



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Jim Shannon

SUBJECT: BI-MONTHLY FINANCIAL REPORT
FOR JANUARY/FEBRUARY 2023

DATE: April. 10, 2023

Approved

Date

4/11/2023

RECOMMENDATION

Accept the Bi-Monthly Financial Report on actual revenues and expenditures as compared to the 2022-2023 Budget for the eight months ending February 2023.

OVERVIEW

The Bi-Monthly Financial Report for January/February 20223 was jointly prepared by the City Manager's Budget Office and the Finance Department and is presented for the Public Safety, Finance and Strategic Support Committee's review. The City Manager's Budget Office has analyzed actual expenditures as compared to the 2022-2023 Modified Budget and the Finance Department has prepared a report that reflects the financial results for the eight months ending February 2023.

Through the first eight months of the fiscal year, revenues and expenditures were generally tracking within the budgeted estimates in the majority of City funds. The Administration will continue to closely monitor economic conditions and the performance in all City funds, bringing forward budget adjustments to the City Council during the year as appropriate. The following are key highlights of this report:

- General Fund revenues are anticipated to exceed budgeted levels by \$30 million. As discussed further in this report, several revenue categories are performing stronger than anticipated, including Property Tax, Sales Tax, Transfers and Reimbursements, Transient Occupancy Tax, and Utility Tax.
- Overall, General Fund expenditures are anticipated to end the year approximately \$20 million below budgeted levels, primarily due to vacancy savings. Expenditures will continue to be controlled and monitored to ensure appropriations stay within or below the approved levels.
- When combined with the \$9.4 million included in the 2022-2023 Ending Fund Balance Reserve that was established with City Council's approval of the 2022-2023 Mid-Year Budget Review and the assumed liquidation of prior year carryover encumbrances, approximately \$60 million of unrestricted Ending Fund Balance in the General Fund will be

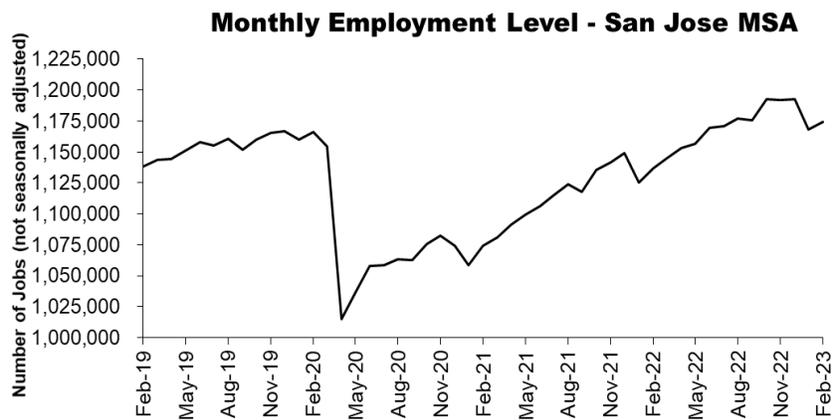
OVERVIEW (CONT'D.)

available as a source for the 2023-2024 Proposed Budget. Of this amount, \$30 million was assumed in the 2024-2028 Five-Year General Fund Forecast and \$30 million will be factored into the development of the 2023-2024 Proposed Budget.

- Building and Structure Construction Tax collections are anticipated to end the year above budgeted levels; however, Construction Excise Tax collections are experiencing year-over-year declines and may fall below budgeted levels. Both of these revenue sources are dependent on construction activity, which has grown compared to prior year levels.
- As a result of the struggling local real estate market, Construction and Conveyance Tax (C&C) revenue and Real Property Transfer Tax revenues are performing significantly below prior year levels and both are anticipated to end the year below budgeted levels.
- Transient Occupancy Tax activity levels are continuing to experience gains after the complete collapse of hotel room demand during the pandemic. Based on information known at this time, this category is anticipated to end the year above budgeted levels.
- Based on performance through February, all Development Fee Programs revenues, with the exception of the Planning Fee Program, are anticipated to meet or exceed budgeted levels by year-end.
- The Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned 8.0 million passengers through February, an increase of 34.3% from the figures reported through February of the prior year. This year-over-year increase is due to the ongoing recovery of passenger traffic, which was significantly impacted as a result of the pandemic.
- Through February, SJCE’s Cost of Energy (including encumbrances) totaled \$298.0 million, or 80.8% of the 2022-2023 Modified Budget; Energy Sales totaled \$343.2 million, or 67.8% of the budgeted estimate. Actions to increase Cost of Energy (expenditures) and Energy Sales (revenue) will be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

Economic Environment

While Silicon Valley continues to show overall positive economic performance, several potential indicators of a future economic weakening have begun. These economic indicators include a slow-down in the local real estate market and raising unemployment



OVERVIEW (CONT'D.)

rates. While employment figures continue to be relatively strong, layoffs, especially in the technology sector, have begun impacting unemployment rates. The February 2023 employment level of 1.17 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 37,900 jobs, or 3.3%, from February 2022 level of 1.14 million. However, the February 2023 employment level is 17,900 jobs, or 1.5% below the December 2022 level.¹

Unemployment Rate (Unadjusted)				
	Feb. 2022	Dec. 2022	Jan. 2023	Feb. 2023**
San Jose Metropolitan Statistical Area*	3.3%	2.4%	3.1%	3.2%
State of California	5.0%	3.9%	4.6%	4.8%
United States	4.1%	3.3%	3.9%	3.9%
* San Benito and Santa Clara Counties Source: California Employment Development Department. ** February 2023 estimates are preliminary and may be updated.				

The local unemployment rate for February 2023 was 3.2%, which is slightly above the January 2023 rate of 3.1%, and is significantly higher than the December 2022 rate of 2.4%. It is important to note, that although local unemployment rates have risen, the San José Metropolitan Statistical Area unemployment rate continues to be lower than the unadjusted unemployment rate for the State

(4.8%) and the nation (3.9%).

Overall construction activity through February 2023 increased 3.2% from prior-year levels primarily due to activity for the residential and industrial land use categories experiencing year-over-year increases from the prior year. 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 2024-2028 Five-Year Forecast, which was released in February 2023.

Through February, residential permit valuation has increased 9.7% from prior-year levels (\$231.3 million in 2022-2023 from \$210.8 million in 2021-2022). Residential activity through February included 959 multi-family units and 293 units of single-family construction for a total of 1,252 units. Notable projects for January and February include permits for a five-story, 123-unit affordable housing apartment building on Bascom Avenue and a 23-story, 336-unit mixed-use high-rise building located on East Reed Street in the downtown area.

Private Sector Construction Activity (Valuation in \$ Million)			
	Feb. 2022 (YTD)	Feb. 2023 (YTD)	% Change
Residential	\$210.8	\$231.3	9.7%
Commercial	\$427.2	\$410.3	(4.0%)
Industrial	\$246.8	\$271.6	10.1%
TOTAL	\$884.7	\$913.1	3.2%

¹ State of California Employment Development: Labor Market Information Division Press Release, March 24, 2023

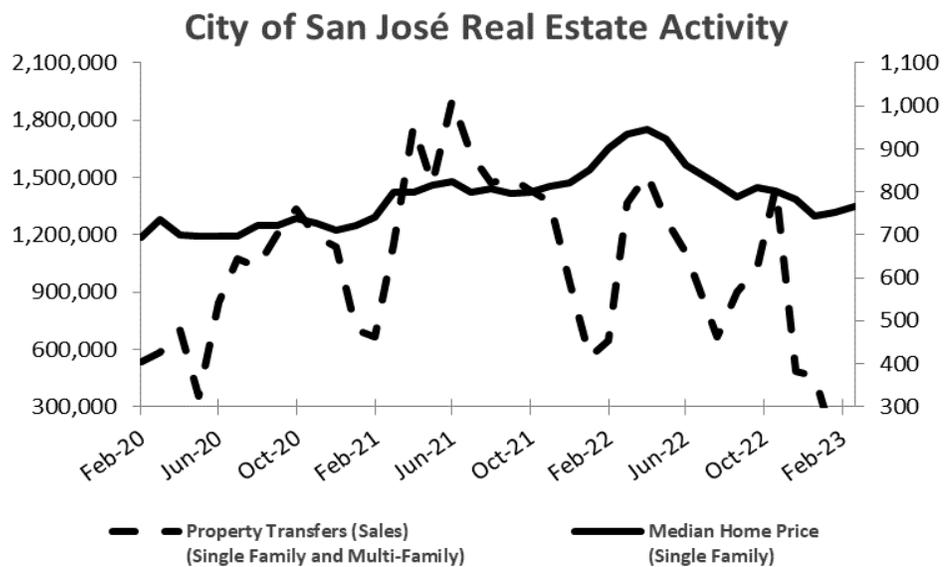
OVERVIEW (CONT'D.)

Commercial valuation through February 2023 was 4.0% lower than the 2021-2022 level (\$410.3 million in 2022-2023 from \$427.2 million in 2021-2022). Alterations accounted for over 80% of the commercial activity for January and February (\$37.8 million). Notable projects for January and February include permits issued for a 29,550 square foot mixed-use parking garage and retail project located on North Bascom Avenue and a 56,376 square foot mixed-use parking garage and retail project located on East Reed Street in the downtown area.

Industrial construction valuation through February 2023 was 10.1% higher than prior-year levels, with receipts totaling \$271.6 million in 2022-2023 and \$246.8 million in 2021-2022. Alterations accounted for all the industrial activity in January and 98.0% of activity in February (\$28.8 million).

While construction activity and employment levels are performing positively, an area of concern that will need to continue to be carefully monitored is the local real estate market. Beginning in mid-2020, the local real estate market performed extremely strong; posting record high median single home prices, very strong sales activity, and properties sold quickly. However, beginning in December 2021, property sales started to dip, with year-over-year transactions (from the same time period in the prior year) declining most months. Further, in order to combat high inflation rates, the Federal Reserve has significantly raised interest rates over the past year, and they have indicated they will continue to implement aggressive monetary policies until inflation begins to moderate. As interest rates increase, so have mortgage rates, which are expected to continue to negatively impact the number and price of property sales.

According to data from the Santa Clara County Association of Realtors, in February 2023, the median single-family home price totaled \$1.35 million, which is 18.2% lower than the February 2022 price of \$1.65 million. In addition, homes are staying on the market for longer



periods of time before selling. The average days-on-market through February 2023 totaled 27 days, which is significantly above the average of 15 days experienced year-to-date through February 2022. In addition, as discussed, property sales activity has been significantly declining. Property Sales through February 2023 dropped almost 34% compared to the prior-year sales. Local real estate activity will continue to be closely monitored.

OVERVIEW (CONT'D.)

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 signs of pulling back spending in the face of high prices and rising interest rates”.²

Economic conditions will continue to be closely monitored and will be factored into the assessment of the City’s performance in 2022-2023 as well as the development of the 2023-2024 Proposed Budget that will be released in May 2023.

GENERAL FUND

REVENUES

General Fund revenues through February 2023 totaled \$1.07 billion, which represents a decrease of \$41.2 million from the February 2022 level of \$ 1.11 billion. This decrease is primarily attributable to a transfer that occurred in 2021-2022 from the American Rescue Plan Fund (\$45.0 million) and lower Real Property Transfer Tax proceeds (\$35.6 million). In 2021-2022, General Fund revenues included a one-time transfer of \$45.0 million from the American Rescue Plan Fund to partially reimburse the City for revenue losses resulting from the pandemic. Additionally, Real Property Transfer Tax collections totaled \$110.0 million in 2021-2022 due to the large number of high-dollar commercial real estate sales. However, due to the tightened real estate market discussed previously, Real Property Transfer Tax activity is anticipated to decrease in 2022-2023 (2022-2023 Adopted Budget estimate totals \$65.0 million). Partially offsetting these significant year-over-year declines is increased revenue from Property Tax revenue (\$17.9 million) and Utility Tax revenue (\$17.5 million).

Other categories that are experiencing smaller year-over-year declines include Other Revenue (\$20.4 million), which is primarily attributable to lower levels of the Tax and Revenue Anticipation Notes (TRANS) proceeds and payments (\$10.0 million), Revenue from State of California (\$4.3 million), and Licenses and Permits (\$2.2 million). However, offsetting these declines are increases in every other revenue category, the largest of which include Sales Tax (\$6.5 million), Revenue from use of Money and Property (\$5.1 million), Transient Occupancy Tax (\$3.7 million), and Business Taxes (\$2.4 million. These higher collections are due to the timing of payments and higher activity levels.

² The Conference Board, Consumer Confidence Survey, February 28, 2023

GENERAL FUND (CONT'D.)

Through February, a total of \$60 million is anticipated to be available in 2023-2024 from a combination of excess revenues and expenditure savings, including: \$9.4 million from the 2022-2023 Ending Fund Balance Reserve established with City Council's approval of the 2022-2023 Mid-Year Budget Review; \$30 million from excess revenue; \$20 million from expenditure savings; and \$500,000 from the liquidation of prior year carryover encumbrances. Of this amount, \$30 million was assumed as part of the 2024-2028 General Fund Forecast, with the remaining \$30 million being factored in the development of the 2023-2024 Proposed Budget. The discussion on the following pages highlights General Fund revenue activities through February 2023.

KEY GENERAL FUND REVENUES

Revenue	2022-2023 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 437,000,000	\$ 221,528,041	\$ 203,649,155

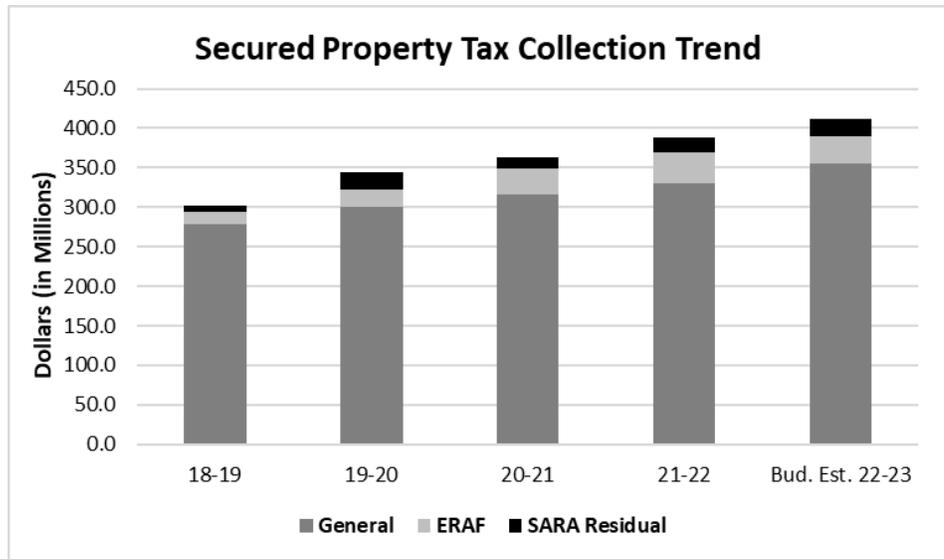
The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. Based on the most recent information that has been received from Santa Clara County, Property Tax receipts in 2022-2023 are estimated at \$443.9 million, which is 1.6% higher than the 2022-2023 Modified Budget estimate of \$437.0 million. Additionally, the estimated revenue reflects overall growth of 7.2% from the 2021-2022 collection level of \$414.1 million. This increase is primarily due to higher Secured Property Tax receipts (\$27.1 million year-over-year increase). Additional information about each of the Property Tax sub-categories is provided on the following pages.

Secured Property Taxes represent over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax, and Educational Revenue Augmentation Fund (ERAF) revenues. Based on the most recent information provided by Santa Clara County, Secured Property receipts are anticipated to total \$415.1 million in 2022-2023. The estimate is comprised of General Secured Property Tax receipts of \$355.3 million, excess ERAF funds of \$37.7 million, and SARA Residual Property Tax receipts of \$22.0 million.

As mentioned above, the general Secured Property Tax estimate totals \$355.3 million in 2022-2023, which assumes growth of approximately 7.4% from the 2021-2022 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2% and increased valuation due to changes in ownership or new construction of 5.2%. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment.

GENERAL FUND (CONT'D.)

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. In 2022-2023, receipts are estimated at \$22.0 million, which is 20.5% higher than the 2021-2022 collection level of \$18.3 million.



Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. Once there are sufficient funds in ERAF to fulfill obligations, the remainder of the funding is returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. Based on information recently provided by the State of California and Santa Clara County, 2022-2023, receipts are estimated at \$37.7 million, which is \$2.7 million higher than the 2022-2023 budget estimate of \$35.0 million, but is \$1.1 million below the 2021-2022 collection level of \$38.9 million.

The **Unsecured Property Tax** category refers to property that can be relocated and is not real estate. The most common forms of unsecured property include boats, business personal property, and undeveloped land. In 2022-2023, receipts of \$15.5 million are estimated, which is \$1.5 million above the 2022-2023 Modified Budget estimate of \$14.0 million and is \$672,000 above the 2021-2022 actual collection level of \$14.8 million.

The **SB 813 Property Tax** category represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Santa Clara County Assessor formally revalues the property. The 2022-2023 Modified Budget estimate of \$7.5 million is consistent with the 2021-2022 actual collection level. However, based on the most recent information provided by Santa Clara County, receipts are anticipated to total \$8.6 million, which is \$1.1 million above the 2022-2023 Modified Budget estimate.

Aircraft Property Tax receipts are primarily received in October of each year. Revenue in 2022-2023 is anticipated to total \$3.9 million, which is slightly above the 2022-2023 Modified Budget estimate (\$3.5 million) and 2021-2022 actual receipts (\$3.0 million).

In the **Homeowners Property Tax Relief** category, revenue in 2022-2023 is expected to be at the budgeted estimate of \$900,000, which is consistent with the 2021-2022 collection level.

GENERAL FUND (CONT'D.)

Revenue	2022-2023 Budget Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 331,000,000	\$ 181,922,394	\$ 175,417,690

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. Based on collections through the first two quarters, Sales Tax revenues are expected to end 2022-2023 at \$346.4 million, which is \$15.4 million above the 2022-2023 Modified Budget estimate of \$331.0 million and \$23.3 million above the 2021-2022 collection level of \$323.1 million. Sales Tax receipts will continue to be closely monitored and if necessary, a budget adjustment may be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

Information related to Sales Tax payments is distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity), February (representing October-December activity), May (representing January-March activity), and August (representing April-June activity). The next Sales Tax payment (representing January-March activity) is anticipated to be received at the end of May 2023 and will be discussed in June 2023 as part of the Bi-Monthly Financial Report for March/April 2023. Additional information about each of the Sales Tax sub-categories is provided on the following pages.

General Sales Tax is the largest driver of the Sales Tax category and accounts for over 80% of all Sales Tax receipts. As mentioned above, two quarters of General Sales Tax receipts have been received; the first quarter reflected year-over-year growth of 11% and the second quarter reflected year-over-year growth of 15%. These increases reflect significantly high inflation rates and moderate economic growth. The third and fourth quarter receipts are anticipated to experience lower rates of growth (7.5% and 3.0%, respectively) due to a slowing economy that is expected to result from the aggressive monetary policies instituted by the Federal Reserve, primarily through higher interest rates, to lower inflation. In total, 2022-2023 General Sales Tax receipts are estimated at \$279.0 million, which is \$11.0 million over the 2022-2023 Modified Budget and 7.4% higher than the 2021-2022 actual collection level of \$259.9 million. As mentioned above, third quarter General Sales Tax receipts will be received at the end of May 2023. Receipts will be closely monitored, and if necessary, a budget adjustment may be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

GENERAL FUND (CONT'D.)

The City's Sales Tax consultant, Avenu Insights & Analytics, has provided performance data for General Sales Tax revenue, as displayed on the chart below. This analysis measures the first and second quarter General Sales Tax receipts for 2021-2022 and 2022-2023, excluding Sales Tax associated with the Revenue Capture Agreement.

**General Sales Tax Revenue Economic Performance
First – Second Quarter Payments**

Category	2022-2023 % of Total Revenue	2021-2022 % of Total Revenue	% Change by Category
General Retail	18.9%	19.8%	6.1%
Business-to-Business	18.3%	15.7%	30.0%
Transportation	18.0%	18.1%	10.9%
Food Products	13.2%	13.1%	12.2%
Construction	9.0%	9.4%	7.1%
Miscellaneous	0.5%	0.7%	(11.5%)
County Pool	22.1%	23.2%	6.3%
Total	100.0%	100.0%	

As can be seen in the table above, almost all categories have experienced year-over-year growth, the largest of which include General Retail (apparel stores, department stores, furniture/appliance stores, drug stores, recreation products, and florists/nurseries), Business-to-Business (office equipment, electronic equipment, business equipment, energy sales), Transportation (auto parts, auto sales, service stations), Food Products (restaurants, markets, liquor stores), and Construction (wholesale and retail building materials).

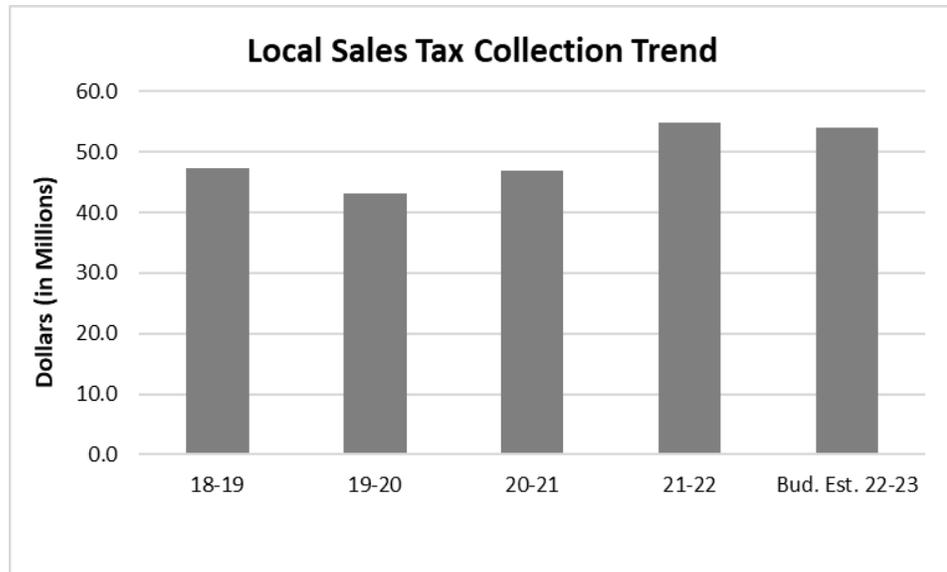
In addition, the County Pool, which is where the majority of online transactions are captured, has continued to grow. This growth is attributable to the pandemic's sustained impact of redirecting a significant amount of activity to online sales. The recent growth in County Pool receipts has been fueled by online purchases during the pandemic and is facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 45% - 50% of the total County Pool.

Local Sales Tax

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 45% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

GENERAL FUND (CONT'D.)

Similar to General Sales Tax, Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and for the second quarter (sales tax activity from October-December) were received in November 2022 and February 2023 and continue to reflect strong year-



over-year growth of approximately 10% per quarter. Due to an anticipated slowdown in the economy, third quarter receipts (which will be received in May 2023) are estimated to show growth of only 3%, and the final quarter of 2022-2023 is anticipated to be consistent with the 2021-2022 collection level. Based on these assumptions, 2022-2023 Local Sales Tax is estimated at \$59.0 million, which is \$5.0 million above the 2022-2023 Modified Budget estimate and \$4.1 million over the 2021-2022 collection level. Receipts will be closely monitored, and if necessary, a budget adjustment may be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

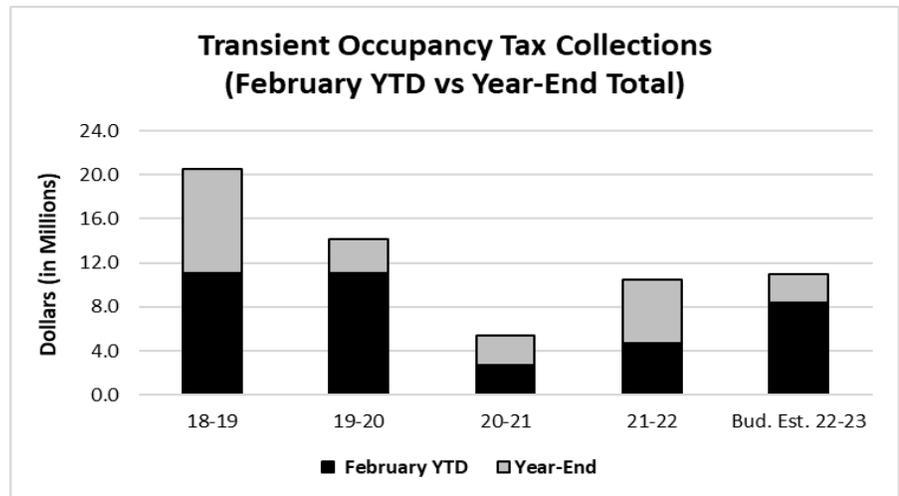
Proposition 172 Sales Tax collections represent the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. The 2022-2023 budgeted estimate of \$9.0 million requires growth of 7.6% from the 2021-2022 collection level of \$8.4 million. Through February 2023, Proposition 172 Sales Tax revenue totals \$4.04 million, which is consistent with the prior year collection level. Therefore, it is anticipated that 2022-2023 receipts will end the year at \$8.4 million, which is consistent with the 2021-2022 collection level, but is \$600,000 below the 2022-2023 Adopted Budget level.

GENERAL FUND (CONT'D.)

Revenue	2022-2023 Budget Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 11,000,000	\$ 8,412,543	\$ 4,721,571

The 2022-2023 budget estimate for the General Fund **Transient Occupancy Tax (TOT)** allocation (40% of the total tax) is \$11.0 million. When the 2022-2023 Adopted Budget was developed, it was anticipated that 2021-2022 collections would total \$9.0 million and conservatively estimated growth of 22% to \$11.0 million in 2022-2023. However, 2021-2022 ended the year at \$10.5 million, due to stronger than anticipated year-end hotel activity. As a result, 2022-2023 collections require growth of only 4.6% in 2022-2023 to meet the budgeted estimate. Through February 2022, TOT receipts total \$8.4 million, which is 78.2% above the prior year collection level of \$4.7 million. This growth level is indicative of an increase in demand for hotel rooms following the unprecedented impacts from the pandemic. Based on performance through February, receipts are anticipated to exceed the budgeted estimate by approximately \$5 million.

Overall room demand and revenues have continued to improve in 2022-2023, with occupancy and room rates peaking at 68.81% and \$160.77 in August 2022 – the second highest monthly performance levels to date since April 2020 and the height of the pandemic’s impacts, only surpassed by June 2022 performance of 72.35% and \$162.92. Although performance declined in November and December, incremental gains were experienced in January and February, following the normal holiday and seasonal pattern. Through February 2023, the average hotel occupancy rate reported for the San José market was 62.40%, compared to 54.46% through February 2022. Additionally, the average room rates increased by 31.5%, from \$120.36 to \$158.25, and the year-to-date average revenue-per-available room (RevPAR) increased by 50.63%, from \$65.55 to \$98.74, relative to the same period in 2021-2022.



Through February 2023, the average hotel occupancy rate reported for the San José market was 62.40%, compared to 54.46% through February 2022. Additionally, the average room rates increased by 31.5%, from \$120.36 to \$158.25, and the year-to-date average revenue-per-available room (RevPAR) increased by 50.63%, from \$65.55 to \$98.74, relative to the same period in 2021-2022.

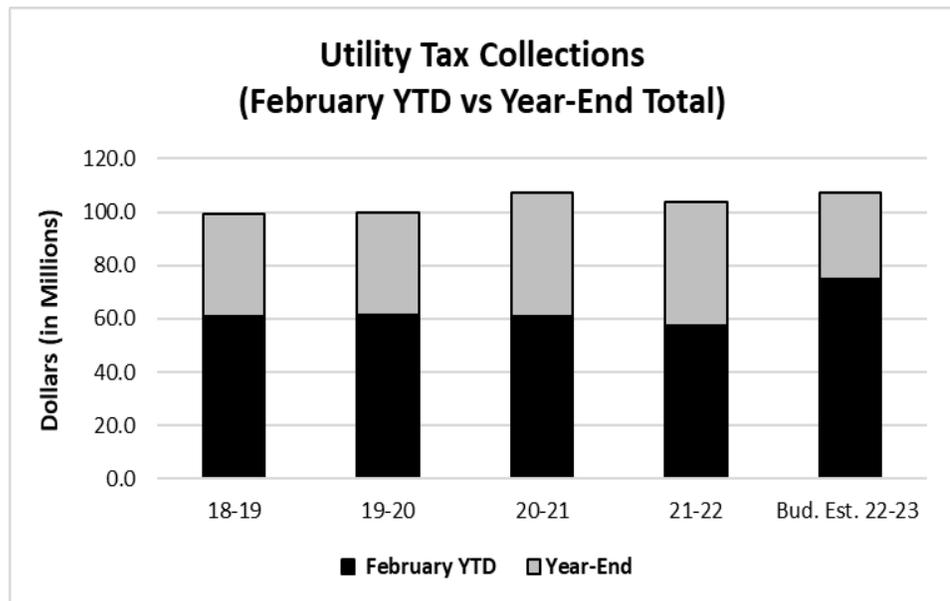
Reported hotel performance through February 2023 highlights a consistent growth pattern, building on the gains seen during 2021-2022. However, impacts related to a possible upcoming recession introduce a new uncertainty into this already volatile revenue source. In partnership with Team San Jose (the City’s operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in future Bi-Monthly Financial Reports.

GENERAL FUND (CONT'D.)

Revenue	2022-2023 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 114,450,000	\$ 74,878,076	\$ 57,404,133

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through February, Utility Tax receipts total \$74.9 million, which is significantly higher than the prior-year level of \$57.4 million. The year-over-year increase represents higher collections in all Utility Tax categories. The increase in Electricity, Water, and Gas receipts is primarily attributable to increased rates and activity levels and the timing of payments being processed in the City’s financial system. Based on current collection trends, Utility Tax receipts are anticipated to end the year approximately \$5 million - \$7 million above the 2022-2023 budgeted estimate of \$114.5 million. Receipts will be closely monitored, and if necessary, a budget adjustment may be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

In the **Electricity Utility Tax** category, collections through February 2023 totaled \$42.4 million, which is significantly higher than the \$30.6 million received in the prior year. This increase is primarily due to increased rates and activity levels as well as the timing of when payments were received and booked



in the City’s financial system. The 2022-2023 Modified Budget estimate totals \$64.0 million. Based on collections through February, receipts are anticipated to exceed the budgeted estimate by approximately \$2 million. Electricity Utility Tax collections will continue to be closely monitored, and if warranted, an increase to the 2022-2023 budgeted estimate may be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

GENERAL FUND (CONT'D.)

In the **Gas Utility Tax** category, collections through February totaled \$10.3 million, which is significantly higher than the prior year receipts of \$7.0 million. This increase is primarily due to increased rates and activity levels as well as the timing of when payments were received and booked in the City's financial system. The 2022-2023 Adopted Budget estimate totals \$14.0 million. Based on collections through February, receipts are anticipated to exceed the budgeted estimate by approximately \$4 million. Gas Utility Tax collections will continue to be closely monitored, and if warranted, an increase to the 2022-2023 budgeted estimate may be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

In the **Water Utility Tax** category, collections through February totaled \$11.2 million, which is 20.8% higher than the prior year receipts of \$9.3 million. This increase is primarily due to increased rates and activity levels as well as the timing of when payments were received and booked in the City's financial system. The 2022-2023 Adopted Budget estimate totals \$18.0 million. Based on collections through February, receipts are anticipated to exceed the budgeted estimate by approximately \$1 million. Water Utility Tax collections will continue to be closely monitored, and if warranted, an increase to the 2022-2023 budgeted estimate may be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

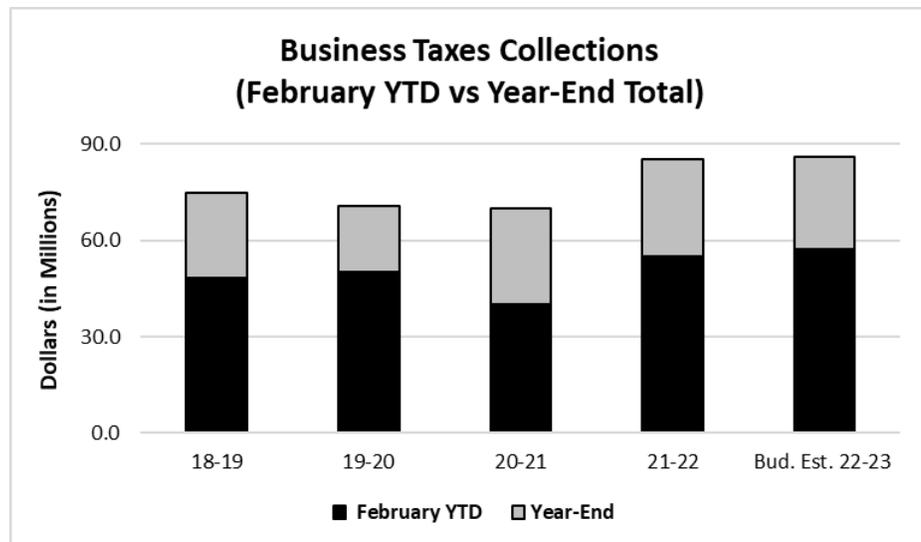
Collections in the **Telephone Utility Tax** category of \$11.0 million through February are 4.8% above the prior-year collections of \$10.5 million. The 2022-2023 Adopted Budget estimate of \$18.5 million allows for a 4% drop from the 2021-2022 actual collection level of \$19.2 million. Based on collections through February, receipts are anticipated to slightly exceed the budgeted estimate by \$500,000 - \$1.0 million. Telephone Utility Tax collections will continue to be closely monitored, and if warranted, an increase to the 2022-2023 budgeted estimate may be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

GENERAL FUND (CONT'D.)

Revenue	2022-2023 Budget Estimate	YTD Actual	Prior YTD Collections
Business Taxes	\$ 86,000,000	\$ 57,230,302	\$ 54,831,425

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through February, overall collections of \$57.2 million are 4.3% above the prior-year collection levels of \$54.9 million. This year-over-year growth reflects higher Cardroom Business Tax, General Business Tax, and Disposal Facility Tax collections, partially offset by lower Cannabis Business Tax collections. The 2022-2023 Adopted Budget estimate of \$86.0 million requires growth of 1% from the 2021-2022 actual collection level. Based on overall Business Taxes performance through February, it is anticipated that receipts will exceed the overall budgeted level by approximately \$1 million - \$2 million, primarily due to higher Cardroom Business Tax collections.

Cannabis Business Tax collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Cannabis Business Tax collections began after San José voters approved Ballot Measure U on November 2, 2010, which allowed the City to tax marijuana businesses. Further, in



November 2016, the California Marijuana Legalization Initiative (Proposition 64) was approved by voters, which legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at the 16 registered businesses in San José began in January 2018. Through February, receipts of \$9.1 million are 12.9% below the prior-year collection level of \$10.4 million. The 2022-2023 Modified Budget estimate for Cannabis Business Tax revenue totals \$18.0 million, which is consistent with the 2021-2022 collection level. However, based on performance levels through February, receipts may end the year approximately \$2 million below the budgeted level.

Through February, **Cardroom Business Tax** receipts totaling \$17.3 million have been received, which is 11.2% higher than the prior year level of \$15.5 million. These collections are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021. The 2022-2023 Modified Budget estimate for Cardroom Tax revenue totals \$29.0 million, which is consistent with the 2021-2022 actual collection level. Based on performance through February, receipts may end the year \$2 million - \$3 million above the budgeted level.

GENERAL FUND (CONT'D.)

Disposal Facility Tax (DFT) are business taxes received based on the tons of solid waste disposed of at landfills within the City. DFT revenue through February totaled \$7.8 million, which is 8.8% above the prior-year collection level of \$7.2 million. The 2022-2023 Adopted Budget estimate of \$13.0 million requires growth of 2.1% from the 2021-2022 collection level of \$12.7 million. Based on performance through February and historical collection patterns, receipts in this category are anticipated to meet or slightly exceed the budgeted estimate by year-end.

Through February, **General Business Tax** receipts of \$23.1 million are 6.1% above the prior-year collection level of \$21.8 million. The 2022-2023 Adopted Budget estimate of \$26.0 million requires growth of 1.1% from the 2021-2022 collection level of \$25.7 million. Based on the performance through this very early point in the year, receipts in this category are anticipated to end the year approximately \$1 million above the budgeted estimate.

Revenue	2022-2023 Budget Estimate	YTD Actual	Prior YTD Collections
Real Property Transfer Tax	\$ 65,000,000	\$ 40,674,050	\$ 76,307,695

On March 3, 2020, San José voters approved Measure E, the Real Property Transfer Tax. This new tax, which became effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. In accordance with City Council Policy 1-18, Section 22, this tax revenue is allocated for the development of new affordable housing, homelessness prevention, and homelessness support programs.

Through February 2023, Real Property Transfer Tax collections totaled \$40.7 million, which is significantly below the prior-year level of \$76.3 million. In addition, the City has received the March tax receipts from Santa Clara County, which total \$790,000. When taking into account total receipts through February and the March remittance, total Real Property Transfer Tax receipts in 2022-2023 total \$41.5 million, compared to the prior year level of \$70.0 million. This significant variance is due to several factors. First, due to the timing of when a payment from Santa Clara County was processed, funding of \$9.7 million was reflected in 2021-2022 but was attributable to 2020-2021 activity. In addition, due to a more constrained real estate market, a larger amount of high-value property transfers occurred in the prior year. As a decrease in activity was anticipated, the 2022-2023 Adopted Budget estimate of \$65.0 million is significantly below the 2021-2022 collection level of \$110.0 million. However, the drop-off in activity has deepened in recent months. It is currently anticipated that Real Property Transfer Tax revenue will likely fall short of the budgeted estimate. Collections will continue to be closely monitored, with updates provided in future Bi-Monthly Financial Reports, and a downward adjustment to the budgeted estimate may be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

GENERAL FUND (CONT'D.)**EXPENDITURES**

Through February, General Fund expenditures (without encumbrances) of \$983.4 million were 4.6% above the prior-year level of \$940.3 million. Encumbrances of \$92.2 million were 5.6% above the prior-year level of \$87.3 million. General Fund expenditures and encumbrances through February of \$1.0 billion constitute 47.2% of the total budget including reserves and 56.3% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year approximately \$20 million below budgeted levels, primarily as the result of position vacancy savings throughout the organization.

Through February, departments are overall performing within estimated levels for personal services expenditures, with the exception of the City Attorney's Office, Environmental Services Department, Fire Department, Police Department, Public Works Department, and Library Department. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels. In addition, utility costs for several departments, including the Public Works and Library Departments, are trending high and will likely need to be adjusted as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023. Following is a discussion of the performance of the Police and Fire Departments, the largest General Fund departments, as well as the Public Works Department.

KEY GENERAL FUND EXPENDITURES

<u>Department</u>	<u>2022-2023 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Police	\$ 504,527,737	\$ 318,239,288	\$ 312,760,288

Overall, Police Department expenditures are slightly below estimated levels through February, which is driven by lower non-personal/equipment expenditures. While the Department is currently tracking to be within budgeted levels overall, active monitoring and management will be needed to ensure that the Department remains within budgeted levels by year-end. Cost control measures implemented by the Department, which are discussed in more detail below, will be instrumental in meeting this target while maintaining required service levels.

Personal Services expenditures of \$294.9 million are slightly above the anticipated level for this point of the year (64.00% expended, compared to the par level of 63.83%), with overtime expenditures of \$34.2 million (83.91% of the total \$40.8 million Modified Budget). With City Council's approval of the 2022-2023 Mid-Year Budget Review, action was taken to reallocate \$15.0 million in vacancy savings to the overtime budget, increasing it from \$25.8 million to \$40.8 million. Year-to-date overtime expenditures are 19.59% above 2021-2022 levels which are primarily attributed to increased overtime usage and increased wages. Overtime hours through February (365,390) increased by approximately 15.19% over the same period in the prior fiscal year (317,198). The increased overtime usage is attributed to staffing shortages, backfilling street-ready vacancies, and increased caseload in the Homicide, Sexual Assault, Robbery, and Covert Response Units. The Department is on pace to exceed its overall Personal Services budget of \$460.8 million by approximately \$1.2 million (0.27%). As described below, the Department is

GENERAL FUND (CONT'D.)

taking additional steps to reduce overtime expenditures while also maintaining minimum staffing and service levels. A total of \$23.3 million (53.33%) of the Department's Non-Personal/Equipment budget (\$43.8 million, including carry-over encumbrances) has been expended through February. Excluding the remaining balances for centrally-determined details (\$10.1 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance, and replacement, the Department has approximately \$10.3 million, or 23.5% of its Non-Personal/Equipment budget available for the remainder of the fiscal year. Non-Personal/Equipment expenditures are well below estimated levels (53.33% expended, compared to the par level of 63.83%) and are anticipated to end the year within budgeted levels.

Overtime consists of both overtime expenditures and compensatory time. The Memorandum of Agreement (MOA) with the Police Officer's Association (POA) limits how much overtime can be earned for pay versus compensatory time. The Police Department continues to diligently work to fill vacancies in both sworn and civilian positions. Through the use of vacancy savings and the \$7.4 million in one-time funding from the Sworn Hire Ahead Program, funding is made available to pay for Police Academy Recruits as well as to backfill vacant patrol and investigative positions on overtime. While the goal is to fill vacancies and eliminate the need to backfill positions, the normal duration for the academy and field training is approximately 10-12 months, requiring overtime to backfill vacancies in patrol until the new recruits are ready to serve as solo beat officers. Effective vacancy levels, which include vacancies of field training officers, academy recruits, and sworn personnel on disability, modified, or other leaves, reduce the amount of street-ready sworn officers available and are the most significant contributing factor to overtime usage. The effective vacancy rate was 19.9% as of February 24, 2023. Historically, the effective vacancy rate has averaged 20.4% (based on the 5-year period between 2017-2018 and 2021-2022), resulting in the build-up of compensatory time balances for sworn personnel, for which there is a limit of 480 hours after which sworn personnel are paid in overtime for any additional hours worked.

In accordance with the POA MOA, the Police Department is enforcing compensatory time controls by requiring all sworn staff, outside of the Bureau of Field Operations (BFO), to reduce compensatory time balances by the end of each calendar year, or to submit a request for an extension and to prioritize compensatory time as requested time off (outside of sick leave purposes). On November 22, 2021, the Chief issued an order to reduce compensatory time balances for any sworn staff member who believes they will not be able to take the excess time off before the end of the calendar year. This order requires sworn staff to submit a plan to their immediate supervisor each year, consistent with MOA section 13.6.5.1, by December 1, excluding sworn staff assigned to Patrol. Each plan must outline how a sworn staff member will reduce their compensatory time by March 31. These changes are intended to reduce the number of officers reaching the 480-hour limit. The plans have been implemented, but due to the needs of the Department (staffing, workload, and specific assignments), there has been limited flexibility in allowing staff to take time off; however, the Department has seen a large majority of individuals taking at least a portion of their excess time off, which has contributed to a reduction in compensatory time hours across the Department. Additionally, on December 13, 2022, the City Council approved a new POA MOA which contains a provision to require all vacation requests for an employee whose compensatory time balance has reached 300 hours to come from the employee's compensatory time balance until the balance falls below 240 hours.

GENERAL FUND (CONT'D.)

Finally, focus groups have been created in each Bureau of the Department. These groups have started meeting to discuss solutions around workload and overtime issues and will bring recommendations to be considered by the Police Chief's Office and City Manager's Budget Office in the coming weeks. These actions, as well as the other recommendations included in the City Auditor's March 2021 Police Staffing, Expenditures, and Workload audit report, are intended to address, slow, and reverse the growth of overtime and compensatory time use. However, the size of recruit academies and the number of graduates completing their training periods remains a critical component of managing overtime levels.

The City Auditor's March 2021 Police Staffing, Expenditures, and Workload audit report included several recommendations to increase the number of compensatory time-related data that should be included in the Mid-Year Budget Review, Bi-Monthly Financial Reports, and Annual Report. The table below summarizes this data. While compensatory time usage and balances remain high, it is important to note that the Department has made meaningful progress in some of these categories when compared to the prior year. This progress can be seen in the short term, as the Department reported a sworn compensatory time balance liability of 349,506 hours through February 2022, which has now been reduced to 343,338 as of February 2023. The increase in "YTD Overtime Expenses for Staff at the 480-hour Limit" is attributable to the overall elevated overtime usage through February as described above.

	February 2022³	February 2023	% Change from 2022 to 2023	% Change from 2021 to 2022
# of Sworn Personnel at 480-hour limit	417	382	(8.39%)	(3.02%)
# of Sworn Personnel between 240 and 480 hours	305	333	9.18%	10.11%
Sworn Compensatory Time Balance Liability (hours)	349,506	343,338	(1.77%)	5.60%
Sworn Compensatory Time Balance Liability (\$)	\$26.7 M	\$27.5 M	3.12%	10.21%
YTD Overtime Expenses for Staff at 480-hour Limit (\$) ⁴	\$11.8 M	\$14.0 M	18.86%	(5.56%)

The table on the following page provides a summary of sworn staffing vacancies and street-ready officers. The June 2022 Academy graduated 22 recruits that have now begun the next phase in their career as Field Training Officers. There are currently two active academies, October 2022 (20 recruits) and February 2023 (18 recruits). The Department is anticipating that the June 2023 academy will draw 20 recruits. As of February 24, 2023, of the 1,173 authorized sworn staff, 72 were in training (6.1%) and 68 were on disability/modified duty/other leaves (5.8%).

³ The Bi-Monthly Financial Report for September/October 2021 was under reported due to the omission of the final pay period of October 2021. All data categories have been revised in this column to include the missing pay period.

⁴ The Bi-Monthly Financial Report for January/February 2022 included an overestimated calculation of the YTD Overtime Expenses for Staff at 480-hour Limit. This report has corrected that error.

GENERAL FUND (CONT'D.)

	2021-2022 (as of 2/25/2022)	2022-2023 (as of 2/24/2023)
Authorized Sworn Positions	1,153	1,173
(Vacancies)/Overstaff	4	(93)
Filled Sworn Positions⁵	1,157	1,080
Field Training Officer/Recruits	(111)	(72)
Street-Ready Sworn Officers Available	1,046	1,008
Disability/Modified Duty/Other Leaves	(72)	(68)
Street-Ready Sworn Officers Working	974	940

The table below further identifies the length of time that sworn officers have been on leave status, as of February 24, 2023. Although the Department makes every effort to support the health and well-being of all staff members, as well as the safe resumption of duties as quickly as possible, the particularly physical and dangerous nature of the work performed by sworn officers results in a higher potential for injury. Over the last five years, between 2017-2018 and 2021-2022, the number of sworn officers on leave ranged from a high of 147 to a low of 51. During this time, the average number of sworn officers on leave was approximately 75 with a standard deviation of approximately 11 sworn officers. The current number of sworn officers on leave (68) is lower than the historical average (75) but within the expected normal range of variability seen over the last five years.

Length of Leave Status (as of 2/24/2023)					
Type of Leave	0-3 Months	3-6 Months	6-12 Months	1 Year +	Total
Disability	5	0	9	3	17
Modified Duty	12	5	10	5	32
Other	11	1	3	4	19
Total	28	6	22	12	68

⁵ Filled sworn positions and authorized sworn positions may vary due to vacancies or the approval of over-strength (temporary) positions. The Police Department has special authority under the City's Sworn Hire Ahead Program to overstaff sworn positions to get a head start on training recruits due to retirement and other separation.

GENERAL FUND (CONT'D.)

Department	2022-2023 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 277,665,381	\$ 180,587,131	\$ 174,371,570

The Fire Department's budget totals \$277.7 million, which is comprised of \$265.1 million in personal services and \$12.6 million in non-personal/equipment expenditures. Overall, Fire Department expenditures are performing slightly above estimated levels through February 2023. Personal services expenditures of \$172.5 million, or 65.08% of the Modified Budget, are trending higher than the expected level of 63.83% at this point in the year. The increase in expenditures can be attributed to the demand for frontline personnel to respond to incidents during the wildland season in 2022 (which are anticipated to be reimbursed by the State of California's Office of Emergency Services), while continuing to maintain the daily minimal staffing levels of deployed resources of 190 personnel. Through the end of February, the Department responded to 69,719 incidents (Priority 1 and Priority 2 type calls) compared to the 64,019 incidents (8.9% increase) during the same period in 2021-2022.

The Fire Department's non-personal/equipment budget of \$12.6 million was 64.21% expended or encumbered through February 2023. The Department's non-personal/equipment expenditures are above the expected levels of 63.83% primarily due to encumbrances (\$2.2 million); however, it is anticipated that the Fire Department non-personal/equipment allocation will end the year within the budgeted level.

The average sworn vacancy rate of 12.64% through February 2023, with 91 sworn positions currently vacant, is higher than the vacancy rate of 8.48% experienced at this time last year, and above the budgeted rate of 2.5%. Academy 22-01 was completed in November 2022 with 12 graduates and Academy 22-02 was completed in February 2023 with 10 graduates. At the 2021-2022 Annual Report, the Mayor and City Council authorized \$1.5 million in seed funding to implement the Fire Department's Lateral Firefighter/Paramedic recruitment program in efforts to address the nationwide shortage. To extend its reach for recruitment and to pull from a larger, diverse audience, the Department advanced its outreach efforts through its partnerships with local, regional, and nationwide public safety agencies. A recruitment was conducted in November 2022 yielding 14 recruits who began their 10-week Lateral Firefighter/Paramedic Academy (Academy 23-01) in March 2023. The Department intends to maintain efforts to address paramedic recruitment challenges and will continue to recruit, hire, and train personnel to address vacancies and keep pace with staffing attrition.

In accordance with the City Council's approval of a March 2010 report on annual vacancy and absence rates, the Fire Department has committed to limiting administrative assignments for sworn administrative personnel for overtime control purposes. As of the end of October, of the 31 current authorized staffing level, the Fire Department had 31 sworn personnel on administrative assignments.

GENERAL FUND (CONT'D.)

Department	2022-2023 Budget	YTD Actual	Prior YTD Actual
Public Works	\$ 45,910,845	\$ 35,657,197	\$ 29,539,794

The Public Works Department expenditures are currently trending above estimated levels through February, which is due to both higher personal services and non-personal/equipment costs. Personal services expenditures of \$17.0 million are above the anticipated level for this point of the year (65.0% expended, compared to the par level of 63.83%). Non-personal/equipment expenditures of \$18.7 million (includes \$6.5 million in encumbrances) are also above the 63.8% anticipated levels with 94.3% of the Modified Budget expended through February.

Personal services expenditures are above expected levels and are tracking to exceed by approximately \$1.0 million, primarily due to higher than anticipated expenditures in Facilities Maintenance and Operations. Overall, overtime expenditures totaled \$1.1 million compared to the budgeted amount of \$841,000 (126.1%, compared to the par level of 63.83%) and temporary staffing expenditures totaled \$1.6 million compared to the budgeted amount of \$1.5 million (104.3%, compared to the par level of 63.83%), through February.

The elevated costs within Facilities Maintenance and Operations are mostly attributable to a prioritization and higher level of maintenance work in the summer and fall months that is not expected to continue at the same pace in winter and spring. As maintenance work slows down in the second half of the fiscal year and staff is reassigned to capital-funded projects, the projected excess amount is expected to decrease and bring the personal services budget closer to the par levels. The Department will continue to actively monitor expenditures to remain within budgeted levels.

Non-personal/equipment expenditures, including encumbrances, are also well above budgeted levels at 94.3% expended through February. This is primarily due to the encumbrances of consultant contracts for facilities repairs and maintenance, janitorial services, and the hiring of contracted temporary staff across all divisions within the department, due to a high level of vacancies. Additionally, utilities including gas and electricity are tracking above expected levels due to higher utilization and rate increases. Overall, non-personal/equipment expenditures are anticipated to exceed budgeted levels by year end, primarily due to utility costs.

If necessary, actions to increase the Non-Personal/Equipment budget will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be brought forward for City Council consideration in June 2023.

GENERAL FUND (CONT'D.)

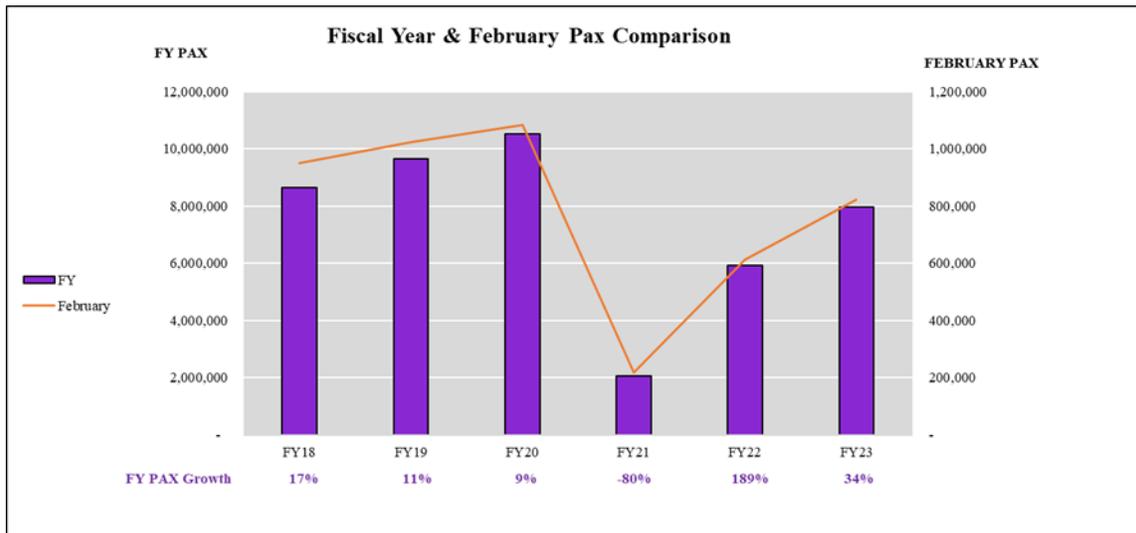
CONTINGENCY RESERVE

The General Fund Contingency Reserve was amended as part of the 2021-2022 Annual Report, increasing the reserve by \$5.0 million, from \$41.0 million to \$46.0 million. This reserve level complies with Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, which requires the Contingency Reserve to be at a minimum of 3% of the operating budget.

OTHER FUNDS

Airport Funds

On a fiscal year-to-date basis, the San José Mineta International Airport (SJC) has enplaned and deplaned 8.0 million passengers, an increase of 34.3% from the figures reported through February of the prior year. The chart below depicts the year-over-year change for the month of February and Fiscal Year-to-Date for the last six years.



Fiscal year-to-date mail, freight, and cargo totaled 49.6 million pounds, which represents a 4.8% increase over year-to-date February 2022. All revenue-generating activities posted increases over the same period of the prior fiscal year: Ground Transportation by 54.8%, Landed Weights by 31.2%, Parking Exits by 28.5%, Gallons of Aviation Fuel sold by 22.8%, and lastly Traffic Operations (landings and takeoffs) increased by 18.3%.

Year-to-date Airport revenue through February tracked 15% above estimated levels. Airport revenue categories continued to experience strong performance through this period and tracked above benchmark levels: Terminal Concessions (+43%), Parking & Roadway (+27%), General and Non-Aviation (+22%), and Airfield revenues (+8%). Terminal Rentals revenue tracked slightly below estimates (-3%) and Landing Fee revenues were in line with budgeted levels. The strong performance when compared to budgeted levels can be attributed to the increased

OTHER FUNDS (CONT'D.)

passenger levels that have continued throughout the fiscal year. Airport passenger numbers are on track to achieve the projection of 12 million passengers by year-end. Additionally, the total budgeted revenue of \$208.5 million includes American Rescue Plan Act funding of \$28.9 million in 2022-2023 to partially offset reduced revenue from the pandemic's effect on passenger activity and can be used to reimburse operating expenses. To-date, Airport has received \$9.8 million. Airport revenues will continue to be closely monitored through the remainder of the fiscal year.

Through February, both the Airport Customer Facility and Transportation Fee Fund and Airport Maintenance and Operation Fund expenditures tracked below budgeted levels. In the Maintenance and Operation Fund, personal service expenditures were 58.8% of budget compared to the benchmark of 63.8%, while non-personal/equipment expenditures (excluding encumbrances) were 36.2% compared to the benchmark of 55.1%. Non-personal/Equipment expenditures (excluding encumbrances) in the Customer Facility and Transportation Fee Fund were 37.6% compared to the straight-line benchmark of 66.7%. The Administration will continue to closely monitor and report activity levels, revenue, and expenditure status of the Airport Funds.

San José Clean Energy Fund

The Community Energy Department operates San José Clean Energy (SJCE), supplying residents and businesses of San José with cleaner energy options than PG&E and access to energy efficiency community programs. SJCE's City Council approved rate package for 2022 set rates for its GreenSource standard service at 8% above PG&E's rates – inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge – based on a PG&E rate increase of 33% that was approved by the California Public Utilities Commission in February 2022. SJCE also increased the renewable energy content of its products, to 60% for the GreenSource standard service and 40% for its GreenValue service (TotalGreen continued at 100%).

PG&E generation rates and PCIA fees are the primary drivers when setting SJCE rates. There has been much volatility with the PCIA; its rates have increased significantly through 2021 and then decreased considerably in 2022 (down 75% from 2021). This decrease is the result of a credit applied to the 2022 PCIA to correct for the overcollection of PCIA revenue in 2021 (principally because 2021 market prices for brown power were higher than forecast, increasing the value of PG&E generation resources and thus reducing the PCIA) and anticipated continued high market power prices in 2022. The increased energy rates combined with lower PCIA fees in 2022 have created a favorable environment for SJCE, which is a marked improvement from 2021 when SJCE's financials projected a cash flow shortage for which the City Council approved a total Commercial Paper Notes authorization of up to \$95.0 million. In 2020-2021 and 2021-2022 combined, SJCE drew a total of \$60.0 million in Commercial Paper notes. A portion of the outstanding commercial paper debt, \$20.0 million, was repaid upon City Council's approval of the budget actions included in the 2022-2023 Mid-Year Budget Review. The Community Energy Department anticipates repaying the remaining outstanding commercial paper debt (\$40.0 million) by the end of 2023-2024.

OTHER FUNDS (CONT'D.)

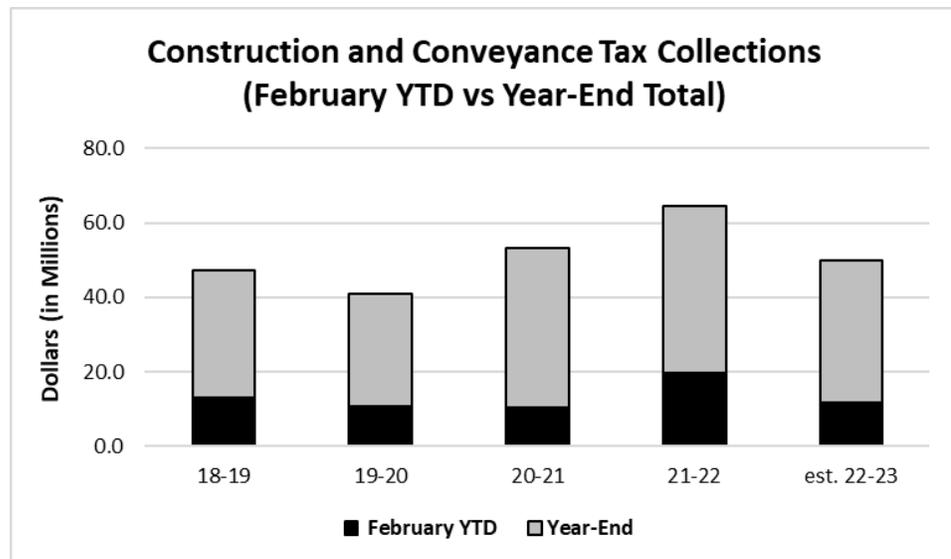
San José Clean Energy Fund

On December 6, 2022, City Council approved SJCE’s shift to cost-of-service rate setting in place of setting rates at a fixed discount or premium to PG&E’s standard generation rates, inclusive of PG&E added fees. SJCE’s new rates began on January 1, 2023 and are 1-3% below PG&E rates, depending on the specific rate schedule, which also went into effect January 1, 2023.

Through February, Energy Sales totaled \$343.2 million, or 67.8% of the Modified Budgeted estimate of \$505.9 million. Cost of Energy expenditures including encumbrances totaled \$298.0 million, or 80.8% of the total Modified Budget. It is typical for SJCE to encumber a significant amount of funds for contracted energy early in the fiscal year. The Department monitors energy procurement activities closely. The 2022-2023 Mid-Year Budget Review increased the budgeted estimate for Energy Sales by \$94.0 million, from \$411.9 million to \$505.9 million. The Department estimates Energy Sales will end the year at approximately \$509.5 million, or less than 1% above the current Modified Budget estimate of \$505.9 million. Similarly, the total Cost of Energy is estimated to end the year at \$367.6 million or less than 1% above the current Modified Budget of \$365.0 million. The Unrestricted Ending Fund Balance for San José Clean Energy Fund is estimated to end the year at \$198.7 million. Budget actions to increase Energy Sales and Cost of Energy allocations will be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

Construction and Conveyance Tax Funds

Through February 2023, Construction and Conveyance (C&C) Tax receipts totaled \$23.5 million, which represents 47.7% of the 2022-2023 Modified Budget estimate (\$45.0 million). This amount is 40.6% below the prior year collection level of \$39.6 million. In addition, the City



has received the March Conveyance receipts from Santa Clara County, which total \$1.5 million and 47.7% below the March 2022 Conveyance collection level of \$2.9 million. When taking into account total receipts through February and the estimated March collections, C&C receipts in 2022-2023 total \$25.0 million, 55.7% of the 2022-2023 Modified Budget, and 41.5% below the prior-year collection level of \$42.7 million.

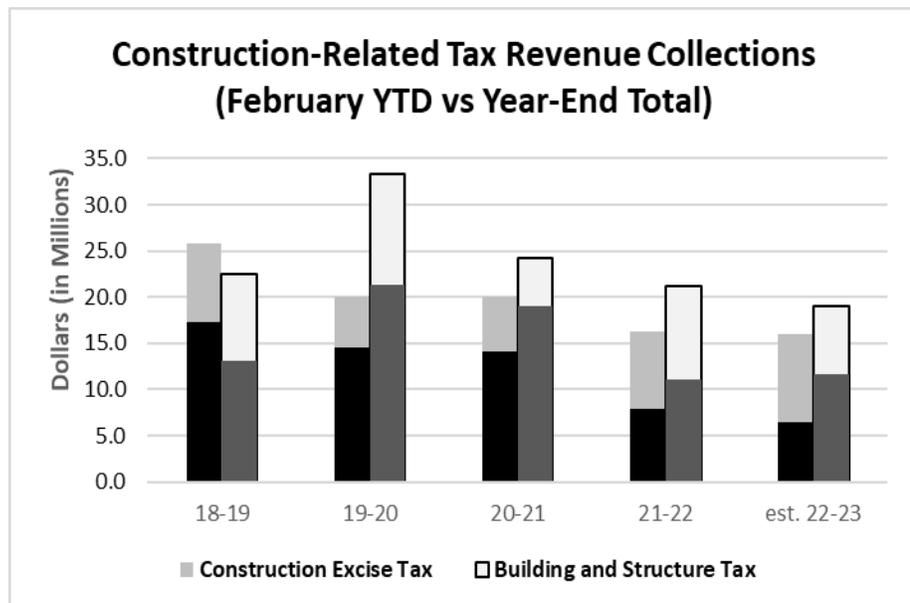
OTHER FUNDS (CONT'D.)

Over 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). As discussed in the Economic Environment section of this Bi-Monthly Financial Report, there is concern regarding declines in sales activity in the local real estate market. Since housing statistics are a key driver for the overall C&C collection levels, significant changes in the housing market will drastically affect the C&C Tax receipts. Based on the continued tightened local real estate market resulting in significantly lower property sales and declining median home prices, C&C Taxes are anticipated to fall approximately \$5 million below the budgeted estimate. Therefore, the 2024-2028 Proposed Capital Improvement Program is being built on the assumption that C&C revenue will total \$40.0 million in 2022-2023. The local market will continue to be closely monitored, with updates provided during 2022-2023 in future Bi-Monthly Financial Reports.

Other Construction-Related Revenues

Construction activities drive revenue collection in several categories, including the Building and Structure Construction Tax and the Construction Excise Tax (which are described in further detail below) that help fund the City’s Traffic Capital Program, and are an indicator of future activity for several other categories, such as storm and sanitary sewer system fees. Based on preliminary information known for the first four months of the year, Capital Fund revenues associated with construction activity are anticipated to meet budgeted levels overall. However, Building and Structure Construction Tax collections may exceed the budget and Construction Excise Tax collections may fall below the budgeted estimate.

Through February, the Building and Structure Construction Tax collection level of \$11.6 million represents 61.3% of the budgeted estimate of \$19.0 million and is 5.6% above 2021-2022 receipts of \$11.0 million. The year-over-year increase is primarily attributable to higher construction permit valuation for residential and industrial categories.



When the 2022-2023 Adopted Capital Budget was developed, it was anticipated that 2021-2022 Building and Structure Construction Tax receipts would total \$19.0 million, and remain flat in 2022-2023. However, since 2021-2022 receipts ended the year at \$21.2 million, the 2022-2023 budgeted estimate allows for a 10.4% decline from the prior-year level. Based on collections through February, it is anticipated that Building and Structure Construction Tax Revenue will end the year approximately \$1.5 million - \$3 million above the budgeted estimate.

OTHER FUNDS (CONT'D.)

Through February, the Construction Excise Tax collection level of \$6.5 million represents 40.5% of the budgeted estimate of \$16.0 million and is 17.2% below the 2021-2022 year-to-date receipts of \$7.8 million. Construction Excise taxes are applied to residential and commercial permit activity. Commercial permit valuation has decreased year-over-year, which is consistent with the decrease in tax receipts. While total residential activity has increased from the same period last year, construction taxes do not have a corresponding increase for several reasons. First, a residential high-rise development in the downtown area received a building permit in February but deferred the payment of the construction taxes (per the Downton High Rise Residential Incentive Program). In addition, three large multi-family affordable housing projects in the last fiscal year have been exempt from paying construction taxes. When the 2022-2023 Adopted Capital Budget was developed it was anticipated 2021-2022 Construction Excise Tax receipts would total \$15.0 million, then increase by approximately 7.0% to 16.0 million in 2022-2023. However, since 2021-2022 receipts ended the year at \$16.2 million, the 2022-2023 budgeted estimate allows for a 1.4% decline from the prior-year collection level. Based on collections through February, it is anticipated Construction Excise Tax Revenue will fall approximately \$2.0 million below the budgeted estimate.

Development Fee Program Funds

Development Fee Programs include the Building Development Fee Program, Citywide Planning Fee Program, Fire Development Fee Program, Planning Development Fee Program, and Public Works Development Fee Program Fund. Based on performance through February, all Development Fee Programs, with the exception of the Planning Development Fee Program, are anticipated to meet or exceed the budgeted estimates. Additional information about each of the Development Fee Program Funds is provided below.

The **Building Development Fee Program** issues building permits and oversees construction on private property. Building Permit revenues of \$24.5 million through February are 5.0% higher than the 2021-2022 collection level for the same period. The 2022-2023 Adopted Budget estimate of \$33.6 million allows for a 7.4% drop from the 2021-2022 collection level of \$36.3 million. Based on current collection trends at this point in the year, Building Fee revenues are anticipated to meet or exceed the budgeted estimate by year-end. It should be noted that effective January 2023, the City of San José building and fire codes was amended to meet the State of California code standards, resulting in a surge of activity among developers and contractors to obtain project approvals under the current building codes. Overall activity levels are expected to stabilize as the new building codes just became effective.

The **Citywide Planning Fee Program** provides funding for the City's long-range planning projects, such as developing and updating the City's General Plan, to match the City's planning goals. The Citywide Planning Fee is an 11.97% fee applied to Entitlement, Building Permit Fees, and Building Plan Check Fee Categories. Through February, Citywide Planning Fee revenues of \$2.3 million are 6.9% above the prior-year collection level of \$2.2 million. The 2022-2023 Adopted Budget estimate of \$3.3 million anticipates a 3.0% decrease from the 2021-2022 actual collection level of \$3.4 million. Based on current collection trends, Citywide Planning Fee revenues are anticipated to meet or slightly exceed the budgeted revenue estimate by year-end.

OTHER FUNDS (CONT'D.)**Development Fee Program Funds**

The **Fire Development Fee Program** provides operational and construction permits and inspections to ensure that development within San José meets the City's fire codes. Development-related receipts through February of \$5.6 million are \$1.1 million (26%) higher than prior year collections. The 2022-2023 Adopted Budget estimate of \$7.9 million, requires growth of 16% from the actual 2021-2022 collection level of \$6.8 million. Based on current collection trends, Fire Development Fee revenue is anticipated to meet or slightly exceed the 2022-2023 budgeted revenue estimate. As mentioned above, effective January 2023, the City of San José building and fire codes were amended to meet the State of California code standards, resulting in a surge of activity among developers and contractors to obtain project approvals prior to the building codes change. Overall activity levels are expected to stabilize now that the new building codes are effective.

The **Planning Development Fee Program** processes land development applications for planning permits and services, such as zoning review, to match the City's planning goals. Through February, Planning Fee revenues of \$5.1 million are 11.4% below the prior-year collection level of \$5.7 million. The 2022-2023 Adopted Budget estimate of \$8.3 million requires a 1.4% increase from the 2022-2023 actual collection level of \$8.2 million. Based on current collection trends, Planning Fee revenues are anticipated to end the year below the budgeted revenue estimate.

The **Public Works Development Fee Program** ensures that developments comply with regulations and provide appropriate public infrastructure, such as sidewalks, traffic signals, and streetlights. Revenues through February of \$9.4 million increased 19.1% from the prior-year level of \$7.9 million. The Public Works Development Fee Program's total revenue collections are comprised of \$5.5 million from the Development Services Fee Program, \$3.8 million from the Utility Fee Program, and approximately \$43,000 of interest earnings. The 2022-2023 Adopted Budget estimate of \$19.9 million allows for an 8.1% decrease from the 2021-2022 actual collection level of \$21.6 million. Based on activity through February, revenue collections in the Public Works Development Fee Program are projected to slightly exceed the budgeted level.

CONCLUSION

Although economic conditions remain positive on an overall basis at this point of the fiscal year, persistently high inflation rates and rising interest rates have begun to negatively impact several sectors of the economy, most notably the real estate market.

Based on collections and information known at this point, a total of \$60 million in the General Fund is currently anticipated to be available at the end of 2022-2023 for use in 2023-2024 from a combination of excess revenues and expenditure savings, including \$9.4 million from the 2022-2023 Ending Fund Balance Reserve established with the City Council's approval of the 2022-2023 Mid-Year Budget Review, \$30 million from excess revenue, \$20 million from expenditure and reserve savings, and \$500,000 from the liquidation of prior year carryover encumbrances. Of this amount, \$30 million was assumed as part of the 2024-2028 General Fund Forecast, with the remaining \$30 million being factored in the development of the 2023-2024 Proposed Budget.

Most other City funds are performing within expected levels, with some exceptions. Airport passenger activity is higher than prior year levels; revenues and expenditures are tracking within estimated levels. Building and Structure Construction Tax collections and Transient Occupancy Tax collections are performing above anticipated levels and are estimated to end the year above budgeted levels. In addition, all Development Fee Program revenues, with the exception of the Planning Fee Program are anticipated to meet or exceed budgeted estimates. However, due to constrictions within the local real estate market, C&C Tax revenue and Real Property Transfer Tax collections are anticipated to end the year below budgeted levels. Construction Excise Tax collections are experiencing year-over-year declines and are anticipated to fall below the budgeted estimate. Finally, in the SJCE Fund, Cost of Energy (expenditures) and Energy Sales (revenue) are both anticipated to be revised upward at year-end. The Administration will follow and report on economic indicators and revenues in 2022-2023 through future Bi-Monthly Financial Reports and return to the Mayor and City Council with recommendations for any revisions, if necessary, as part of the Approval of Various Budget Actions for Fiscal Year 2022-2023 memorandum that will be reviewed by the City Council in June 2023.

As always, staff will continue to report to the City Council significant developments through this and other budget reporting processes. The most recent information will be included in the 2023-2024 Proposed Operating Budget, scheduled for release on May 1, 2023.



JIM SHANNON
Budget Director