

City of San José

2022-2023 Proposed Operating Budget Overview

May 11, 2022

Presentation Agenda

- Opening Remarks
- Economic Context
- Budget Development Context and Approach
- Proposed Budget Overview
- Budget Balancing Strategy and Recommended Budget Actions
- Next Steps

FY22/23 Economic Context

| May 11, 2022

Office of Economic Development and Cultural Affairs



Factors Shaping the Macro Economy



View of Our Local Economy



The Continuing Recovery Ahead



Factors Shaping the Macro Economy



GDP and Consumer Spending



Trade and World Events



Jobs and Unemployment



Inflation and Interest Rates



Consumer Spending and Small Business Revenue

Percent Change in All Consumer Spending

As of March 20 2022, total spending in California by all consumers increased by **4.9%** compared to January 2020



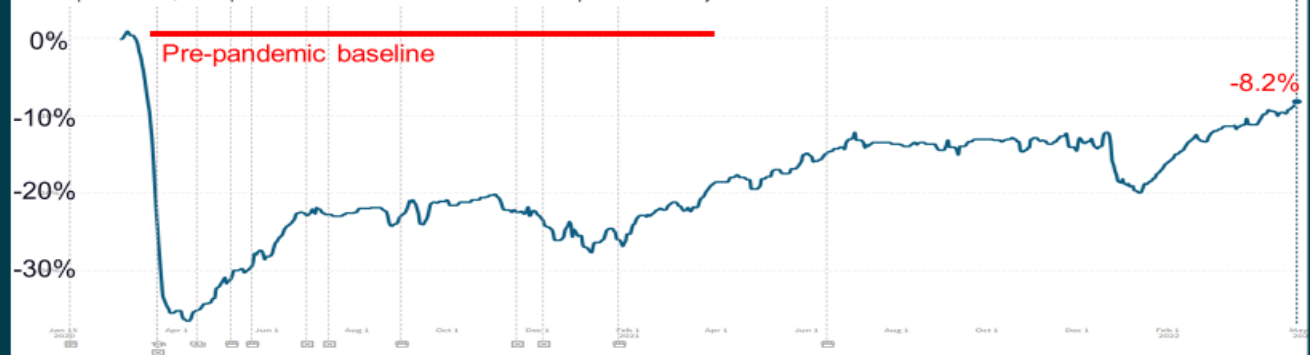
San Jose-area consumer spending has recovered, but entertainment and restaurants still weak.

Data: TrackTheRecovery.org

San Jose residents are slowly increasing their time spent outside the home but, compared to Jan. 2020 the MSA is only ahead of San Francisco.

Percent Change in Time Spent Outside of Home, San Jose MSA

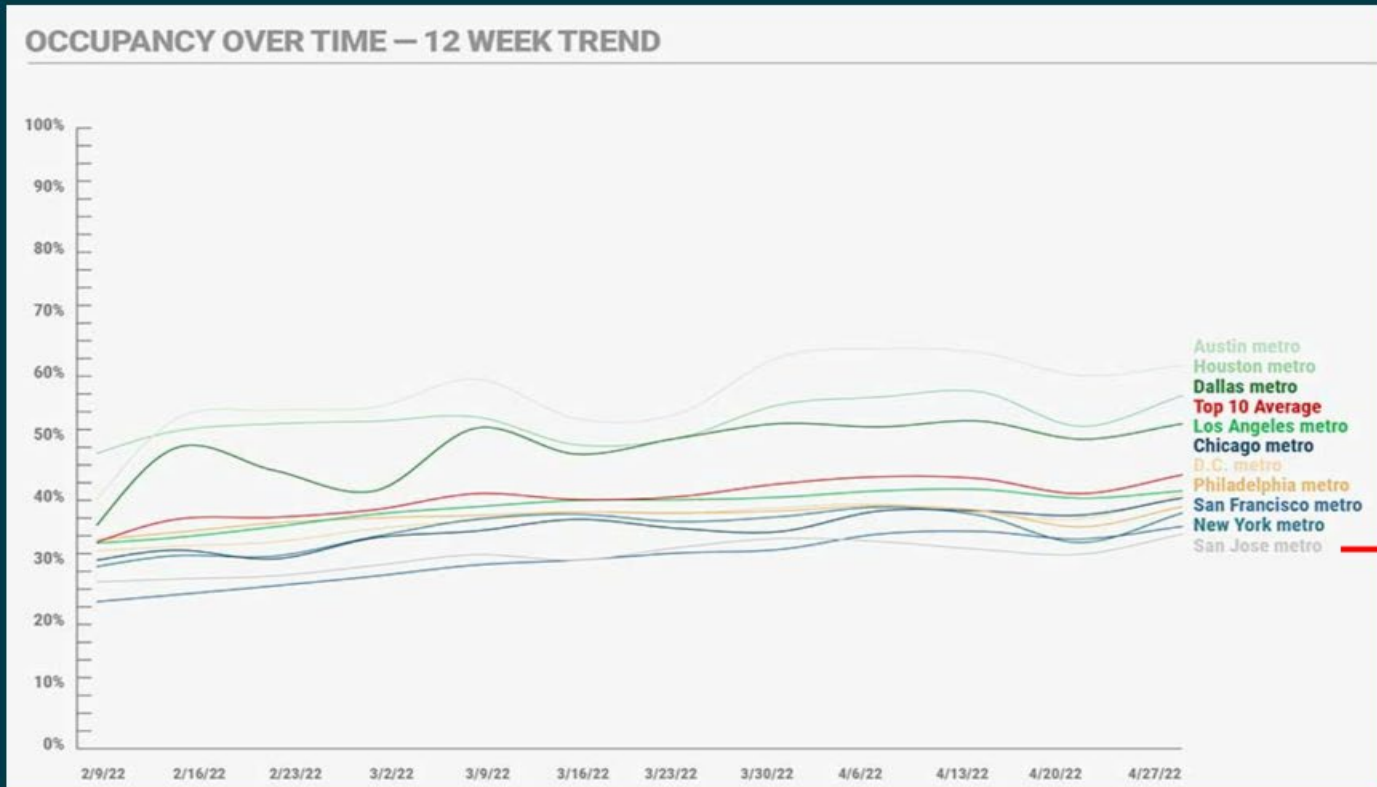
As of April 29 2022, time spent outside the home was down **8.2%** compared to January 2020



Data: TrackTheRecovery.org/Google

SAN JOSE

Back-to-Work Barometer (office)

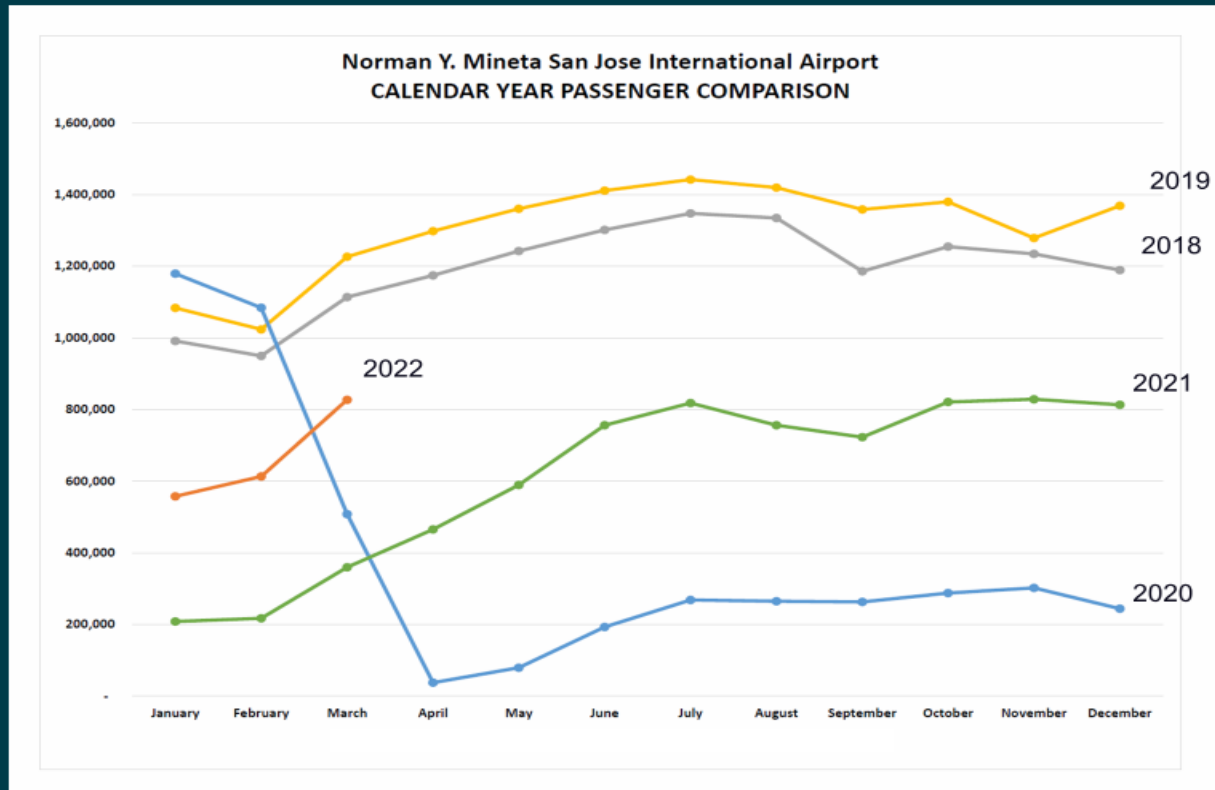


San Jose

Data: Kastle Systems



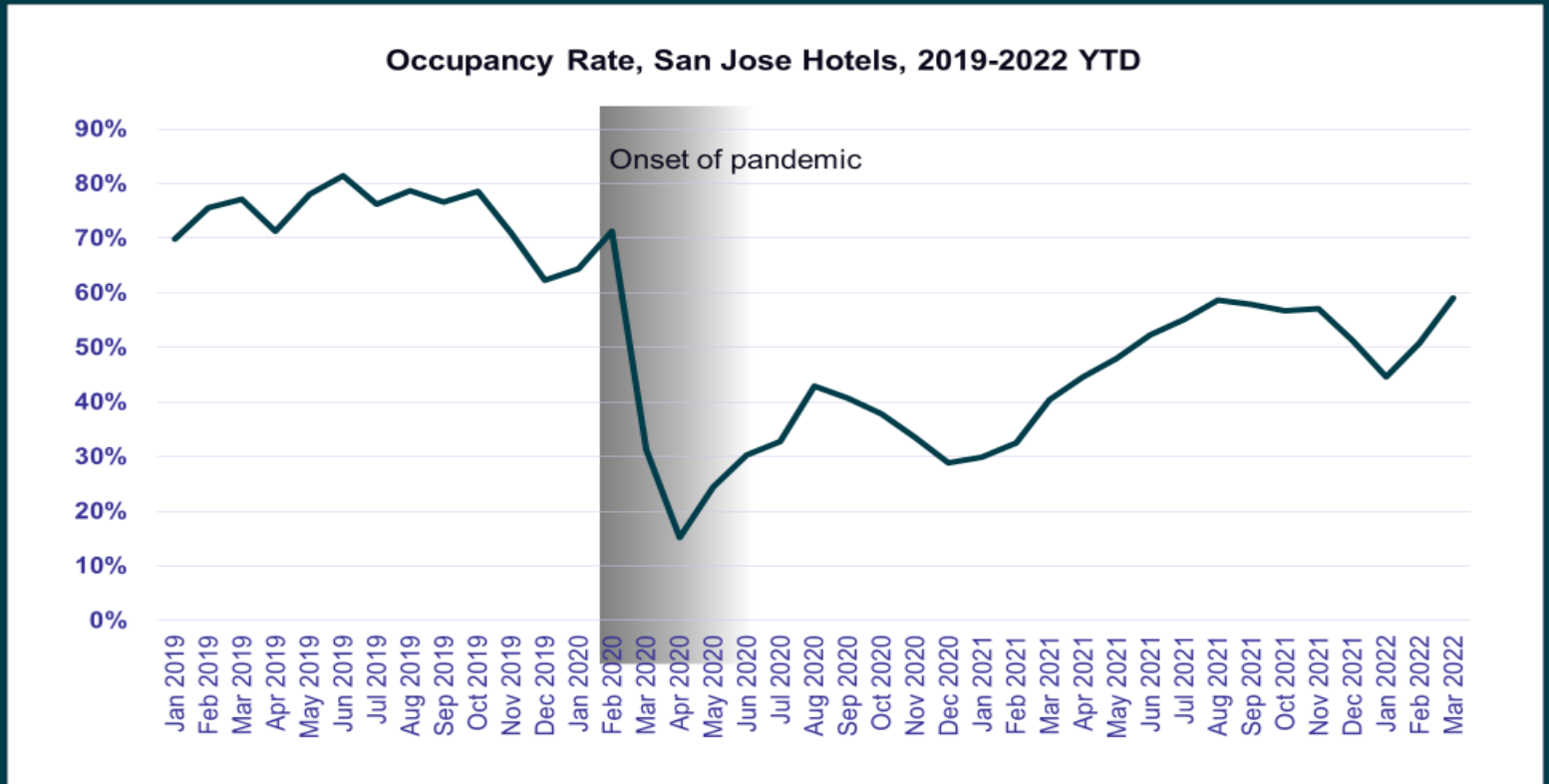
Passenger Volume @ Mineta San Jose International



Data: Airport



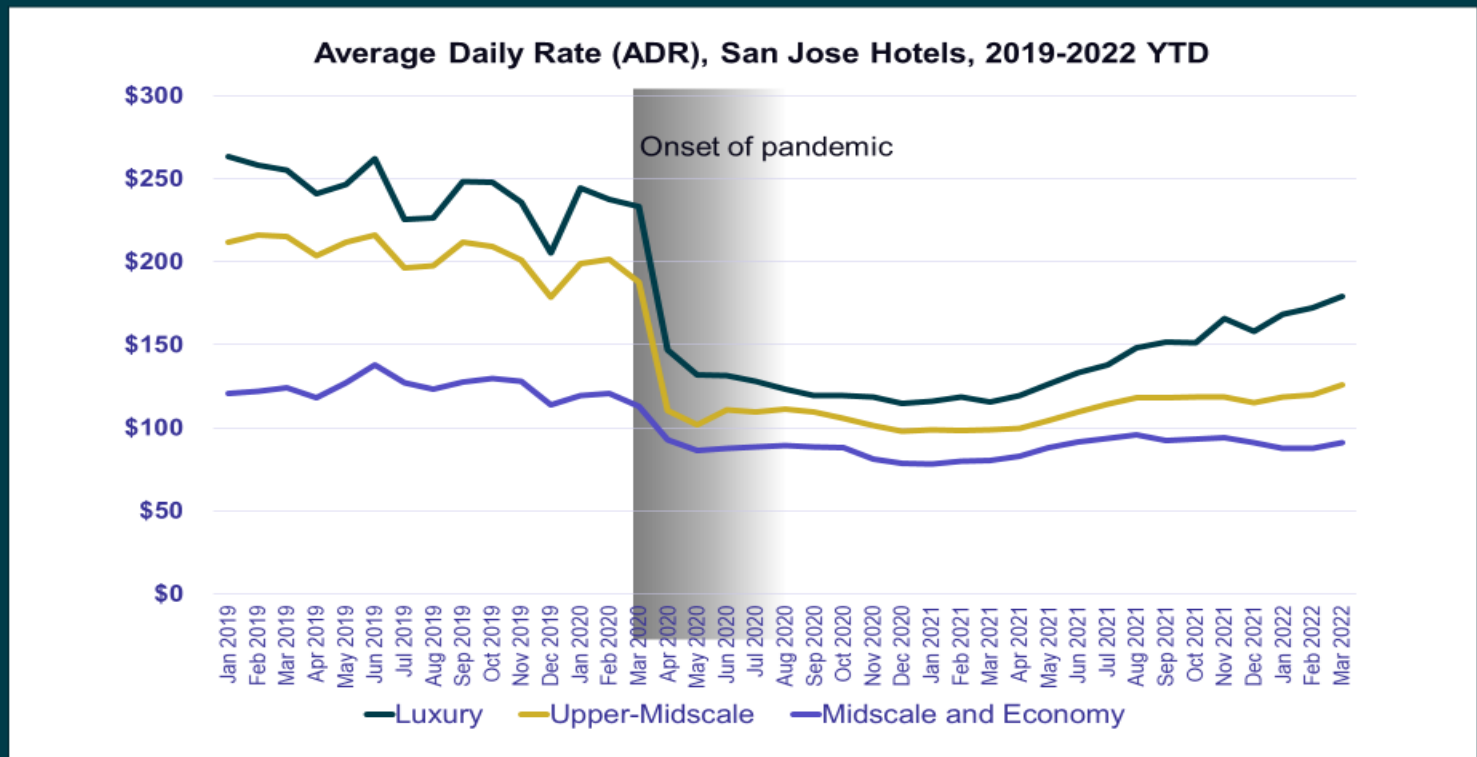
San Jose Hotel Market: Slowly Climbing Back



Data: STR/Costar



San Jose Hotel Market: Slowly Climbing Back



Data: STR/Costar



Local Snapshot: 2+ Years After March 2020



Real Estate



Access to Capital



Labor Force



Inflation



Cost of Doing Business



Supply Chain

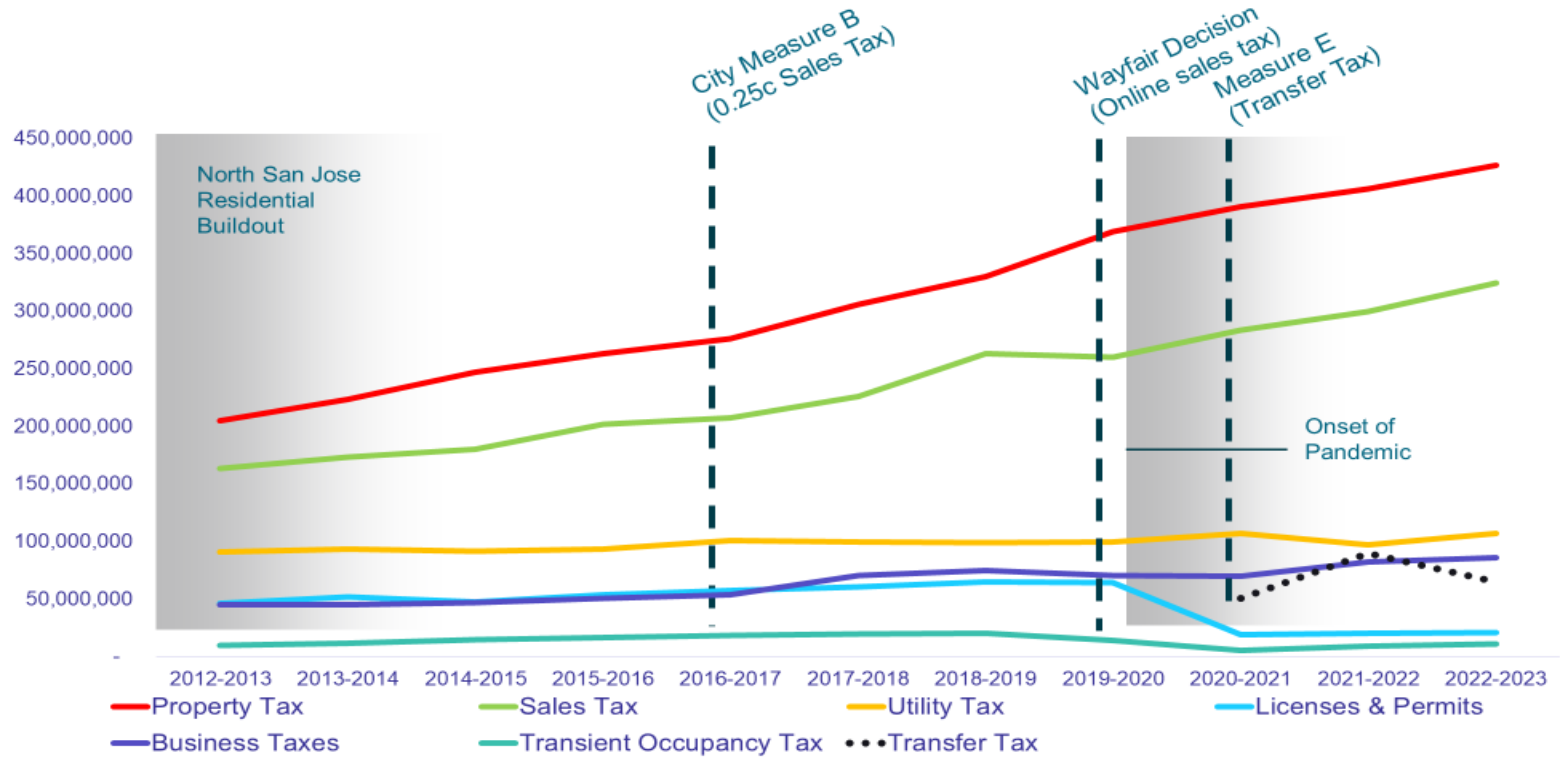


City Budget Drivers: Sales Tax

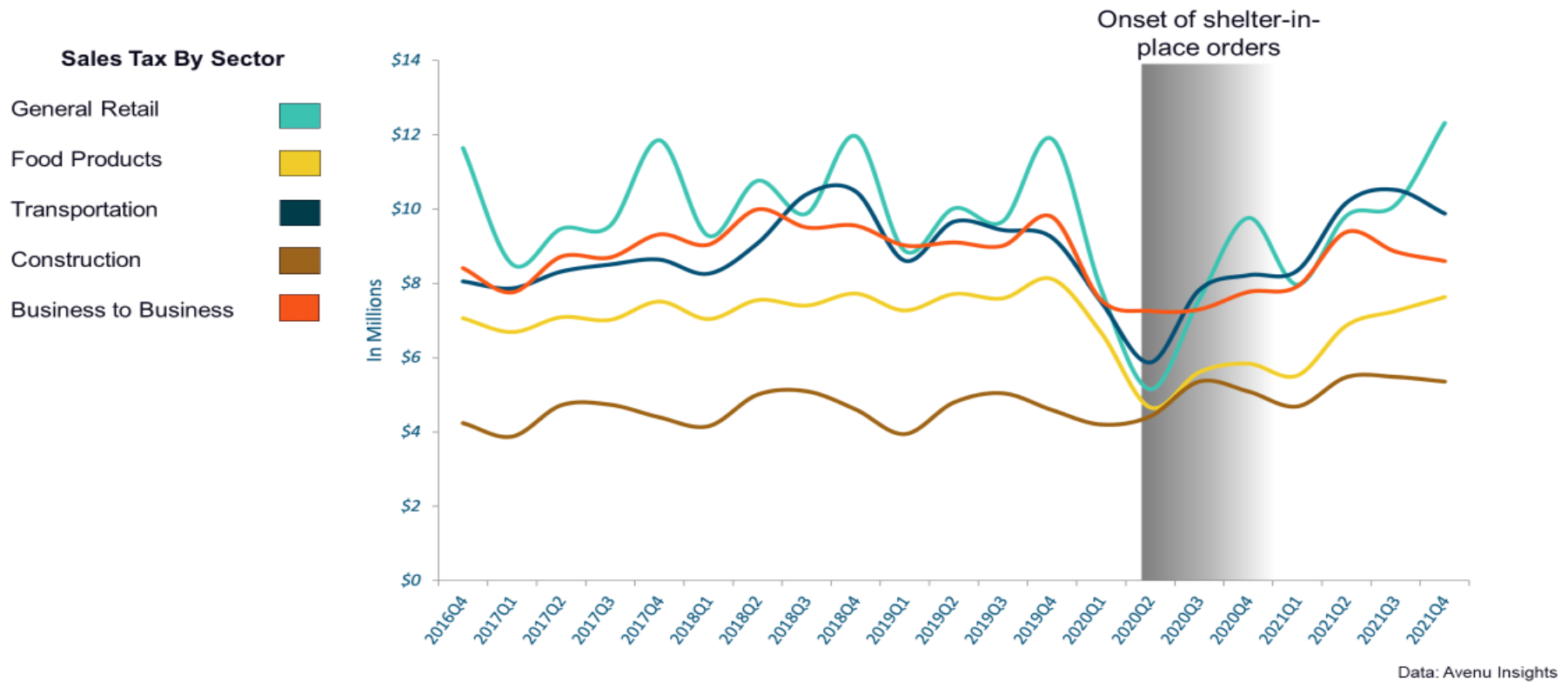


SAN JOSE

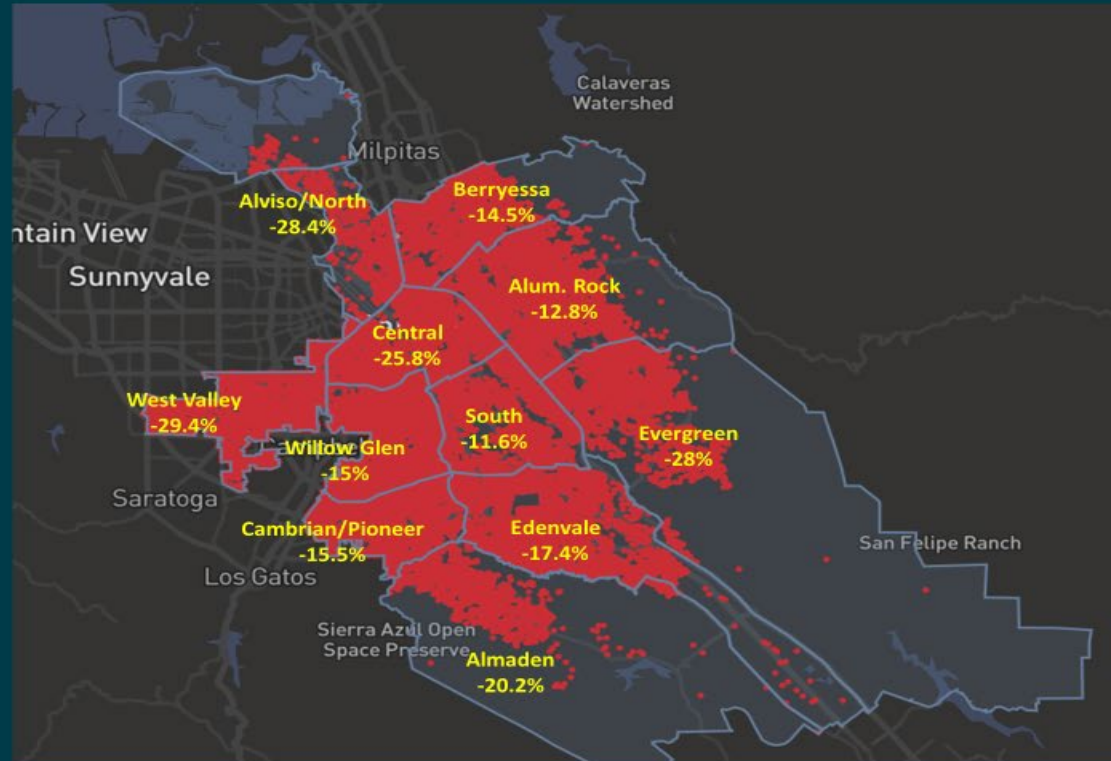
General Fund Revenues by Source



Most sectors showing bounce-back from massive drop

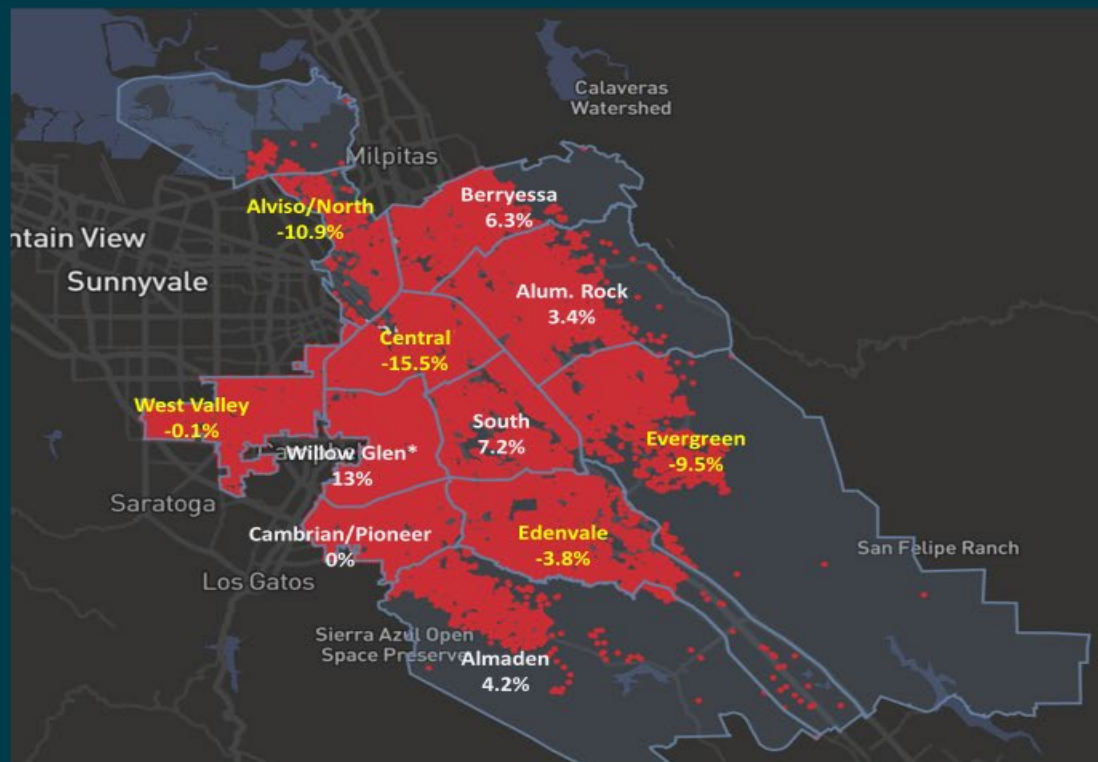


Declines in Sales Tax Across the Board 2019-2020



Data: Avenu Insights

Sales Tax Recovery by Geography 2019-2021



Data: Avenu Insights

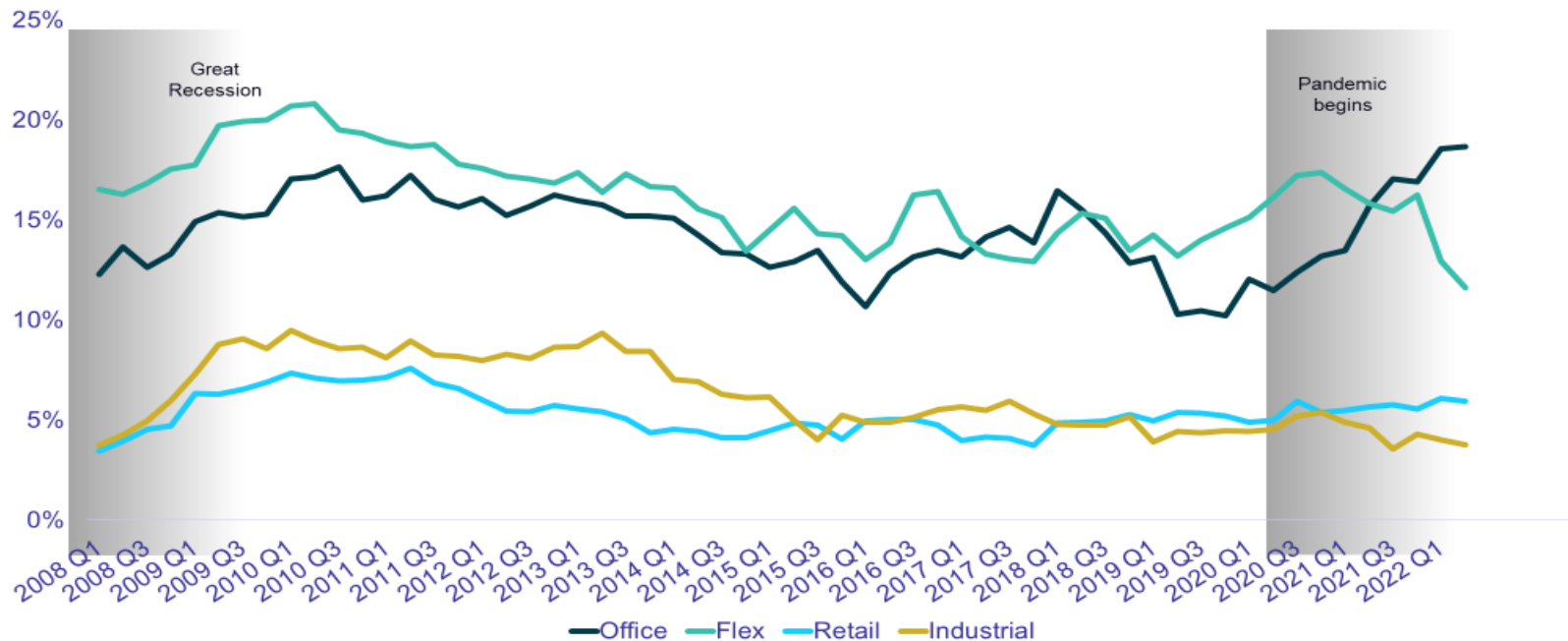


City Budget Drivers: Commercial Real Estate, Development, Investment and Housing



Commercial Market: Office Sluggish, Industrial Strongest

San Jose Availability Rates for Office, Flex, Retail, Industrial, 2008-2022



Source: CoStar Realty Information



Expansions/New Leases Since Last Budget Cycle: Mostly Bits, but Some Bytes

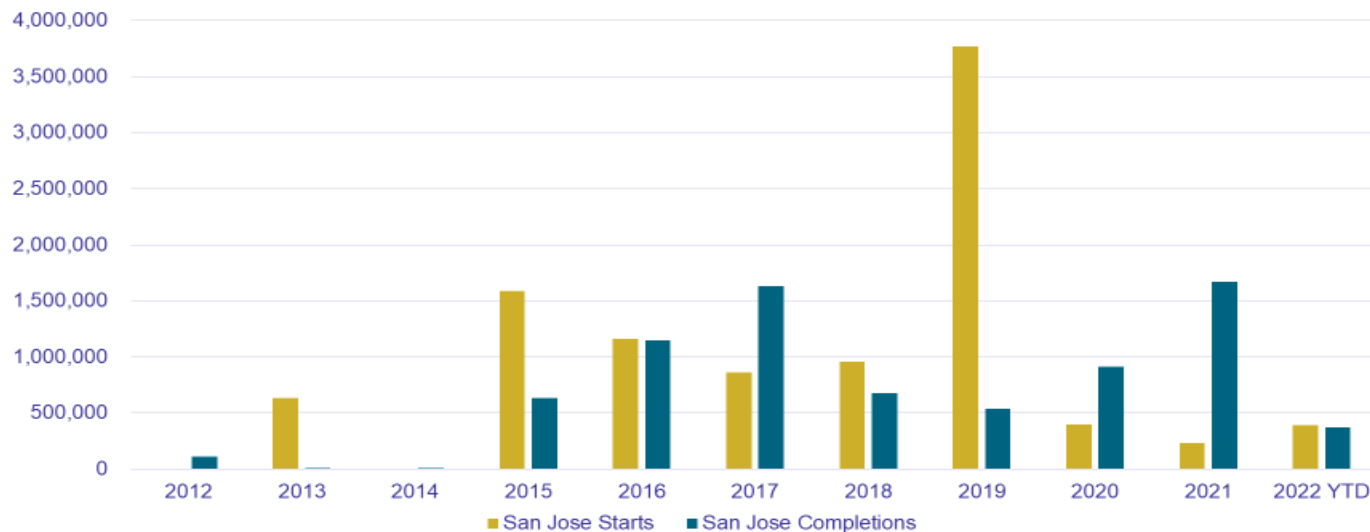


Data: Costar/City analysis



San Jose Development: Slowing Starts Follow 2019 Spike

San Jose Office, R&D, and Industrial Starts and Completions 2012-2022 YTD

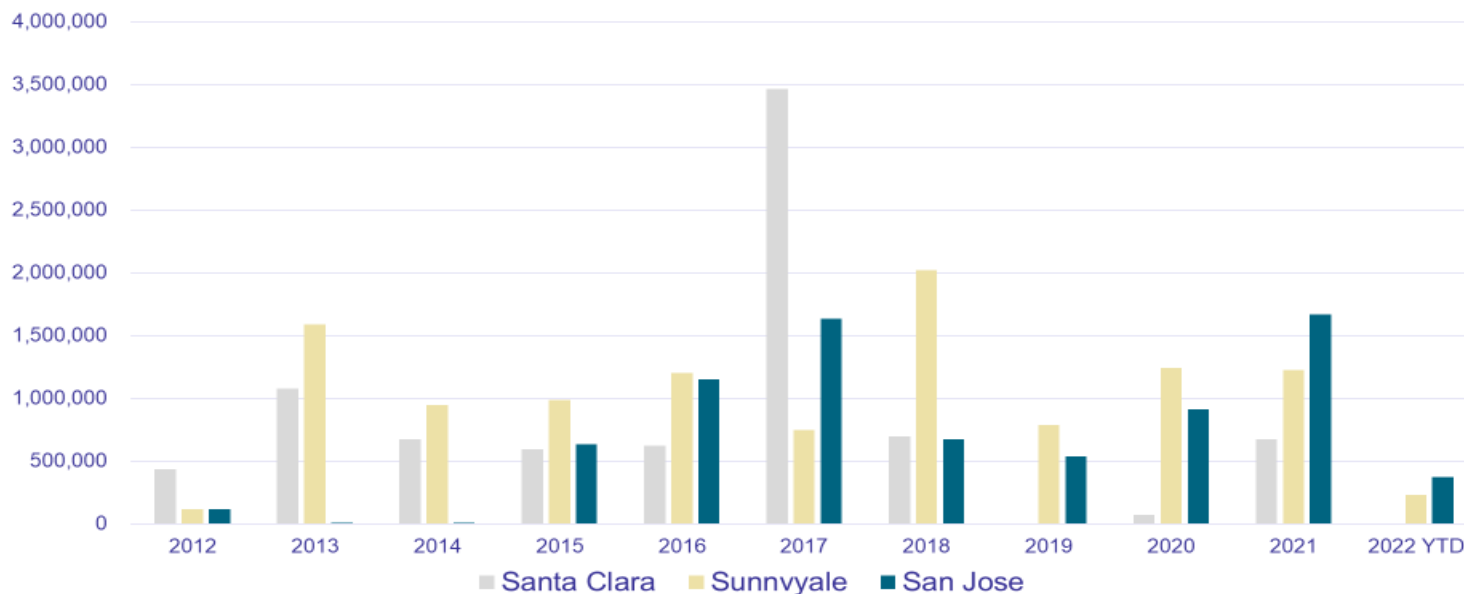


Source: CoStar Realty Information



San Jose Development: Momentum, but Lags Behind Neighbors

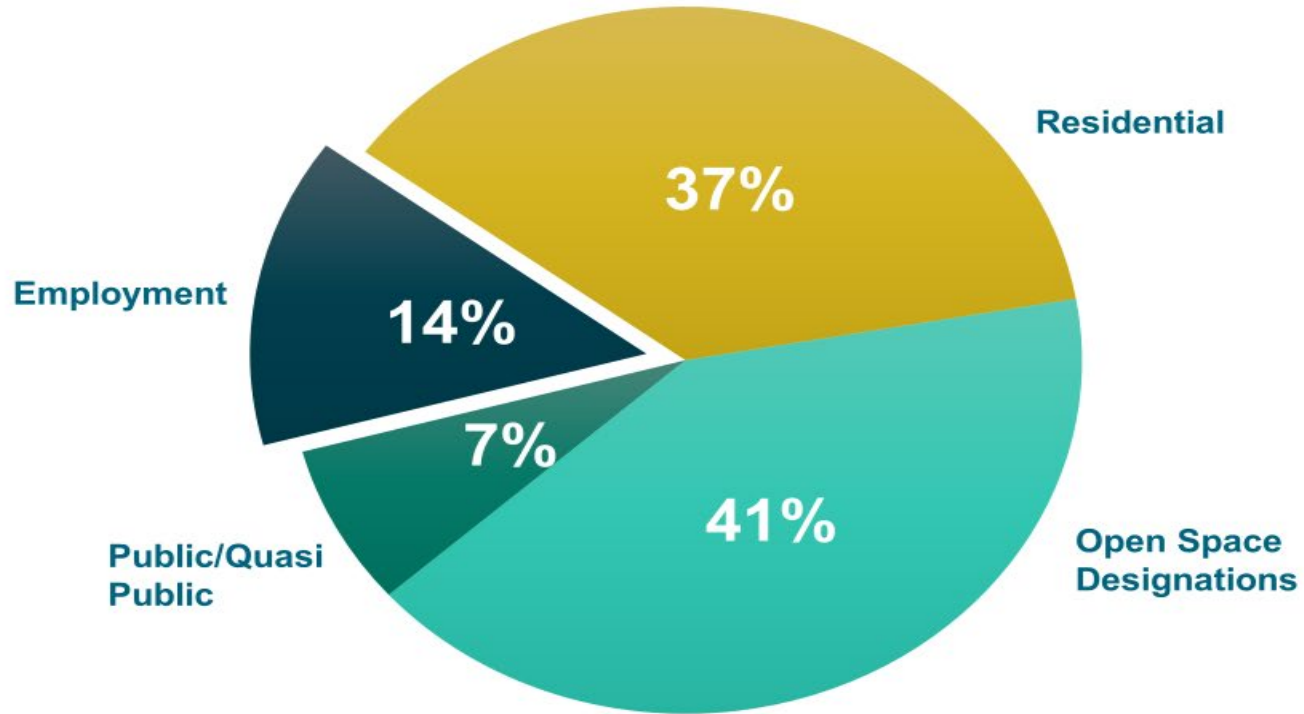
Office/R&D/Industrial Completions 2012-2022
YTD



Source: CoStar Realty Information



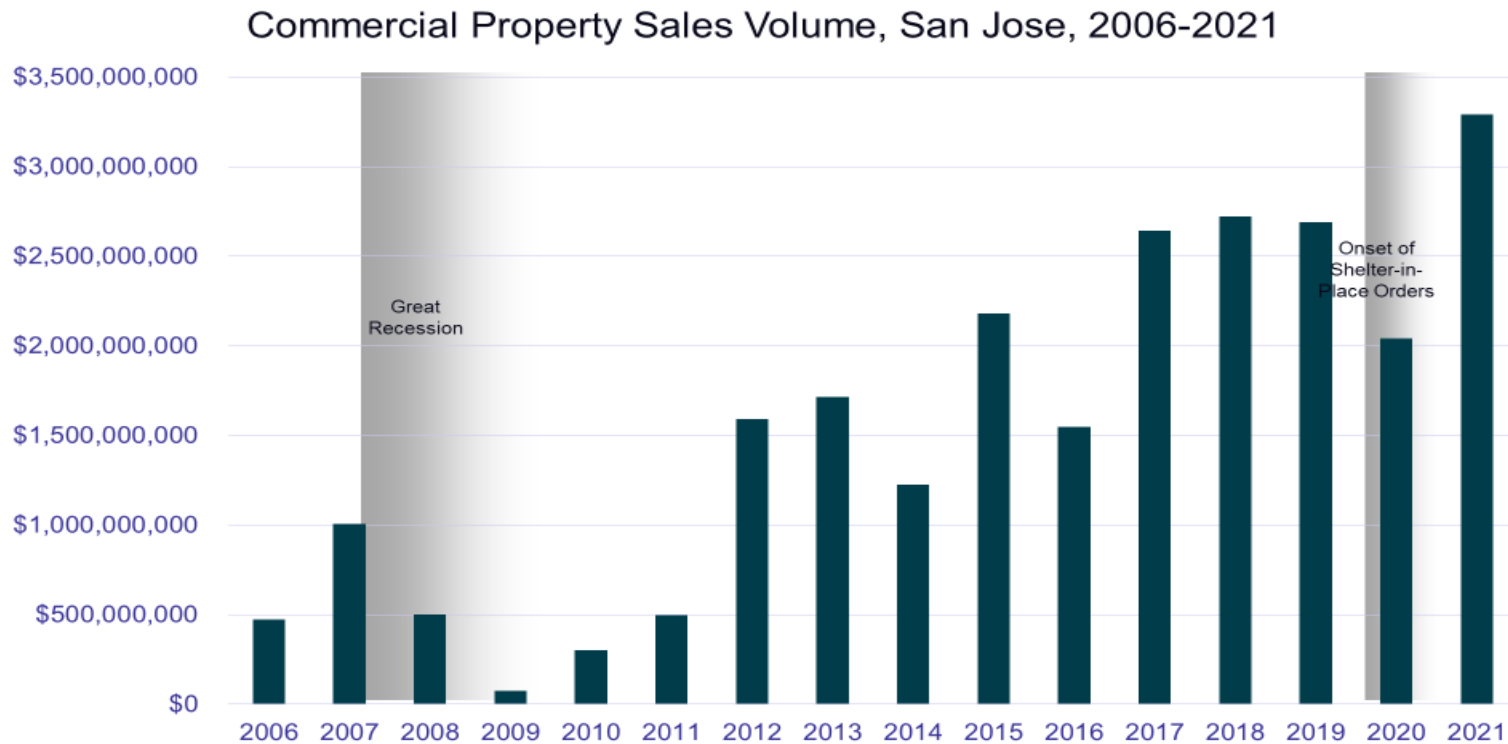
Incorporated City Land Area by General Plan Designation



Source: City of San Jose



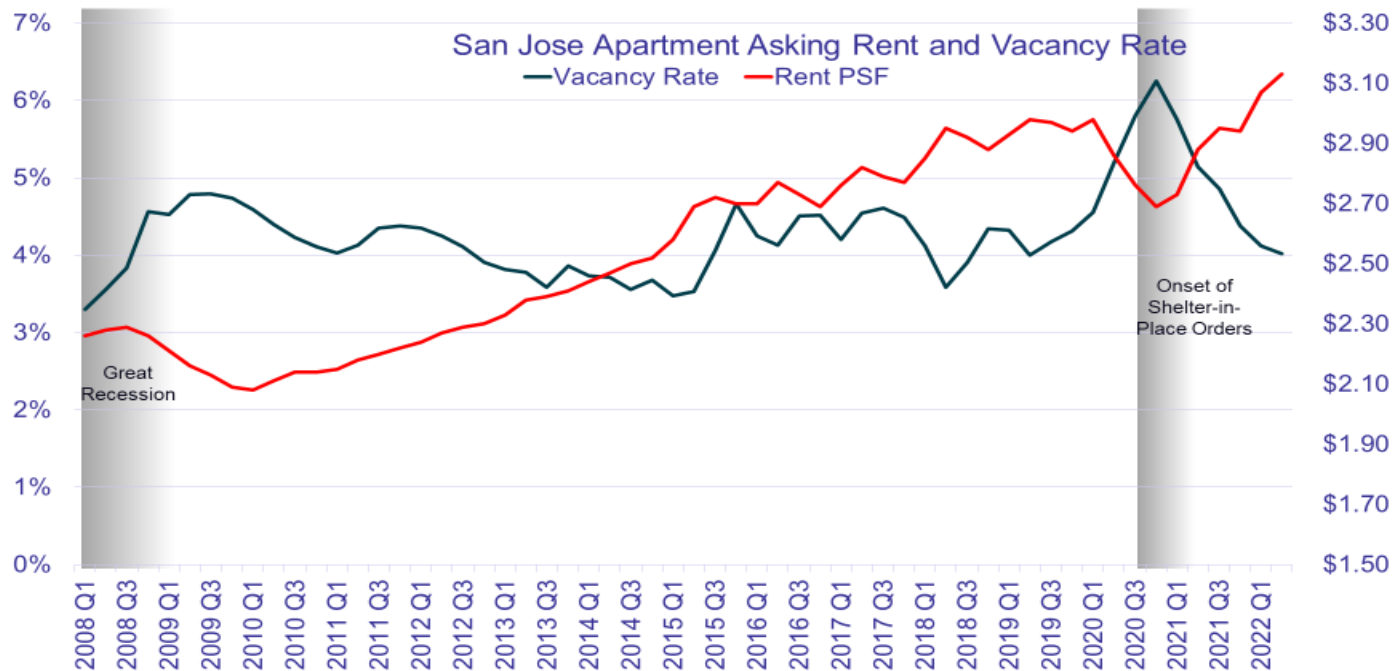
CRE Property Sales Boomed in 2021, but Uncertain Future



Source: CoStar Realty Information



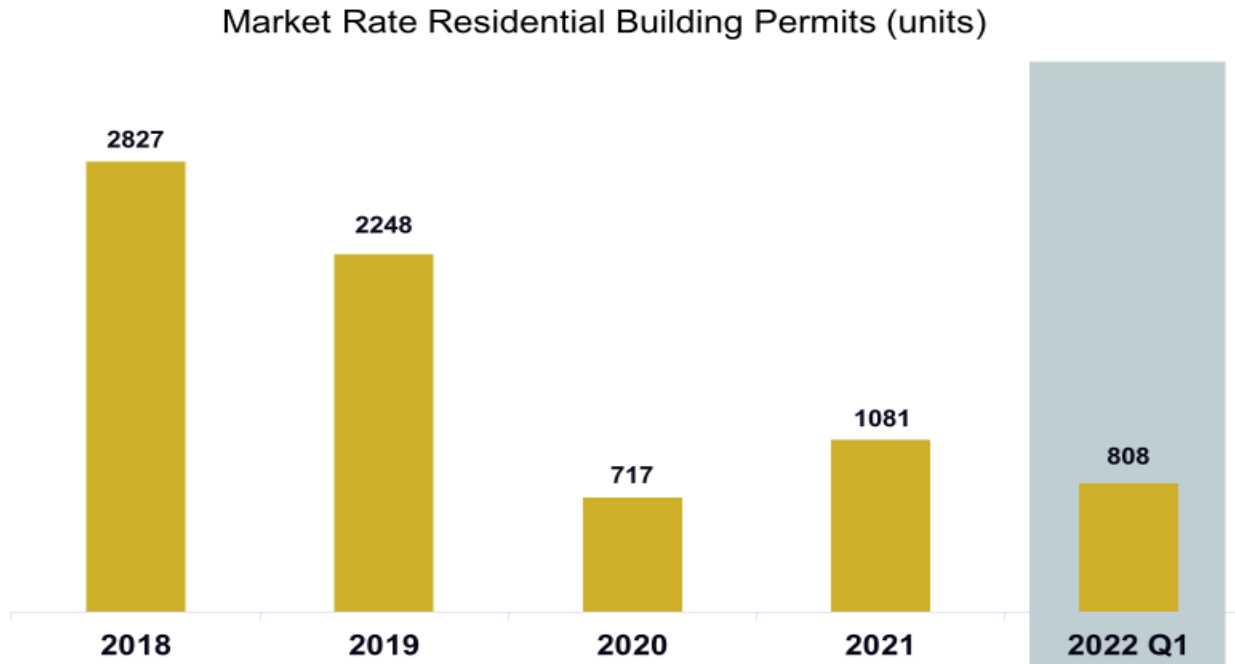
Apartment Rents and Vacancy Both Quickly Recovered Lost Ground



Source: CoStar Realty Information



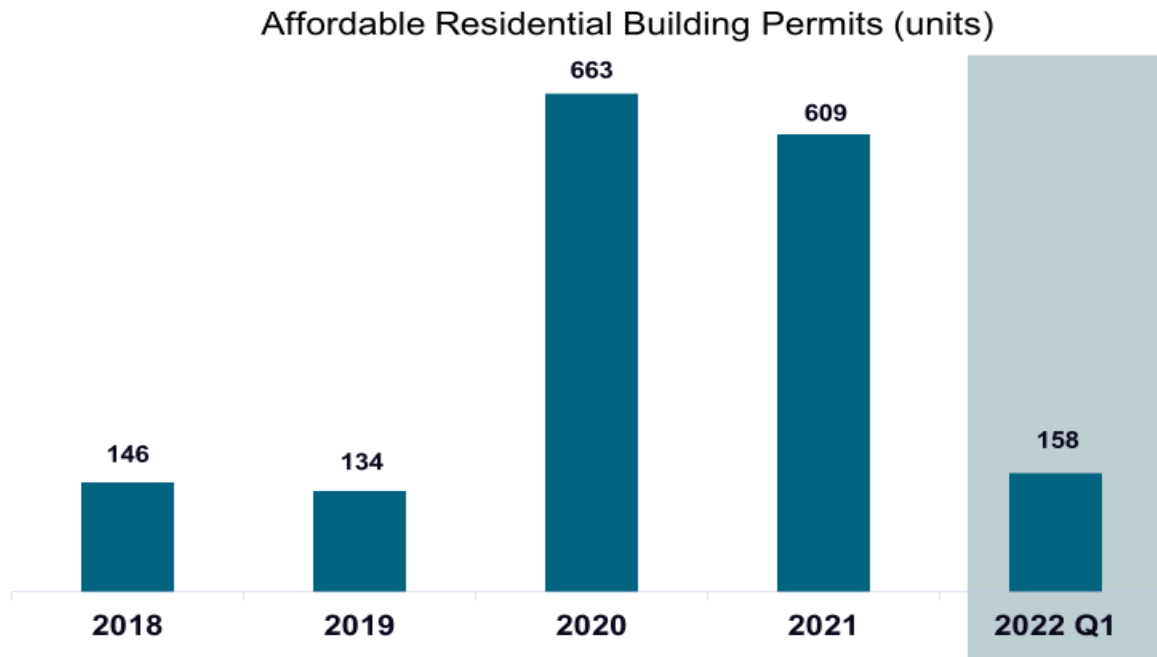
Residential Construction Faces Headwinds



Source: City of San Jose



Residential Construction Faces Headwinds



Source: City of San Jose



Economic Context: Employment and Occupations



16

San Jose's Unemployment Rate Continues to Improve

14

12

10

8

6

4

2

0

JAN '20

FEB '20

MAR '20

APR '20

MAY '20

JUN '20

JUL '20

AUG '20

SEP '20

OCT '20

NOV '20

DEC '20

JAN '21

FEB '21

MAR '21

APR '21

MAY '21

JUN '21

JUL '21

AUG '21

SEP '21

OCT '21

NOV '21

DEC '21

JAN '22

FEB '22

MARCH '22

2.7%

Feb. 2020

14.3% April 2020

The **federal**
unemployment rate in
Q1 2022 was...

4.1% for all workers (down from 5.8%)**6.8%** for Black workers (from 9.2%)**4.9%** for Hispanic or Latino workers (down from 7.2%)**2.6%**

March 2022

SAN JOSE

Jobs Recovered by Industry

Some
Sectors
Recovered
All or Nearly
All Jobs
Lost...



Information

100%+



Manufacturing

100%+



Transportation &
Warehousing

100%



Construction

98.9%



Education &
Health

97.8%

...But others
continue to
lag behind



Retail Trade

69.2%



Wholesale Trade

0%-



Leisure & Hospitality

79.1%



Government

0%-



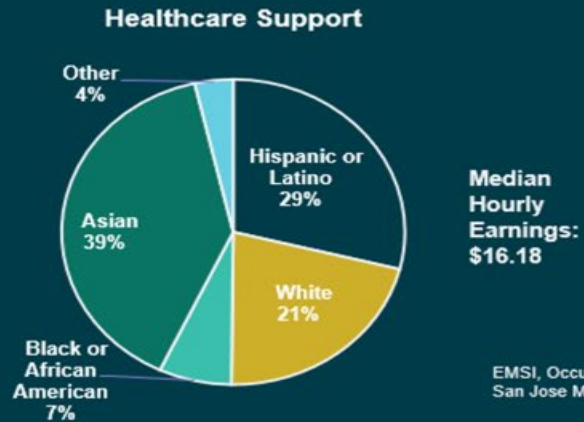
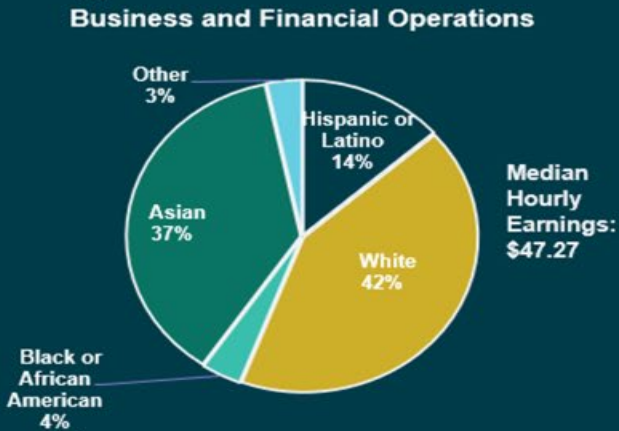
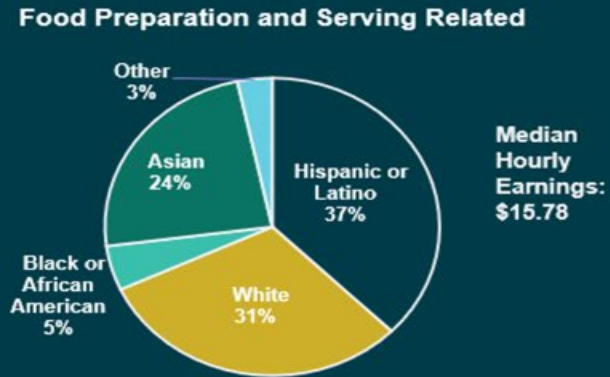
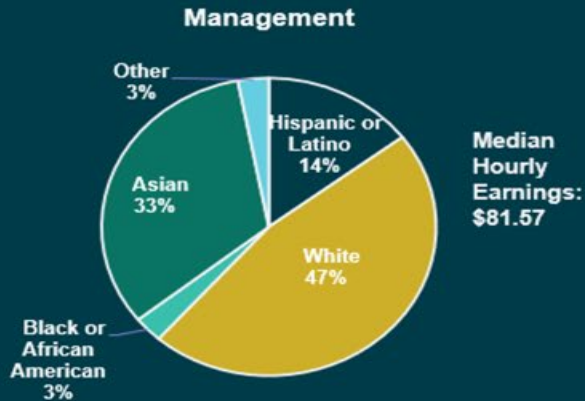
Other Services

57.3%

Data is from EDD LMI April 2022 and is for San Jose MSA;
Jobs lost as of April 2020 compared to March 2022

SAN JOSE

Sample Occupations by Race



EMSI, Occupations by Race
San Jose MSA, 2022 Q2





The Continuing Recovery Ahead

- **The new normal – Transition from pandemic to endemic**
- **Work environment – Status of return to work**
- **Consumer behavior – Pent-up demand for travel, gatherings, events, experiences, spending patterns**
- **Risks to growth – Continued inflation, transportation, supply chain issues**
- **Fragility of recovery – Importance of strategic local investment**

2022-2023 Proposed Operating Budget

General Fund Operating Margin

2023-2027 Revised General Fund Five-Year Forecast (\$ in millions)¹

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	Five-Year Surplus/ (Shortfall)
Incremental Surplus/ (Shortfall)	\$30.1 ²	\$26.0	\$23.5	\$22.7	\$28.9	\$131.2

¹ Does not include 1) costs associated with services that were funded on a one-time basis in 2021-2022; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

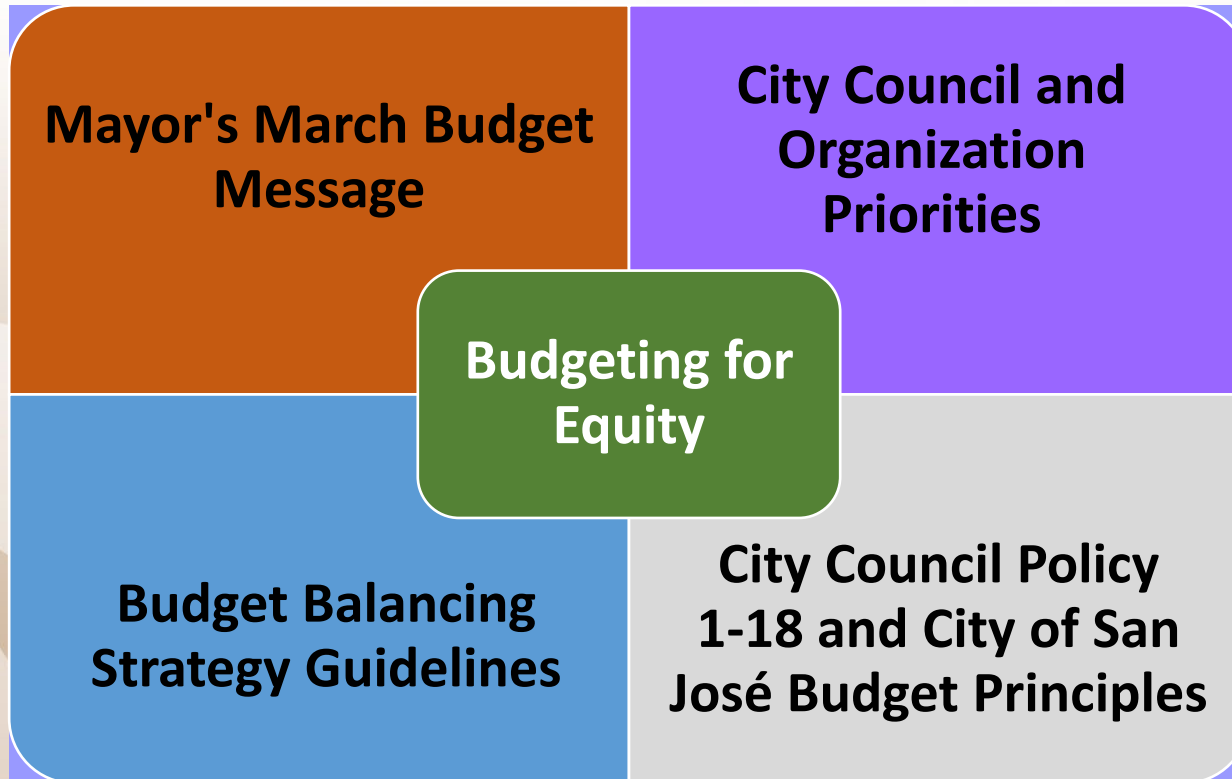
² This figure was revised from the \$27.7 million surplus as presented in the February 2022 Forecast as a result of continued analysis of projected revenues and expenditures.

Opportunities and Challenges for the 2022-2023 Budget Development Process

- While some headwinds remain, the economic and revenue outlook is positive, and the City has some limited opportunities to build back services that have been reduced in previous years
- Remaining resources from the American Rescue Plan Fund continue to provide substantial assistance to support community and economic recovery activities, but these funds are running out
- The challenge has been to both allocate resources in accordance with the investment priorities in the Mayor's March Budget Message for Fiscal Year 2022-2023, while also addressing the broader priority to allocate ongoing funding for services that have been funded on a one-time basis for many years – most of which support disproportionately impacted communities
- Not all services reduced during the pandemic have been restored; work will continue in future budget cycles

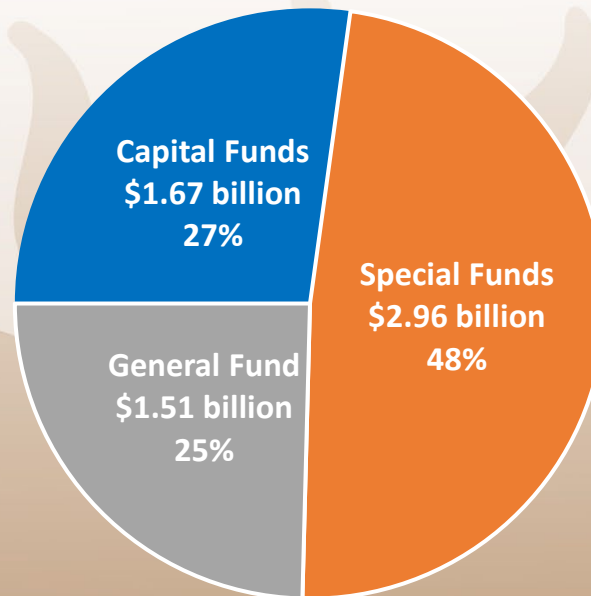
2022-2023 Proposed Budget Overview

Budget Balancing Considerations



City of San José Proposed Operating Budget Overview

2022-2023 PROPOSED CITY BUDGET¹:	\$5.3 billion
TOTAL NUMBER OF FUNDS:	141
TOTAL NUMBER OF POSITIONS (FTE):	6,885



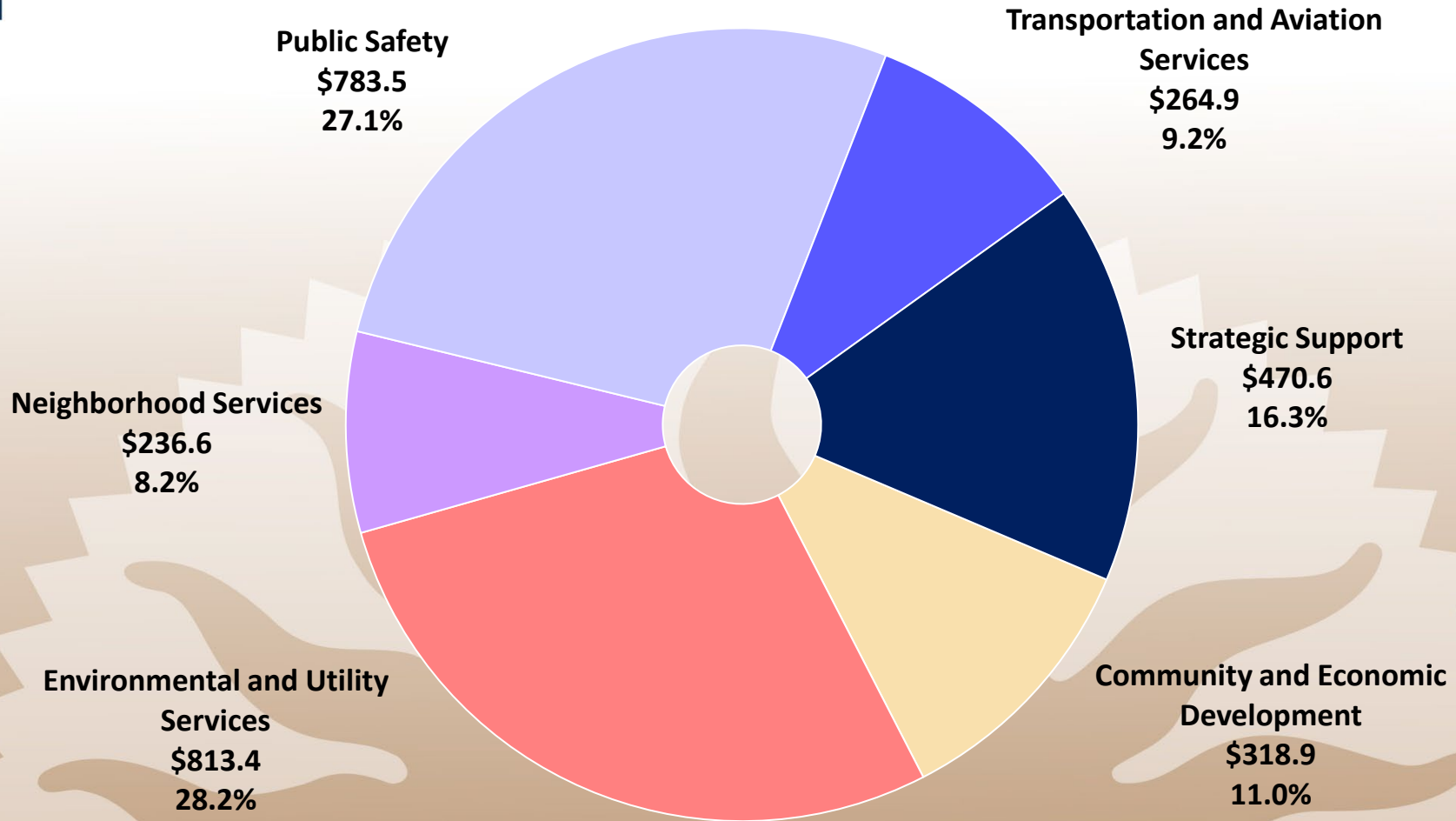
Note: An adjustment of \$801 million is necessary to arrive at the \$5.3 billion net 2022-2023 Proposed City Budget to avoid the double-counting of transfers, loans and contributions between City funds.

2022-2023 Proposed Budget Overview

- Balanced all funds (General Fund, special and capital funds)
- General Fund projected surplus of \$30.1 million fully allocated
- Investment Priorities:
 - Homelessness and Affordable Housing
 - Public Safety
 - Battling Blight
 - Climate and Seismic Resilience
 - Equitable Economic Recovery
 - Fiscal Sustainability
- Budgeted Positions (all funds) are up 3.1%, from 6,647 to 6,855

2022-2023 Proposed Operating Budget

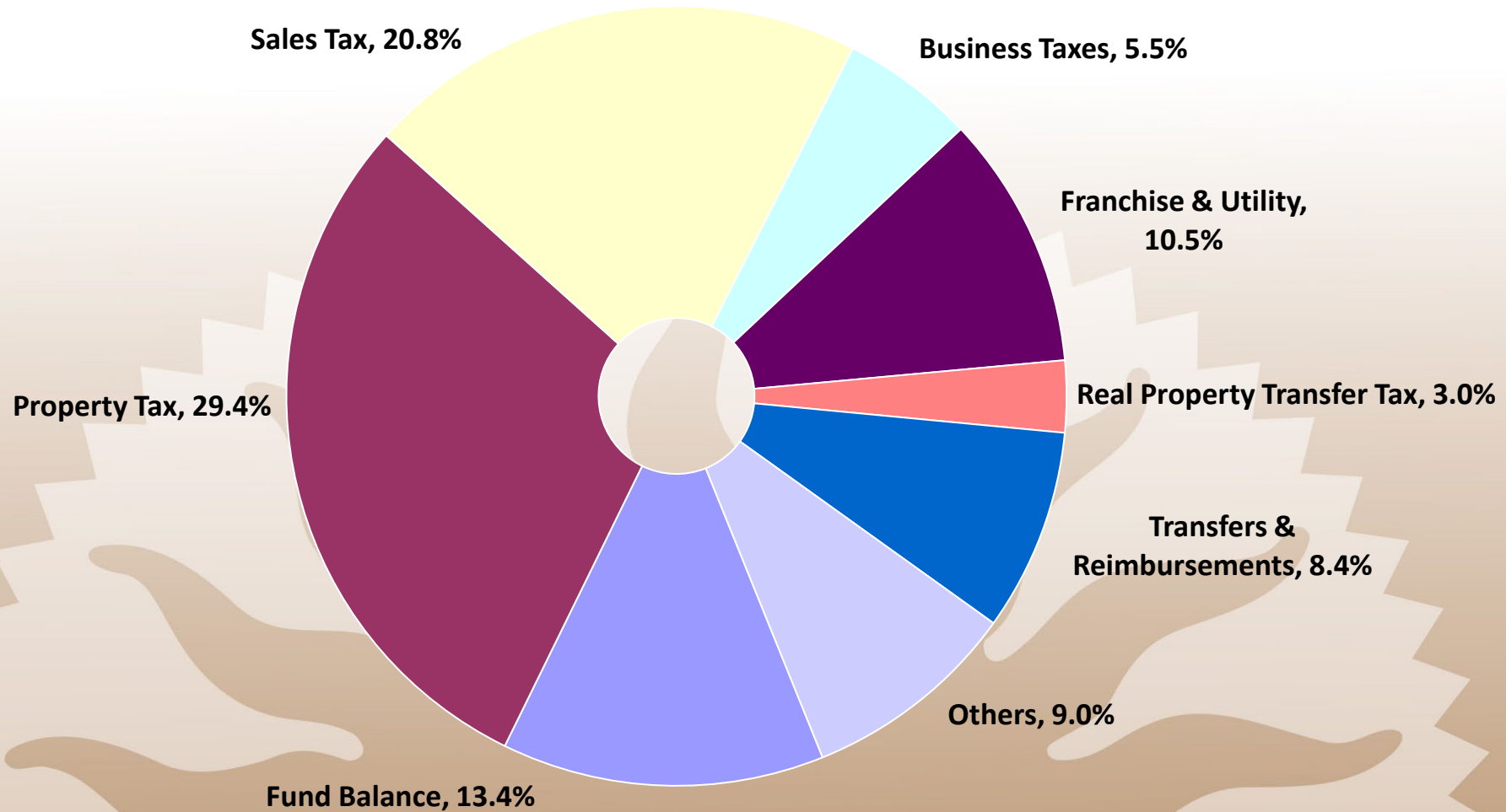
Uses by City Service Area (All Funds; \$ in Millions)



* Excludes Fund Balance, Transfers, Reserves, and Capital Project expenditures.

2022-2023 Proposed Budget

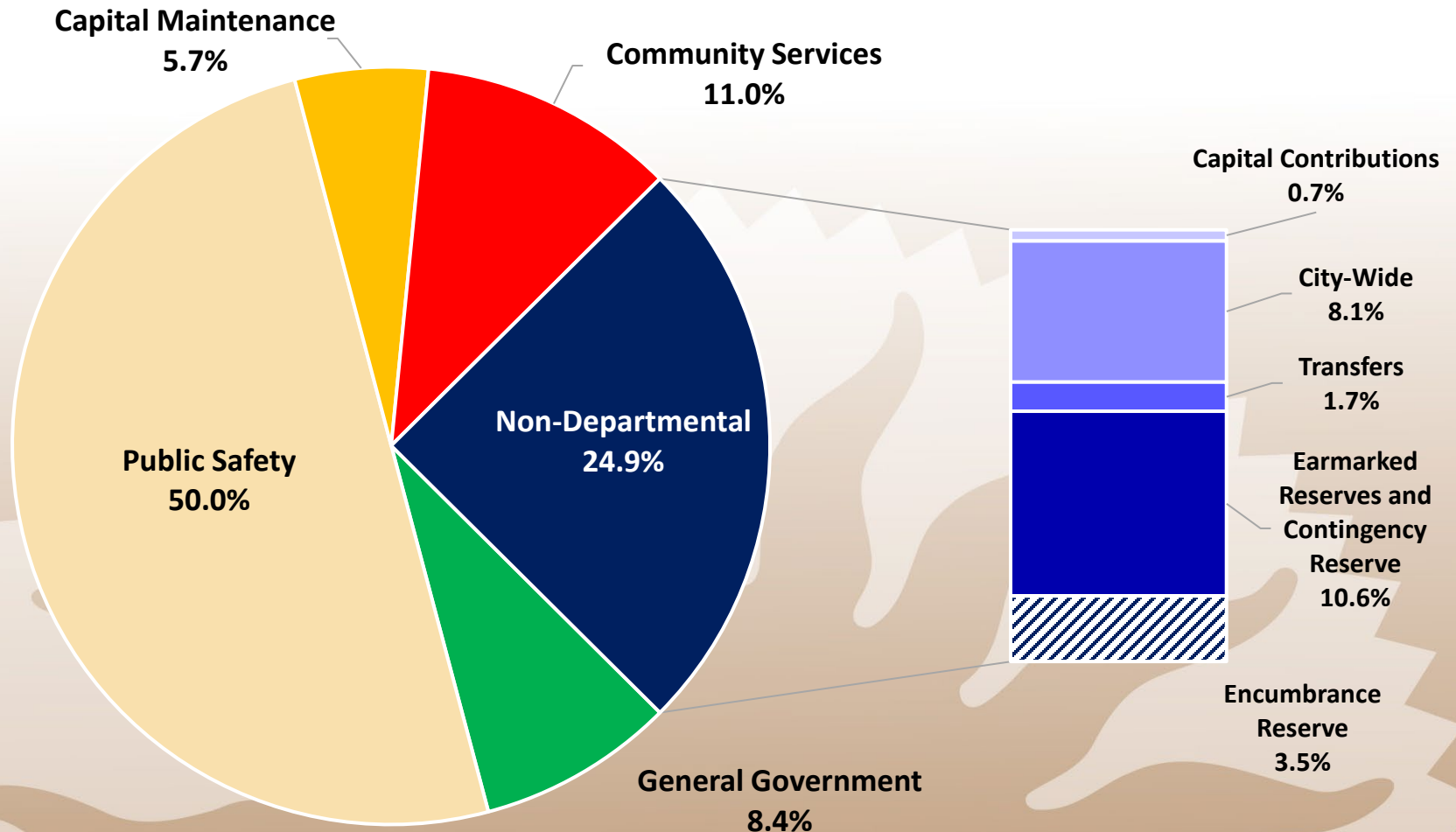
General Fund Sources



Total General Fund Sources: \$1,508,211,649

2022-2023 Proposed Operating Budget

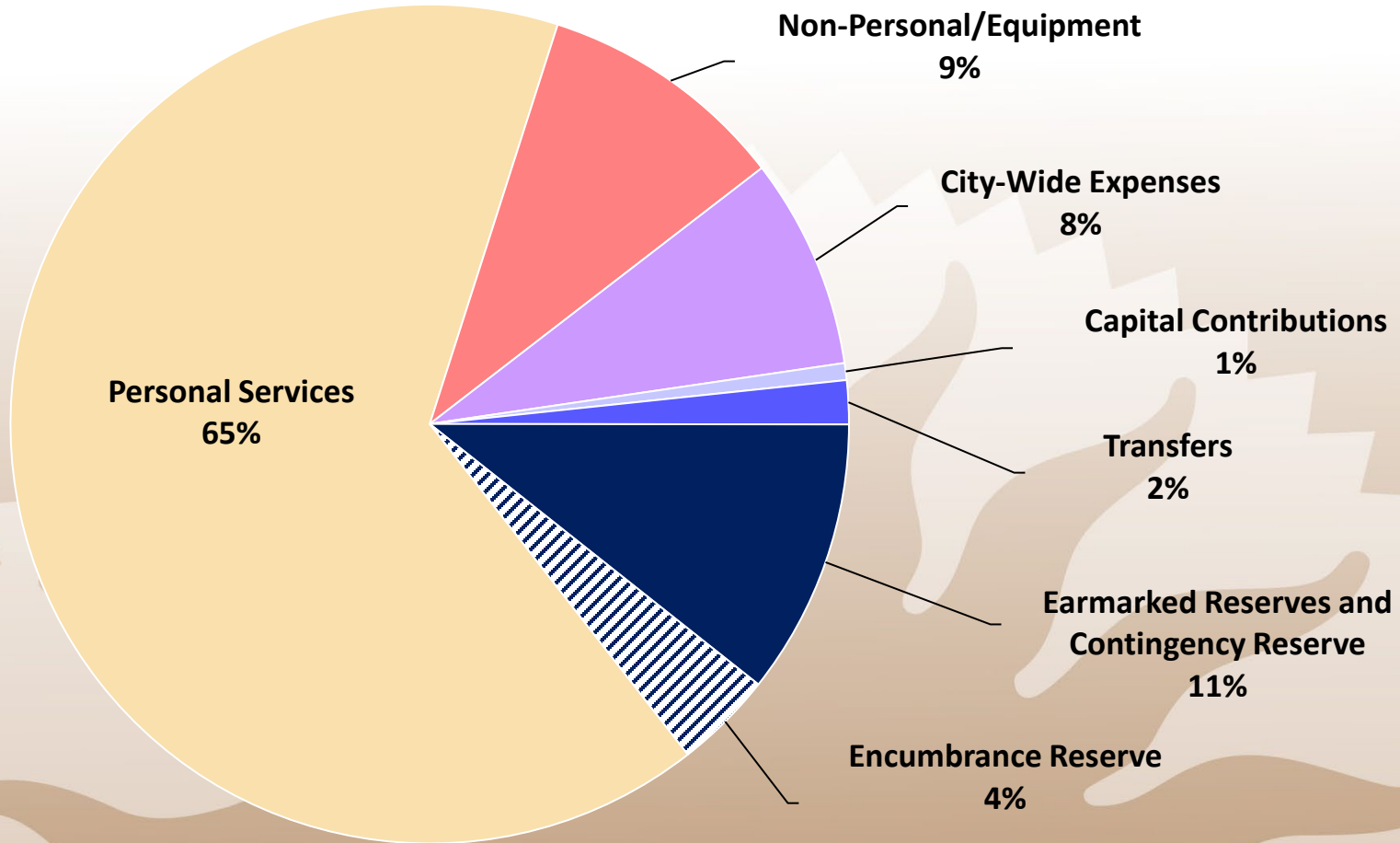
General Fund Uses



Total General Fund Uses: \$1,508,211,649

2022-2023 Proposed Operating Budget

General Fund Uses by Category



Total General Fund Uses: \$1,508,211,649

2022-2023 Budget Balancing Strategy

General Fund

	\$ in millions	
	<u>2022-2023</u>	<u>Ongoing</u>
Total General Fund Surplus	\$ 30.1	\$ 30.1
Recommended Balancing Strategy		
– Changes in Sources	\$ 73.0	\$ 1.7
– Changes in Uses	103.1	31.8
Total Balancing Strategy	\$ 30.1	\$ 30.1
Amount Remaining	\$ 0	\$ 0

2022-2023 Budget Balancing Strategy

Changes in General Fund Sources

	\$ in millions	
	2022-2023	Ongoing
Beginning Fund Balance	58.1	0.0
2022-2023 Future Deficit Reserve	28.3	0.0
2021-2022 Excess Revenue/Expenditure Savings	25.0	0.0
Sick Leave Payments Upon Retirement Reserve	2.0	0.0
Pest and Turf Management Reserve	1.0	0.0
Other Reserve Liquidations	1.8	0.0
Grants/Reimbursements/Fees	9.9	0.1
CaliforniansForAll Youth Workforce Development Grant	9.2	0.0
Commercial Solid Waste CPI Adjustment	0.6	0.6
UASI Grant – Office of Emergency Management	0.5	0.0
Other Fee Programs/Reimbursements/Grants	(0.3)	(0.5)
Other Revenue	3.4	0.0
Transfer from American Rescue Plan – Revenue Loss Reimbursement	3.3	0.2
Transfer from the General Purpose Parking Fund	0.1	0.0
Overhead from Other Funds	1.6	1.6
Total Change in Sources	\$ 73.0	\$ 1.7

2022-2023 Budget Balancing Strategy

Changes in General Fund Uses

	\$ in millions	
	<u>2022-2023</u>	<u>Ongoing</u>
2021-2022 Previously One-Time Funded Services	\$41.1	\$23.9
Service Level Enhancements	40.9	8.7
Other Fee Programs/Grants/Reimbursements	10.0	0.2
Unmet/Deferred Technology, Infrastructure, and Maintenance	6.8	0.1
Earmarked Reserves (Essential Services, Budget Stabilization, Vehicle Abatement)	5.3	0.3
New Facilities Operations and Maintenance	3.2	1.7
Cost Reductions/Service Delivery Efficiencies/Funding Shifts	(0.1)	(0.1)
Use of Reserves (Deferred Maintenance, Committed Additions)	(4.1)	(3.0)
Total Change in Uses	<u>\$ 103.1</u>	<u>\$ 31.8</u>

2022-2023 Proposed Budget Investments

General Fund and American Rescue Plan Fund

**2022-2023 Proposed Budget Investment Priorities
General Fund and American Rescue Plan Fund***

Investment Priority	2022-2023 General Fund Adjustments	2022-2023 American Rescue Plan Fund Adjustments	2022-2023 Combined Adjustments	Ongoing Adjustments (General Fund)
Homelessness and Affordable Housing	\$23.3 million	\$21.8 million	\$45.1 million	\$0.4 million
Equitable Economic Recovery	\$14.0 million	\$28.2 million	\$42.2 million	\$4.3 million
Public Safety	\$23.0 million		\$23.0 million	\$7.6 million
Battling Blight	\$8.8 million	\$7.0 million	\$15.8 million	\$8.3 million
Climate and Seismic Resilience	\$14.2 million		\$14.2 million	\$5.3 million
Fiscal Sustainability	\$5.4 million		\$5.4 million	\$0.2 million
Strategic Support**	\$5.5 million	\$2.3 million	\$7.8 million	\$3.2 million
Other Community Services**	\$6.2 million		\$6.2 million	\$5.6 million
Deferred Infrastructure**	\$6.8 million		\$6.8 million	\$0.0 million
Use of Reserves**	(\$4.1 million)		(\$4.1 million)	(\$3.0 million)
Total	\$103.1 million	\$59.3 million	\$162.4 million	\$31.8 million

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

** Although not explicitly identified as a standalone Investment Priority, these allocations are consistent with the City Council-approved 2022-2023 Budget Balancing Strategy Guidelines and provide context to the remaining allocated amounts

2022-2023 Proposed Budget Investments

American Rescue Plan Summary

Source	
American Rescue Plan Act	\$ 212.3
Interest Earnings (Estimated)	1.1
Total Source of Funds	\$ 213.4
Use	
2020-2021 Actual Expenditures and Encumbrances	\$ 1.9
2021-2022 General Fund Support	45.0
2021-2022 Community & Economic Recovery Allocation	108.8
2021-2022 Estimated Savings	(1.6)
2022-2023 Recommended Allocation	59.3
Total Use of Funds	\$ 213.4

Recommended Budget Actions

Homelessness and Affordable Housing

- Emergency Interim Housing Construction and Operations (\$40.0 million)/**Attachment D**
- San José Bridge Program (\$3.0 million)/**Attachment D**
- Planning Development Fee Program CEQA Review Staffing (\$498,000)/**City Attorney's Office & PBCE**
- Urban Village Planning (\$400,000)/**PBCE**
- Drug treatment and Mental Health Services Partnerships (\$500,000)/**City-Wide Expenses**
- Automatic Public Toilets (\$410,000)/**City-Wide Expenses**
- Accessory Dwelling Unit Ally Program Staffing (\$312,000)/**PBCE**
- Downtown Homeless and Mental Health Response and Support (\$300,000)/**Attachment D**

Recommended Budget Actions

Homelessness and Affordable Housing

- Underwriting and Financial Consulting for Affordable Housing Projects (250,000)/**Housing**
- Housing Preservation and Production Staffing (\$237,000)/**Housing**
- Homeless Response Team and BeautifySJ Coordination Staffing (\$207,000)/**Housing**
- Yes in God's Backyard (\$200,000)/**PBCE**
- Destination Home: Silicon Valley Staffing (\$179,000)/**PBCE**
- Housing Catalyst Team Staffing (\$164,000)/**Office of Economic Development and Cultural Affairs**

Recommended Budget Actions

Equitable Economic Recovery

- Continued Child and Youth Services (\$10.5 million)/**Attachment D**
- Continued Food Services and Food Distribution Resilience Corps (\$4.8 million)/**Attachment D**
- Support to the Convention and Cultural Affairs Fund (\$4.0 million)/**Attachment D**
- Placemaking/Viva Calle and Viva Parks (\$3.4 million)/**PRNS & Attachment D**
- CaliforniansForAll Youth Workforce Program – Learning Resilience Corps (\$3.2 million)/**City-Wide Expenses**
- Supplemental Arts and Cultural Grant Funding (\$2.0 million)/**Attachment D**
- COVID-19 Recovery Taskforce (\$2.0 million)/**Attachment D**
- Digital Equity and Device Access (\$1.1 million)/**Attachment D**

Recommended Budget Actions

Equitable Economic Recovery

- School of Arts and Culture Expansion (\$1.0 million)/**City-Wide Expenses**
- Racial Equity Staffing (\$903,000)/**Library, PBCE, PRNS, Police, Transportation**
- Community Engagement (\$700,000)/**Attachment D**
- Coyote Valley Monterey Corridor Study (\$575,000)/**City-Wide Expenses**
- Cannabis Equity Program (\$500,000)/**City-Wide Expenses**
- San José Al Fresco (\$400,000)/**Attachment D**
- Storefront Activation Grant Program (\$500,000)/**City-Wide Expenses**
- Child and Youth Services – Family, Friends, and Neighbors (\$500,000)/**City-Wide Expenses**
- Non-Profit Food Provider Permitting Costs (\$500,000)/**City-Wide Expenses**
- San José Aspires Administrative Support (\$450,000)/**Attachment D**
- City of San José Disparity Study (\$400,000)/**City-Wide Expenses**

Recommended Budget Actions

Public Safety

- Police Sworn Hire Ahead Program (\$7.5 million)/**Police**
- Foot Patrols in Downtown and High Needs Neighborhoods Staffing (\$3.7 million)/**Police**
- Emergency Operations Center and Equipment Room Fixtures, Furniture and Equipment (\$2.3 million)/**Information Technology**
- Public Records Team Staffing (\$931,000)/**Police**
- Recruiting and Backgrounding (\$895,000)/**Police**
- Mobile Crisis Assessment Team Staffing (\$822,000)/**Police**
- Coyote Creek and Guadalupe River Trail Patrol (\$600,000)/**Police**
- Community Service Officer Staffing (\$615,000)/**Police**
- Traffic Safety Team Staffing (\$416,000)/**Transportation**
- Body Worn Camera Review (\$350,000)/**City Attorney's Office**
- Bureau of Fire Prevention Arson Unit Staffing (\$310,000)/**Fire**

Recommended Budget Actions

Public Safety

- Employee Services Workforce Enhancement Staffing (\$303,000)/**Fire**
- Re-arresting Criminal Defendants (\$300,000)/**Police**
- Public Safety Initiatives Staffing (\$200,000)/**City Attorney's Office**
- Automated Speed Detection and Messaging (\$175,000)/**City-Wide Expenses**
- Domestic Violence High Risk Response Team (\$125,000)/**Police**
- Improving Criminal Justice Program (\$120,000)/**Police**
- Bureau of Investigations – Family Violence Unit Staffing (\$109,000)/**Police**
- Ambulance Services Evaluation (\$85,000)/**Fire**

Recommended Budget Actions

Battling Blight

- Beautify San José Consolidated Model (\$11.7 million)/**PRNS & Attachment D**
- Vehicle Abatement Program (\$1.2 million)/**Transportation and General Fund Capital, Transfers, Reserves**
- Beautify San José Landscape Maintenance Program (\$1.1 million)/**Transportation**
- Project Hope (\$486,000)/**PRNS**
- Guadalupe River Park Maintenance (\$394,000)/**PRNS**
- Code Fee Programs Enforcement Staffing (\$334,000)/**PBCE**
- Proactive Legal Enforcement of Blighted and Nuisance Properties (\$250,000)/**City Attorney's Office**
- Responsible Landlord Engagement Initiative (\$200,000)/**City-Wide Expenses**
- Code Enforcement Policy and Program Support (\$121,000)/**PBCE**

Recommended Budget Actions

Climate and Seismic Resilience

- Program – Climate Change Pathway (\$5.9 million)/
City-Wide Expenses
- Community Forest Program (\$3.6 million)/**PRNS & Transportation**
- Climate Smart Program Implementation (\$2.1 million)/
Environmental Services and Transportation
- Climate Resilience Planning and Development (\$1.7 million)/
City-Wide Expenses
- Alum Rock Park Vegetation Management (\$458,000)/**PRNS**

Recommended Budget Actions

Fiscal Sustainability

- Essential Services Reserve (\$3.0 million)/**General Fund Capital, Transfers, Reserves**
- Budget Stabilization Reserve (\$2.0 million)/**General Fund Capital, Transfers, Reserves**
- Fellows Program (\$200,000)/**City-Wide Expenses**
- Donor Wall (\$150,000)/**City-Wide Expenses**

Recommended Budget Actions

Other Community Services, Strategic Support, Deferred Infrastructure, and Use of Reserves

- Transfer to the Communications Construction and Conveyance Tax Fund – Radio Replacement (\$2.0 million)/**General Fund Capital, Transfers, Reserves**
- South Bay Water Recycling Operational Improvements (\$1.7 million)/**ESD**
- Pest and Turf Management Team (\$1.1 million)/**PRNS**
- Library Branch Hours and Operations for Lower Resourced Communities (\$917,000)/**Library**
- San José Municipal Stadium LED Lighting (\$800,000)/**General Fund Capital, Transfers, Reserves**
- Recruitment and Retention Staffing (\$793,000)/**Human Resources**
- Animal Care and Services Staffing (\$669,000)/**Public Works**
- City Hall Carpet Replacement (\$650,000)/**General Fund Capital, Transfers, Reserves**

Recommended Budget Actions

Other Community Services, Strategic Support, Deferred Infrastructure, and Use of Reserves

- Parks Rehabilitation Strike Team (\$604,000)/**PRNS**
- Learning and Development Program (\$581,000)/**Human Resources**
- Procurement Improvement Staffing (\$552,000)/**Finance**
- Recovery Foundation and Drive to Digital – Hybrid Workplace (\$500,000)/**City-Wide Expenses**
- Recovery Foundation and Drive to Digital – OneCity Workplace (\$500,000)/**City-Wide Expenses**
- Recycle Right Direct Customer Outreach (\$480,000)/**ESD**
- Happy Hollow Park and Zoo Security (\$450,000)/**PRNS**
- Street Sweeping for Protected Bike Lanes (\$445,000)/**Transportation**
- Police Activities League (PAL) Stadium Complex and Program Support (\$337,000)/**PRNS**

Recommended Budget Actions

Other Community Services, Strategic Support, Deferred Infrastructure, and Use of Reserves

- Martin Luther King, Jr. Library Hours and Operations (\$334,000)/**Library**
- Traffic Safety Team Staffing (\$338,000)/**Transportation**
- Upgrade Airport Electricity Service to Total Green (\$300,000)/**Airport**
- Debt Management Software Replacement (\$250,000)/**Human Resources**
- Recruiting and Onboarding Software Replacement (\$210,000)/**Human Resources**
- Library Security/Public Safety Supervision Staffing (\$210,000)/**Library**

Recommended Budget Actions

Fee and Charges Adjustments

- **Utilities:**
 - Storm Sewer Service Fee: No increase
 - Sewer Service and Use Charge Fee: 9% aggregate increase
 - Recycle Plus Rates: 8% increase for single-family and 4% for multi-family dwellings
 - Municipal Water System Rates: revenue increase of 12% increase (rates will vary by user)
- **Development Fee Programs:** fee increases of approximately 4% to 8% recommended
- **Other Fee Programs:** fee changes to generally maintain cost recovery, with exceptions
 - Library cost recovery rate drops from 33% to 20%; PRNS remains below 50%

Next Steps

May 11 th through 16 th	City Council Budget Study Sessions
May 11 th , 21 st , 23 rd	Community Budget Meetings
May 17 th /June 13 th	Public Budget Hearings
June 6 th	Mayor's June Budget Message Released
June 14 th	Council Review/Approval of Mayor's June Budget Message and Budget
June 21 st	Adoption of the 2022-2023 Budget and Fees and Charges

2022-2023 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

Nanci Klein
Director of the Office of Economic Development & Cultural Affairs

Blage Zelalich
Acting Deputy Director, Business Development Office of Economic Development & Cultural Affairs