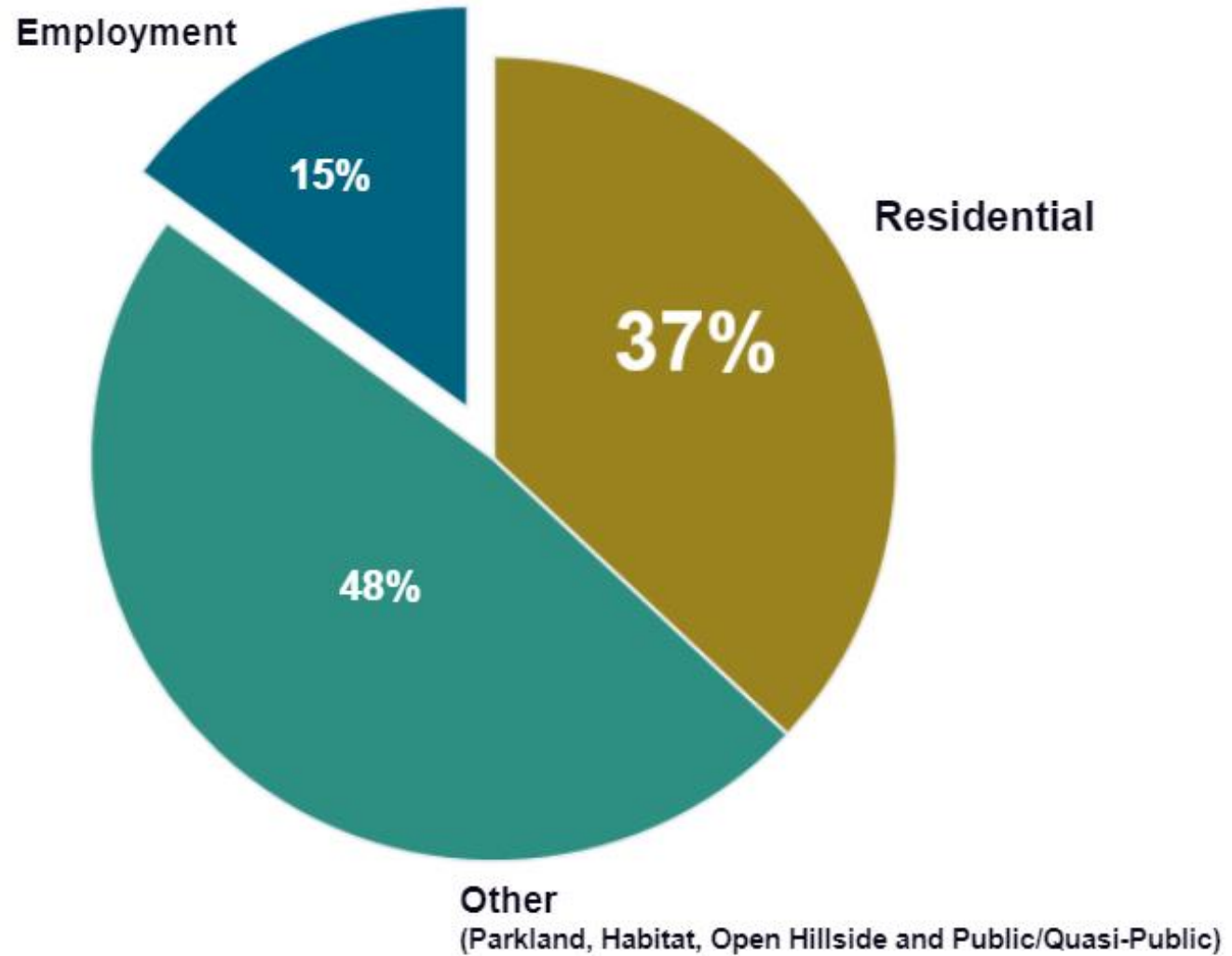
City of Eugene Oregon

Higher density – positive values



Lower density – negative values

Incorporated City Land Area by Use





FY23/24 Economic Outlook

May 10, 2023 Office of Economic Development and Cultural Affairs