

CITY OF SAN JOSE
2025-2026 PROPOSED OPERATING BUDGET
GENERAL FUND OVERVIEW

Introduction

For 2025-2026, General Fund revenue estimates (excluding Fund Balance) total \$1.5 billion, representing a 0.9% increase from the 2024-2025 Adopted Budget level. However, when the Fund Balance-Carryover is included, General Fund resources total \$1.6 billion, which is 22.4% 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 2024-2025 Adopted Budget total. Rebudgets for the 2025-2026 budget will be brought forward later in the budget process.

Estimates for the 2025-2026 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2026-2030 Five-Year Forecast that was released at the end of February 2025. 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 2024-2025; and an estimate for the increase or decrease in activity, resulting in the anticipated receipts for 2025-2026. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2025-2026 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2023-2024 Actuals	2 2024-2025 Adopted	3 2025-2026 Forecast	4 2025-2026 Proposed	2 to 4 % Change	% of Total
Property Tax	\$ 473,724,109	\$ 495,000,000	\$ 536,500,000	\$ 536,500,000	8.4%	33.8%
Sales Tax	333,411,487	352,000,000	340,000,000	340,000,000	(3.4%)	21.4%
Transient Occupancy Tax	15,894,163	16,000,000	18,000,000	18,000,000	12.5%	1.1%
Franchise Fees	52,475,857	55,022,632	58,557,632	58,988,263	7.2%	3.7%
Utility Taxes	129,770,893	136,000,000	143,800,000	143,800,000	5.7%	9.1%
Business Taxes	86,072,405	87,000,000	80,000,000	85,000,000	(2.3%)	5.4%
Real Property Transfer Tax	50,749,321	0	0	0	N/A	0.0%
Telephone Line Tax	22,291,646	22,000,000	22,000,000	22,000,000	0.0%	1.4%
Licenses and Permits	21,428,006	21,818,390	22,069,036	22,574,591	3.5%	1.4%
Fees, Rates, and Charges	25,030,265	27,808,860	29,015,321	31,840,531	14.5%	2.0%
Fines, Forfeitures and Penalties	14,322,746	17,604,797	14,925,000	15,225,000	(13.5%)	1.0%
Rev. from Money and Property	22,774,861	18,735,000	21,935,000	21,935,000	17.1%	1.4%
Rev. from Local Agencies	23,353,375	19,077,112	18,466,819	18,991,819	(0.4%)	1.2%
Rev. from State of California	27,444,985	36,803,135	11,800,000	11,800,000	(67.9%)	0.7%
Rev. from Federal Government	5,462,136	15,527,645	0	0	N/A	0.0%
Other Revenue	12,664,318	9,560,067	8,528,294	11,066,283	15.8%	0.7%
Transfers and Reimbursements	133,588,823	139,214,498	144,318,211	144,667,936	3.9%	9.1%
Subtotal	\$ 1,450,459,396	\$ 1,469,172,136	\$ 1,469,915,313	\$ 1,482,389,423	0.9%	93.4%
Fund Balance-Carryover ⁽¹⁾	600,932,599	576,480,540	83,175,000	105,790,000	(81.6%)	6.6%
Total General Fund Sources	\$ 2,051,391,995	\$ 2,045,652,676	\$ 1,553,090,313	\$ 1,588,179,423	(22.4%)	100.0%

⁽¹⁾ 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 2025-2026 revenue estimates. Various economic forecasts and models were reviewed in the development of the 2025-2026 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 2026-2030 Five-Year General Fund Forecast.

National Outlook

The United States economic outlook is unclear. The federal administration has outlined policies, including tariffs, deportations, tax cuts and deregulation; but these policies may face legal, political, and logistical constraints. If the tariffs that have been threatened come to full fruition – specifically on goods from Mexico, Canada, China and the European Union – they would have a massive impact on the economy. Additionally, retaliatory trade laws against the United States may be implemented by these countries. The most significant impact of trade laws is raising the cost of living. Tariffs will raise prices on imported goods, while labor shortages caused by the mass deportations currently underway will increase costs in agriculture, construction, manufacturing, and hospitality.

As of December 2024, per the U.S. Bureau of Labor Statistics, the national unemployment rate of 3.8% has shown little net movement since early 2023 and unemployment trends in the near future remain unclear. While tariffs may reduce labor demand, deportations may shrink the workforce, offsetting job losses. Undocumented workers may hold positions that others may not want to do; therefore deportations could create significant labor market disruptions.

On a national level, consumer confidence dropped sharply in February. According to Stephanie Guichard, Senior Economist at The Conference Board, “In February, consumer confidence registered the largest monthly decline since August 2021. This is the third consecutive month on month decline...Views of current labor market conditions weakened. Consumers became pessimistic about future business conditions and less optimistic about future income. Pessimism about future employment prospects worsened and reached a ten-month high.”¹

City of San José Outlook

Silicon Valley’s economy is modestly growing, though there are several areas of concern. While the unemployment rate is essentially unchanged from prior year levels and remains relatively low, job growth is relatively stagnant. Similarly, though real estate median sale prices are up and transfers are up, these homes are staying on the market for slightly longer. Construction activity, with the exception of the residential construction category, has grown compared to the prior year.

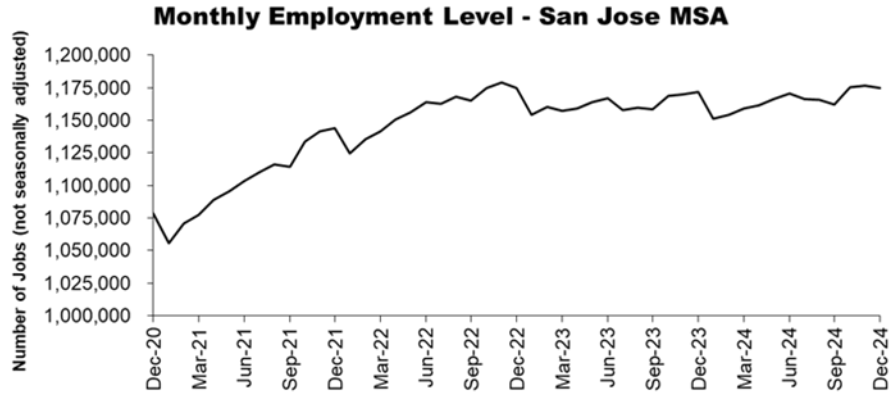
¹ The Conference Board, Consumer Confidence Survey, February 2025.

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Economic Performance

City of San José Outlook

The December 2024 employment level of 1.17 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 3,000 jobs, or 0.3%, from the December 2023 level. This increase includes private education and health services adding 9,500 jobs; leisure and hospitality growing by 3,300 jobs; and professional and business services improving by 2,800 jobs. Conversely, manufacturing decreased by 6,200 jobs and the information sector eliminated 5,300 jobs.²



Unemployment Rate (Unadjusted)			
	Dec. 2023	Nov. 2024	Dec. 2024**
San José Metropolitan Statistical Area*	4.0%	4.1%	3.9%
State of California	5.1%	5.3%	5.2%
United States	3.5%	4.0%	3.8%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** December 2024 estimates are preliminary and may be updated.			

The local unemployment rate for December 2024 was 3.9%, which is slightly lower than the November 2024 rate of 4.1% and the prior year unemployment rate of 4.0%. While the December 2024 San José Metropolitan Statistical Area unemployment rate continues to be lower than the unadjusted unemployment rate for the State (5.2%), it is slightly higher than the national rate (3.8%).

Overall construction activity (valuation) through December 2024 increased 51.8% from prior-year levels, driven by commercial construction activity and tempered by a decline in residential construction activity. The 2024-2025 Adopted Budget was developed assuming overall development activity would decrease slightly from 2023-2024 levels; however if current trends continue into 2025, construction activity may outperform the projections included in the 2025-2029 Five-Year Forecast, which was released in February 2024.

Private Sector Construction Activity (Valuation in \$ Millions)			
	YTD December 2023	YTD December 2024	% Change
Residential	\$ 231.7	\$ 173.8	(25.0%)
Commercial	\$ 221.0	\$ 586.6	157.2%
Industrial	\$ 159.0	\$ 186.3	17.1%
	\$ 611.8	\$ 928.7	51.8%

² State of California Employment Development: Labor Market Information Division Press Release, January 24, 2025.

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Economic Performance

City of San José Outlook

Residential permit valuation of \$173.8 million through December 2024 is 25.0% lower relative to same period in 2023-2024 (\$231.7 million), with construction activity through December including a total 433 units – 157 multi-family units and 276 single-family units. Commercial permit valuation of \$586.6 million through December 2024 is 157.2% higher relative to the same period in 2023-2024 (\$221.0 million). New construction accounted for 54% (\$110.8 million) of the commercial activity in November and December, and alterations accounted for 46% (\$93.2 million). Industrial permit valuation of \$186.3 million through December 2024 is 17.1% higher relative to the same period in 2023-2024 (\$159.0 million). Alterations accounted for 66% (\$51.8 million) of the industrial activity in for November and December, and new construction accounted for 34% (\$17.6 million).

According to data from the Santa Clara County Association of Realtors, in December 2024, property transfers increased by 16.5% compared to the prior year. Further, the December 2024 median home price was \$1.7 million, which is 8.9% above the December 2023 price of \$1.5 million. However, these more expensive homes are on the



market for a longer period of time before selling; the average days-on-market through December 2024 totaled 30 days, compared to the average of 24 days experienced the prior year.

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Revised General Fund Forecast

Between the issuance of the Five-Year Forecast in February 2025 and the release of the Proposed Budget in May 2025, revenue collections for 2025-2026 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 net \$12.1 million increase to the General Fund Forecast, increasing the revenue estimate from \$1.54 billion to \$1.55 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 2025-2026 Proposed Budget.

Category	\$ Change	Description
Property Tax	\$ 9,500,000	Increase of \$9.5 million as a result of a 2025-2026 revenue estimate being received from the State of California and Santa Clara County for Educational Revenue Augmentation Funds (ERAF) that will result in an ongoing revenue increase.
Franchise Fees	2,500,000	Increase of \$2.5 million as a result of the 2024-2025 payment for Electric and Gas Franchise Fees being received from Pacific Gas and Electric in April 2025, which reflects 2024 calendar year activity. This payment amount was \$2.5 million above the estimated level; this higher funding level is anticipated to be received on an ongoing basis.
Transfers and Reimbursements	566,117	Increase of \$566,117 reflects higher transfers to the General Fund (\$520,441) and updated overhead reimbursements from capital and operating funds based on the final 2025-2026 base budget and overhead rates (\$45,676).
Beginning Fund Balance	175,000	Increase of \$175,000 reflects savings from the Customer Service Vision and Standards appropriation that is not anticipated to be expended by the end of 2024-2025 and will be rebudgeted to 2025-2026.
Use of Money and Property	100,000	Increase of \$100,000 reflects higher lease revenue anticipated in 2025-2026 for communications facilities.
Licenses and Permits	48,844	Increase of \$48,844 aligns revenues with estimated base costs and activity levels for the Fire Department Non-Development Fee Program.
Fees, Rates, and Charges	(784,980)	Net decrease of \$784,980 aligns revenues with estimated base costs and activity levels for Miscellaneous fees (-\$714,831) and Transportation Department fees (-\$70,149).
Total	\$ 12,104,981	

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Changes from Revised Forecast to Proposed Budget

From the Revised Forecast of \$1.55 billion, a net increase of \$35.1 million to the General Fund revenue estimates is included in the Proposed Budget, bringing the 2025-2026 revenue estimate to \$1.59 billion (including fund balance). The components of this change include an increase to the estimate for the 2024-2025 Ending Fund Balance/2025-2026 Beginning Fund Balance (\$22.6 million) and an increase to various revenue categories (\$12.5 million). The revenue changes are summarized in the table below.

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Beginning Fund Balance	\$ 22,615,000	Increase of \$22.6 million reflects: the liquidation of various reserves (\$20.9 million), including the Community and Economic Recovery Reserve (\$11.5 million), Budget Stabilization Reserve (\$7.0 million), and Information Technology Sinking Fund Reserve (\$2.4 million); fund balance from expenditure savings that is anticipated to be received in 2024-2025 and be available for use in 2025-2026 (\$898,000); the liquidation of carry-over encumbrances (\$750,000); and rebudget of 2024-2025 funds for expenditure-related items (\$107,000).
Business Tax	5,000,000	Increase of \$5.0 million reflects higher anticipated Cardroom Tax revenue in 2025-2026 as the result of a delay in potential new cardroom regulations that may negatively impact revenue collections. It was previously anticipated the new regulations may become effective in March 2026; however, the potential change in regulations has been delayed to at least June 2026.
Fees, Rates, and Charges	2,825,210	Net increase of \$2.8 million reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Miscellaneous fee revenue (\$2.6 million), Parks, Recreation, and Neighborhood Services Department fee revenue (\$181,247), Transportation Department fee revenue (\$21,406), and Police Department fee revenue (\$17,739).
Other Revenue	2,537,989	Increase of \$2.5 million reflects revenue anticipated to be received from the Business Tax Amnesty Program that will be conducted by the Finance Department (\$1.6 million); grant funding for City Energy Development (\$520,197) and San Jose Public Library Funds (\$439,000); and reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Transportation Department (\$3,792).

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Changes from Revised Forecast to Adopted Budget

Category	\$ Change	Description
Revenue from Local Agencies	\$ 525,000	Increase of \$525,000 reflects three new local agency grants and reimbursements that are anticipated to be received in 2025-2026. Revenue includes funding from Santa Clara County for the County Public Art Program (\$200,000), Coyote Creek Trail Patrol (\$162,500), and Guadalupe River Trail Patrol (\$162,500).
Licenses and Permits	505,555	Net increase of \$505,555 reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Fire Development (\$430,000), Police Department (\$374,938), other licenses and permits (\$7,332), and Multi-Housing Permits (-\$306,715).
Franchise Fees	430,631	Increase of \$430,631 reflects a Commercial Solid Waste fees increase of 2.95% based on cost changes including a Consumer Price Index adjustment.
Transfers and Reimbursements	349,725	Net increase of \$349,725 reflects increased overhead from budget actions that change the staffing levels funded by special and capital funds.
Fines, Forfeitures and Penalties	300,000	Increase of \$300,000 reflects the implementation of a scofflaw program to encourage the payment of unpaid parking citations and to facilitate greater compliance with parking regulations.
Total	\$ 35,089,110	