



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE,  
AND STRATEGIC SUPPORT  
COMMITTEE

**FROM:** Jim Shannon

**SUBJECT:** Bi-Monthly Financial Report  
for January/February 2025

**DATE:** April 7, 2025

Approved

Date: 4/8/2025

## **RECOMMENDATION**

Accept the Bi-Monthly Financial Report on actual revenues and expenditures as compared to the 2024-2025 Budget for the eight months ending February 2025.

## **OVERVIEW**

The Bi-Monthly Financial Report for January/February 2025 was jointly prepared by the City Manager's Budget Office and the Finance Department. The City Manager's Budget Office has analyzed actual expenditures as compared to the 2024-2025 Modified Budget and the Finance Department has prepared a report that reflects the financial results for the eight months ending February 2025.

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, though General Fund revenues are expected to fall short of budgeted estimates. The Administration will continue to closely monitor economic conditions and the performance in all City funds, bringing forward budget adjustments, as appropriate, to the City Council during the year as appropriate. The following are key highlights of this report:

- Overall, General Fund revenue is anticipated to fall below the budgeted estimate by approximately \$10 million, primarily due to significantly lower than anticipated Sales Tax revenue (down \$20 - \$25 million) partially offset by higher revenue collections in other categories (\$10-\$15 million).
- Overall, General Fund expenditures are within estimated levels through February, with the exception of Police Department and Fire Department. Overages in both of these departments, which are the two largest departments in the General Fund, are discussed further in this report. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels to the extent possible.

<b>OVERVIEW (CONT'D.)</b>
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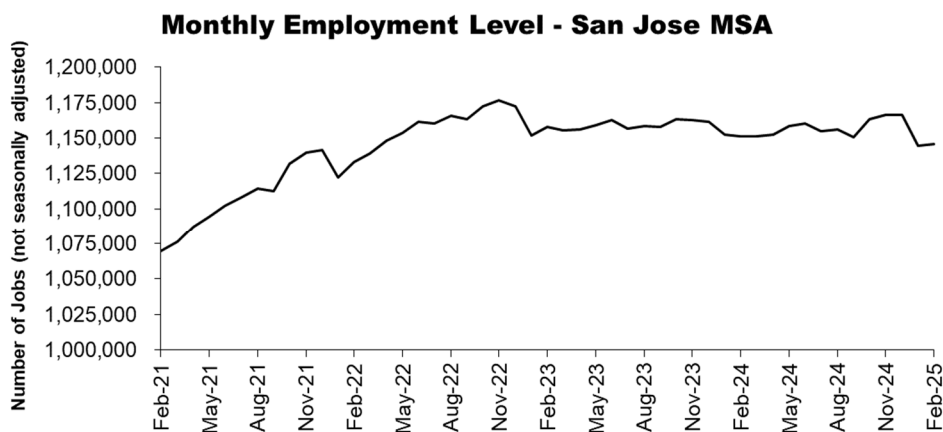
- As a result of a significant decline in Sales Tax revenue, and the minimal level of expenditure savings currently anticipated, on December 4, 2024 the City Manager directed the Administration to implement measures to control costs to the extent possible without noticeably impacting high-priority services. Cost control measures include a hiring freeze (with exceptions); limiting overtime expenditures; a suspension of General Fund capital projects not yet started; minimizing expenditures for consultant services, travel, food and beverage, and marketing; and minimizing other discretionary expenditures. These actions aim to generate General Fund savings in the current fiscal year, minimizing rate and fee increases, and ensure flexibility for the development of budget reductions in 2025-2026. The Administration currently anticipates expenditure savings of \$10 million to \$15 million and approximately \$5 million in liquidation of prior year encumbrances.
- If General Fund revenues and expenditures end the year as currently projected, approximately \$20 million to \$25 million of the Budget Stabilization Reserve (currently \$53.0 million) will be necessary to achieve the 2024-2025 fund balance estimate of \$30 million included in the 2025-2026 City Manager's Budget Request and 2026-2030 Five-Year Forecast. Potential use of the Budget Stabilization Reserve will continue to be monitored throughout the fiscal year as conditions change.
- Construction and Conveyance Tax (C&C) revenue and Real Property Transfer Tax revenues are performing above prior year levels and are anticipated to end the year at or above the budgeted estimate.
- Building and Structure Construction and Construction Excise Tax collections are anticipated to end the year above budgeted levels. Both revenue sources are dependent on construction activity, which is overall higher than the prior year.
- Transient Occupancy Tax (TOT) activity levels are performing above the prior year. Based on activity through February, it is anticipated that TOT will slightly exceed the budgeted estimate by year-end.
- Based on collections through February, the Citywide Planning and Public Works Development Fee Programs will meet or exceed the budgeted estimate; however, Building, Planning, and Fire Development Fee Programs may fall short of their budgeted levels.
- The San José Mineta International Airport (SJC) has enplaned and deplaned 7.7 million passengers through February, a decrease of 3.1% from the figures reported through February of the prior year.
- The San José Clean Energy Fund is performing slightly below expected levels, with Energy Sales anticipated to end the year below the budgeted revenue estimate by approximately 7%, and Cost of Energy expenditures are anticipated to end the year approximately 8.7% below the budget.

**OVERVIEW (CONT'D.)**

**Economic Environment**

Silicon Valley's economy is modestly growing, though there are areas of concern. Employment levels have decreased slightly, though the unemployment rate has decreased slightly from prior year levels. Though real estate

median sale prices and transfers are up, the 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.



The February 2025 employment level of 1.15 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) dropped by 5,300 jobs, or 0.5%, from the February 2024 level. Private, education, and health services increased by 8,900 jobs; however, professional and business services dropped 5,100 jobs, manufacturing declined by 3,000 jobs, the information sector dropped 3,000 jobs, and leisure and hospitality lost 2,200 jobs.<sup>1</sup>

Unemployment Rate (Unadjusted)			
	Feb. 2024	Jan. 2025	Feb. 2025**
San Jose Metropolitan Statistical Area*	4.3%	4.3%	4.2%
State of California	5.4%	5.5%	5.5%
United States	4.2%	4.4%	4.5%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** February 2025 estimates are preliminary and may be updated.			

As can be seen on the table to the left, the local unemployment rate has slightly dropped over the past year, with the February 2025 unemployment rate totaling 4.2%, compared to the February 2024 rate of 4.3%. It is important to note that the local unemployment rate is lower than both the State (5.5%) and the national rate (4.5%).

<sup>1</sup> State of California Employment Development: Labor Market Information Division Press Release, March 25, 2025

**OVERVIEW (CONT'D.)**

Overall construction activity through February 2025 increased 20.8% from prior-year levels primarily due to activity of the commercial categories experiencing year-over-year increases from the prior year. The year-over-year increase would be more prominent if it were not for the significant decrease in residential and industrial activity which is showing a 22.9% and 35.0% decrease respectively when compared to the prior year. The 2024-2025 Adopted Budget was developed with the expectation that overall development activity would decrease slightly from the levels experienced in 2023-2024. However, if current trends continue, construction activity may outperform the projections included in the 2026-2030 Five-Year Forecast, on which the estimates for the Traffic Capital Program's primary revenue sources – the Building and Structure Construction Tax and Construction Excise Tax – were based.

Through February, residential permit valuation has decreased 22.9% from prior-year levels (\$222.1 million in 2024-2025 from \$288.0 million in 2023-2024). Residential activity through February included 197 multi-family units and 351 units of single-family construction for a total of 548 units. Notable projects for January and February include permits issued for four single-family units, 69 second units, and one duplex (two units).

Commercial valuation through February 2025 was 131.2% higher than the 2023-2024 level (\$717.7 million in 2024-2025 from \$310.4 million in 2023-2024). Commercial valuation for January and February accounted for \$149.0 million. New construction accounted for 56.4% (\$84.1 million) and alterations accounted for 43.6% (\$64.9 million) of the commercial activity. Notable projects for January and February include a permit issued

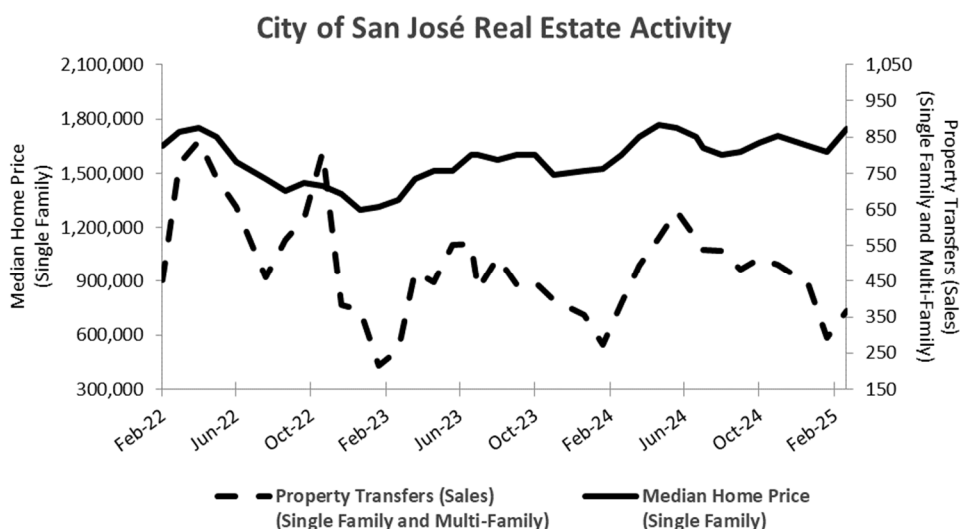
for the remaining 20% of a 302,000 square foot data center located on Trade Zone Boulevard (between Lundy Avenue and Ringwood Avenue) and a permit issued for a 332,965 square foot parking garage located on International Circle (between Santa Teresa Boulevard and Highway 85).

Private Sector Construction Activity (Valuation in \$ Million)			
	February 2024 (YTD)	February 2025 (YTD)	% Change
Residential	\$288.0	\$222.1	(22.9%)
Commercial	\$310.4	\$717.7	131.2%
Industrial	\$388.5	\$252.4	(35.0%)
<b>TOTAL</b>	<b>\$986.9</b>	<b>\$1,192.2</b>	<b>20.8%</b>

Industrial construction valuation through February 2025 was 35.0% lower than prior-year levels, with receipts totaling \$252.4 million in 2024-2025 and \$388.5 million in 2023-2024. Industrial valuation for January and February accounted for \$66.1 million. New construction accounted for 80.2% (\$53.0 million) and alterations accounted for 19.8% (\$13.1 million) of the commercial activity. Notable projects for January and February include permits issued for four new warehouse buildings, including a 358,000 square foot building located on Commerce Drive (between McKay Drive and Lundy Avenue).

## OVERVIEW (CONT'D.)

According to data from the Santa Clara County Association of Realtors, in February 2025, the median single-family home price totaled \$1.75 million, which is 9% above the February 2024 price of \$1.60 million. However, these slightly move expensive



homes are staying on the market for slightly longer. The average days-on-market through February 2025 totaled 25 days, while the average days through February 2024 totaled 20 days. On a positive note, property transfers (sales) are strong through the first seven months of the fiscal year. Through February, transfers have grown over 13% compared to the same time period in the prior year.

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."<sup>2</sup>

## GENERAL FUND

### REVENUES

General Fund revenues through February 2025 totaled \$791.6 million, which represents an increase of \$23.4 million, or 3.0%, from the February 2024 level of \$768.2 million. This increase is primarily attributable to Revenue from the State of California (\$20.2 million, which is due to the timing of grant revenue), increased Property Tax receipts (\$11.1 million), and Utility Tax collections (\$9.3 million). Conversely, Real Property Transfer Tax, which had experienced revenue of \$27.0 million through February 2024 is no longer reflected in the General Fund in 2024-2025 as this revenue is now recognized in the Real Property Transfer Tax Fund. Additional revenues that have declined include Other Revenue (\$5.9 million) and Sales Tax (\$2.8 million).

<sup>2</sup> The Conference Board, Consumer Confidence Survey, February 2025.

<b>GENERAL FUND (CONT'D.)</b>
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Based on current collection trends and information known at this point, several revenue categories are anticipated to end the year below budgeted levels. The most impacted category is Sales Tax, which may end the year \$20 - \$25 million below the budgeted estimate. On a positive note, several revenue categories are anticipated to end the year above budgeted levels, including Property Tax (\$9 - \$10 million), Utility Tax (\$2 million), and Use of Money and Property (\$2 - \$3 million). General Fund revenue will continue to be very closely monitored and discussion regarding any significant variances will be included in future Bi-Monthly Financial Reports.

The 2026-2030 General Fund Forecast that was released in February 2025 included an amount of \$30 million that would be available at the end of 2024-2025 and budgeted for use in 2025-2026. Use of the Budget Stabilization Reserve will be necessary to offset any shortfalls in achieving this ongoing fund balance target. The Administration currently anticipates achieving a year-end fund balance of only \$5 million to \$10 million, which includes expenditure savings and liquidation of prior year encumbrances of \$15 million to \$20 million, offset by a revenue shortfall of nearly \$10 million. Expenditure and revenue activity will continue to be monitored, with further information being included as part of the March/April Bi-Monthly Financial Report that will be released in June 2025.

In October 2024, the Encumbrances Audit Report was reviewed by the City Council. As part of the encumbrance audit, the Administration stated prior year encumbrances across all City funds would be reviewed and liquidated as appropriate. The Finance Department previously reported preliminary results that the first batch of cleanup yielded approximately \$29.8 million of liquidated encumbrances, of which \$7.6 million was attributable to the General Fund. However, these liquidations had not yet been reconciled within the City's financial management system to determine the amount of actual budgetary savings. While this reconciliation process is not complete, as of April 1, 2025 a total of \$24 million has been verified as liquidated across all City funds, of which \$5 million is in the General Fund. These funds will be recognized in each individual fund as part of the 2024-2025 Annual Report process and will be available in 2025-2026. As mentioned above, prior year encumbrances liquidated in the General Fund will be used to help achieve the Ending Fund Balance estimate that was assumed as part of the 2026-2030 General Fund Forecast. The liquidation process is anticipated to be completed by May 2025 and further information will be included in the next Bi-Monthly Financial Report that will be released in June 2025.

The discussion on the following pages highlights General Fund revenue activities through February 2025.

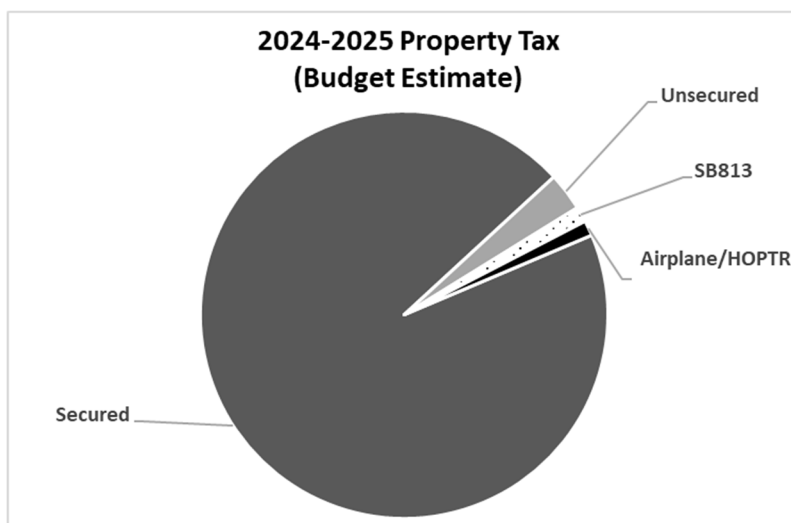
**GENERAL FUND (CONT'D.)**

**KEY GENERAL FUND REVENUES**

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Property Tax</b>	<b>\$ 495,000,000</b>	<b>\$ 231,867,296</b>	<b>\$ 220,781,596</b>

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 2024-2025 are estimated at \$504.4 million, which is approximately \$9 million above the 2024-2025 budgeted estimate of \$495.0 million. Additional information about each of the Property Tax sub-categories is provided below.

**Secured Property Taxes** represent over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Educational Revenue Augmentation Fund (ERAF) revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax. Based on the most recent information provided by Santa Clara County, Secured Property



receipts are anticipated to total \$473.8 million in 2024-2025. This estimate is comprised of general Secured Property Tax receipts of \$406.0 million, excess ERAF funds of \$42.3 million, and SARA Residual Property Tax receipts of \$25.5 million. The Secured Property Tax estimate provided by the County is approximately \$6 million higher than the Adopted Budget estimate of \$468.0 million.

The general Secured Property Tax estimate totals \$406.0 million in 2024-2025, which reflects estimated growth of 7% from the 2023-2024 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%. 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.

<b>GENERAL FUND (CONT'D.)</b>
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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 Santa Clara County and the State of California, 2024-2025 receipts are estimated at \$42.3 million, which is slightly below the 2024-2025 Adopted Budget estimate of \$43.0 million but is \$826,000 above the 2023-2024 collection level of \$41.5 million. It is important to note that 20% of ERAF revenue is at risk on both an ongoing basis (\$8 million annually) and a claw back (\$35 million from 2020-2021 to 2024-2025) due to an anticipated audit from the State Controller's Office that would challenge the ERAF calculation used by Santa Clara County. The County has preemptively filed litigation to dispute the actions taken by the State Controller; however, a decision on the dispute will not be known until at least fall 2025.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$25.5 million, which is fairly consistent with the 2024-2025 Adopted Budget estimate of \$25.0 million and \$1.3 million above the prior year collection level of \$24.2 million.

The **Unsecured Property Tax** category refers to property that can be relocated or is undeveloped land. The most common forms of unsecured property include boats and business personal property. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$17.2 million, which is \$2.2 million above the 2024-2025 Adopted Budget estimate of \$15.0 million and \$650,000 above the 2023-2024 collection level of \$16.9 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. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$7.5 million, which is fairly consistent with the prior year collections, but is \$1.5 million above the 2024-2025 Adopted Budget estimate.

**Aircraft Property Tax** receipts are typically received in October of each year. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$5.0 million, which is consistent with the 2024-2025 Adopted Budget estimate of \$5.0 million and \$600,000 above the 2023-2024 collection level of \$4.4 million.

In the **Homeowners Property Tax Relief** category, revenues in 2024-2025 are anticipated at \$900,000, which is slightly below the budgeted estimate of \$1.0 million and the prior year collection level of \$885,000.



<b>GENERAL FUND (CONT'D.)</b>
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Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Sales Tax</b>	<b>\$ 352,000,000</b>	<b>\$ 170,526,560</b>	<b>\$ 173,343,349</b>

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. 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 2024-2025 Adopted Budget estimate totals \$352.0 million, which is \$18.6 million above the 2023-2024 collection level of \$333.4 million. When the 2024-2025 Adopted Budget was developed, it was anticipated that 2023-2024 collections would total \$343.4 million and grow 2.5% in 2024-2025. However, due to significantly lower than anticipated fourth quarter General Sales Tax receipts, actual Sales Tax collections ended the year at \$333.4 million. As a result, growth of 5.6% is required to meet the 2024-2025 budgeted estimate of \$352.0 million. Based on information received through February 2025 (which reflects two quarters of Sales Tax activity; from July 2024 through December 2024), it is anticipated that 2024-2025 Sales Tax revenue will total approximately \$330 million, approximately \$20 - \$25 million below the budgeted estimate. The 2024-2025 Sales Tax estimate is 1% below the prior year receipts of \$333.4 million, reflecting the relatively soft local economy. Additional information about each of the Sales Tax sub-categories is provided below.

**General Sales Tax** is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 2024 and February 2025; respectively. First quarter receipts declined 11.4%, but had an underlying decline of only 5.5% due to one-time corrections and payment timing issues. Second quarter receipts grew 8.8%, but, once one-time corrections and payment timing issues were removed, the underlying growth was only 1.0%. Third quarter receipts (which will be received in May 2025) are estimated to have underlying growth of 2.0%; however, due to prior year payments that are not assumed on an ongoing basis, actual collections are estimated to decline 10%. Fourth quarter receipts (which will be received in August 2025) are estimated to have underlying growth of 2.5%; however, due to a prior year negative correction that isn't assumed ongoing, actual collections are estimated to grow 5%. Based on these assumptions, General Sales Tax collections are anticipated to total \$264 million in 2024-2025, approximately \$20 million below the 2024-2025 Adopted Budget estimate of \$284.0 million.

The City's Sales Tax consultant, Avenu Insights & Analytics, has provided performance data for General Sales Tax revenue, as displayed on the following chart. This analysis measures the first-second quarter General Sales Tax receipts for 2023-2024 and 2024-2025, excluding Sales Tax associated with the Revenue Capture Agreement.

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

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

<b>Category</b>	<b>2024-2025 % of Total Revenue</b>	<b>2023-2024 % of Total Revenue</b>	<b>% Change by Category</b>
Business-to-Business	20.2%	20.4%	(2.2%)
General Retail	18.4%	18.9%	(4.5%)
Transportation	15.8%	18.1%	(13.8%)
Food Products	14.7%	14.3%	1.4%
Construction	9.1%	9.3%	(3.1%)
Miscellaneous	0.8%	0.7%	8.0%
County Pool	20.9%	18.3%	12.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

As can be seen in the table above, most Sales Tax categories declined in 2024-2025 compared to 2023-2024. The categories that experienced the largest drops included Transportation (-13.8%), General Retail (-4.5%), Construction (-3.1%) and Business-to-Business (-2.2%). Conversely, several categories experienced growth compared to the prior year, including the miscellaneous category (8.0%) and Food Products (1.41%). In addition, the County Pool, which is where the majority of online transactions are captured, also grew compared to the prior year (12.8%). 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.

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. The 2024-2025 Budgeted estimate for Local Sales Tax totals \$60.0 million, which is \$3.1 million (5.4%) above the prior year. 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 2024 and February 2025, respectively. First quarter receipts dropped 4.7% compared to the prior year; however, second quarter collections grew 2.9%. For the remainder of the year, third quarter receipts (which will be received in May 2025) are estimated to grow by 2.5% and the final quarter of 2024-2025 is anticipated to grow by 5% from the same time period in 2023-2024. Based on these assumptions, Local Sales Tax collections are anticipated to total \$58 million in 2024-2025, approximately \$2 million below the budgeted estimate.

Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Revenue in 2024-2025 are estimated at \$8.0 million, which is consistent with the budgeted estimate

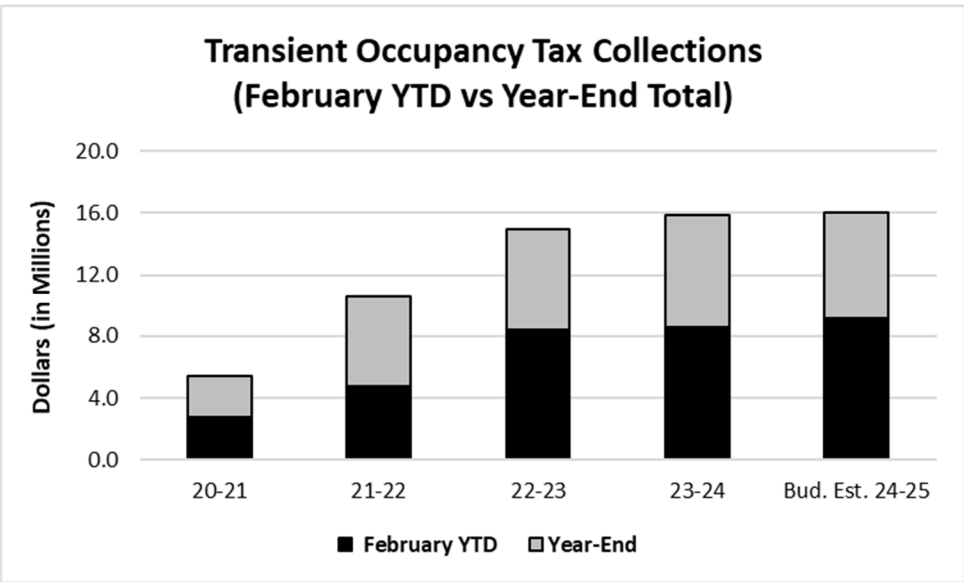
**GENERAL FUND (CONT'D.)**

and the 2023-2024 actual collection level. Based on collections through February, receipts are anticipated to end the year within the budgeted level.

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Transient Occupancy Tax</b>	<b>\$ 16,000,000</b>	<b>\$ 9,099,805</b>	<b>\$ 8,569,313</b>

The City of San José assesses a 10% **Transient Occupancy Tax (TOT)** on the rental price for transient lodging. Of this amount, 6% is placed in the Transient Occupancy Tax Fund and 4% is deposited in the General Fund. The 2024-2025 budget estimate for the General Fund allocation is \$16.0 million, which is fairly consistent with the 2023-2024 actual collection level of \$15.9 million. Through February, TOT collections total \$9.1 million, which is 6.2% above the prior year collection level of \$8.6 million. Based on activity through February, it is currently anticipated that TOT receipts will exceed budgeted levels by approximately \$500,000.

Based on February 2025 data, the average hotel occupancy rate reported for the San José market was 66.4%, a 2.5 percentage point increase from the average of 63.9% through the same period in 2023-2024. The average daily room rate increased by 5.2%, from \$161.47 as of



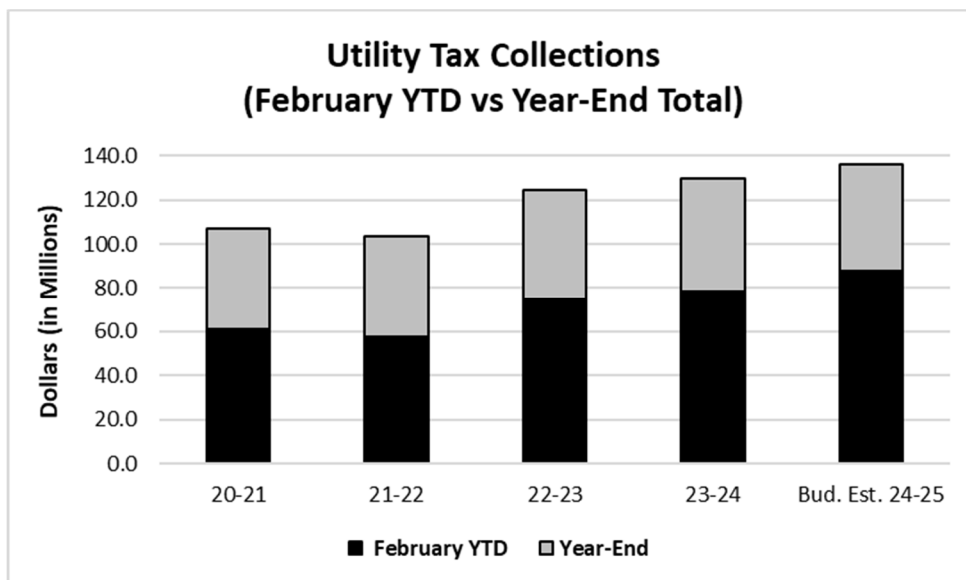
February 2024 to \$169.84 as of February 2025; and the year-to-date average revenue-per-available room (RevPAR) increased by 9.3%, from \$103.14 to \$112.74, relative to the same period in 2023-2024.

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 the next Bi-Monthly Financial Report, which will be released in June 2025.

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

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Utility Tax</b>	<b>\$ 136,000,000</b>	<b>\$ 87,560,268</b>	<b>\$ 78,262,348</b>

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 totaled \$87.6 million, which is 11.9% higher than the prior year level of \$78.3 million. The year-over-



year increase represents higher collections in the Electricity, Gas, and Water Utility Tax categories, partially offset by lower Telephone Utility Tax receipts. The overall increase in Utility Tax collections is attributable to higher activity levels and higher utility rates. The 2024-2025 Adopted Budget estimate of \$136.0 million requires growth of approximately 5% from the 2023-2024 collection level. Based on activity through February, it is currently anticipated that overall Utility Tax receipts will end the year approximately \$2 million above budgeted levels. Additional information about each of the Utility Tax sub-categories is provided below.

In the **Electricity Utility Tax** category, collections through February totaled \$53.4 million, which is 18.7% higher than the \$45.0 million received in the prior year. This increase is due to higher electricity utility rates and/or higher usage. The 2024-2025 Adopted Budget estimate for Electricity Utility Tax totals \$76.0 million, which requires growth of 4.3% from the 2023-2024 collection level of \$72.9 million. Based on collections through February and historical collection patterns, receipts are anticipated to exceed the budgeted estimate by approximately \$4 million by year-end.

In the **Gas Utility Tax** category, collections through February totaled \$9.7 million, which is 18.3% higher than the \$8.2 million received in the prior year. This increase is due to higher gas utility rates and/or higher usage. The 2024-2025 Adopted Budget estimate totals \$17.0 million, which requires growth of 6.7% from the 2023-2024 collection level of \$15.9 million. Based on collections through February and historical collection patterns, receipts are anticipated to exceed the budgeted estimate by approximately \$1 million by year-end.

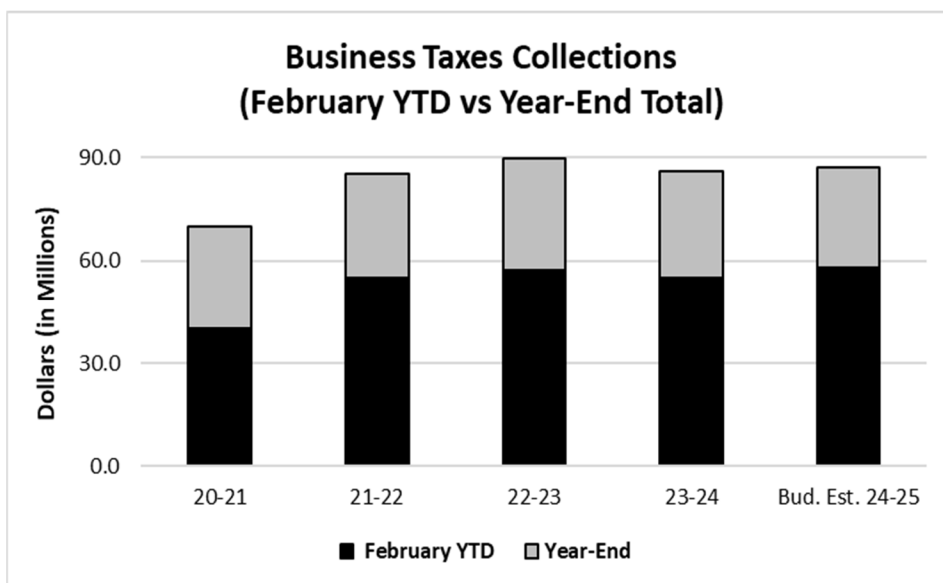
**GENERAL FUND (CONT'D.)**

In the **Water Utility Tax** category, collections through February totaled \$14.6 million, which is 6.6% higher than the \$13.7 million received in the prior year. This increase is primarily due to higher water rates and/or higher usage. The 2024-2025 Adopted Budget estimate totals \$25.0 million, which requires growth of 12.8% from the 2023-2024 collection level of \$22.2 million. Based on collections through February and historical collection patterns, receipts are anticipated to fall short of the budgeted estimate by approximately \$2 million.

Collections in the **Telephone Utility Tax** category of \$9.8 million through February are 13.4% below the prior year collections of \$11.4 million. The 2024-2025 Adopted Budget estimate totals \$18.0 million, which allows for a 4.2% drop from the 2023-2024 collection level of \$18.8 million. Based on collections through February and historical collection patterns, receipts are anticipated to end the year \$1 - \$2 million below the budgeted estimate.

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Business Taxes</b>	<b>\$ 87,000,000</b>	<b>\$ 57,988,311</b>	<b>\$ 55,061,647</b>

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through February, overall collections of \$58.0 million are 5.3% above the prior year collection level. The 2024-2025 Adopted Budget of \$87.0



million requires growth of 1.1% from the 2023-2024 Business Taxes collection level of \$86.1 million. Based on collections through February it is currently anticipated that overall Business Taxes receipts will end the year approximately \$1 million below budgeted levels. Additional information about each of the Business Taxes sub-categories is provided below.

<b>GENERAL FUND (CONT'D.)</b>
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**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 16 registered businesses in San José began in January 2018. Through February, receipts of \$8.3 million are 6.5% below the prior year level of \$8.9 million. This drop is primarily due to lower activity levels as two businesses have closed. The 2024-2025 Adopted Budget estimate totals \$15.0 million, which allows for a 4.3% drop from the 2023-2024 collection level of \$15.7 million. Based on collections through February and the closing of the two businesses, receipts are anticipated to end the year approximately \$2 million below the budgeted estimate.

Through February, **Cardroom Tax** receipts, which are inclusive of the ballot measure approved by voters in November 2020 (Measure H) that increased taxes on cardroom operators beginning in January 2021, totaled \$17.9 million. This collection level is 6.8% above the prior year receipts of \$16.7 million, which is due to higher activity levels. The 2024-2025 Adopted Budget estimate totals \$30.0 million, which is consistent with the 2023-2024 collection level. Based on collections through February and historical collection patterns, receipts are anticipated to end the year approximately \$2 million above the budgeted estimate. It is important to note that in February 2025, the California Bureau of Gambling Control published a Notice of Proposed Regulatory Action concerning player-dealer position regulations. A public hearing will occur in April 2025, and a final decision will be rendered after the hearing. The proposed change in regulation, if enacted, would significantly negatively impact Cardroom Business Tax collections. As further information is known, it will be included in the 2025-2026 Proposed Budget and the next Bi-Monthly Financial Report, which will be released in June 2025.

**Disposal Facility Tax (DFT)** are business taxes received based on the tons of solid waste disposed of at landfills within the City. This revenue stream can vary due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. DFT revenue through February totaled \$7.5 million, which is slightly below the prior year collection level of \$7.6 million. The 2024-2025 Adopted Budget estimate of \$13.0 million is consistent with the 2023-2024 collection level of \$12.9 million. Based on performance through February and historical collection patterns, receipts are anticipated to end the year within or slightly below the budgeted estimate.

Through February, **General Business Tax** receipts of \$24.3 million are 11.2% above the prior year collection level of \$21.8 million. The 2024-2025 Adopted Budget estimate for General Business Tax totals \$29.0 million, which requires growth of 5.7% from the 2023-2024 actual collection level of \$27.4 million. Based on the performance through February and historical collection patterns, receipts in this category are anticipated to end the year approximately \$1 million above the budgeted estimate.

<b>GENERAL FUND (CONT'D.)</b>
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### **EXPENDITURES**

Through February, General Fund expenditures (without encumbrances) of \$1.1 billion were 24.0% above the prior year level of \$894.4 million. Encumbrances of \$123.0 million were 14.1% below the prior year level of \$143.3 million. General Fund expenditures and encumbrances through February of \$1.2 billion constitute 55.9% of the total budget including reserves and 64.2% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year within budgeted levels, and produce savings of approximately \$10 - \$15 million.

Through February, departments are overall performing within estimated levels for personal services expenditures, with the exception of the Finance Department, Information Technology Department, Fire Department, and. Police Department. The Finance Department and the Information Technology Department are only very slightly over anticipated levels (64.06% and 63.6%, respectively compared to the par of 63.3%) and are expected to end the year within budgeted levels. Following is a discussion of the performance of the Police and Fire Departments, the largest General Fund departments, as well as Parks, Recreation and Neighborhood Services Department.

### **KEY GENERAL FUND EXPENDITURES**

Department	2024-2025 Budget	YTD Actual	Prior YTD Actual
<b>Police</b>	<b>\$ 553,615,124</b>	<b>\$ 348,976,801</b>	<b>\$ 330,684,542</b>

Overall, Police Department expenditures are above estimated levels through February 2025, primarily driven by overtime in personal services expenditures. Personal services expenditures of \$323.9 million are above the anticipated level for this point of the year (65.0% expended, compared to the par level of 63.3%), with overtime expenditures of \$43.3 million (80.5% of the total \$53.8 million 2024-2025 Modified Budget). Year-to-date overtime expenditures are 9.4% above 2023-2024 levels and overtime hours through February 2025 (429,822) increased by approximately 3.1% over the same period in the prior fiscal year (416,922). The year-over-year increase is attributable to staffing shortages, academy and training for new officers, backfilling street-ready vacancies, and increased caseload in the Homicide, Covert Response, Sexual Assault and Robbery Units. With City Council's approval of the 2024-2025 Mid-Year Budget Review, actions were taken to liquidate the \$3.0 million Police Department Sworn Backfill Reserve and to reallocate \$24.0 million in vacancy savings to the overtime budget, increasing it from \$26.8 million to \$53.8 million. The Department is currently on pace to exceed its personal services budget by approximately \$10 million to \$14 million (2% to 3% of the personal services modified budget). This estimated overage range is expected to fall as sworn staff above the 480-hour threshold spend down compensatory time balances. Discussion on the Department's steps to reduce overtime expenditures while also maintaining minimum staffing and service levels follow below.

<b>GENERAL FUND (CONT'D.)</b>
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A total of \$25.1 million (45.1%) of the Department's non-personal/equipment budget has been expended or encumbered through February 2025. Excluding the remaining balances for centrally-determined details (\$21.0 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance, and replacement, the Department has approximately \$9.6 million, or 17.3% of its non-personal/equipment budget available for the remainder of the year. Non-personal/equipment expenditures are below estimated levels (45.1% expended, compared to the par level of 63.3%) and are anticipated to end the year within budgeted levels.

The Police Department is committed to maintaining its personal services and non-personal/equipment expenditures within the approved budget. Efforts are ongoing to fill vacancies in both sworn and civilian positions. Through the use of available vacancy savings, 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 average 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 23.7% as of February 28, 2025. Historically, the effective vacancy rate has averaged 19.2% (based on the 5-year period between 2019-2020 and 2023-2024), 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. 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.

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). As ordered by the Chief, sworn staff are required 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, with the intent to reduce the number of officers reaching the 480-hour limit. While the plans have been implemented, 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. Now that the March 31 deadline has passed, a significant number of personnel will be mandated to spend down their compensatory leave balances, which will slow future overtime spending.



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

The Police Department has created a dashboard to review and audit overtime usage, which provides for a more detailed review of how overtime is being recorded to ensure consistency in reporting, how supervisors are approving overtime to ensure it is appropriate and authorized, and ultimately to inform management of the main drivers of the overtime utilization to further inform operational decisions. To partially mitigate increased overtime usage, the Police Chief has eliminated the use of gang suppression pay cars on overtime and significantly reduced the use of BFO staff to assist Bureau of Investigations in major investigative operations. The impact of these actions on overtime spending and public safety will continue to be evaluated.

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.

	February 2024	February 2025	% Change (2024 to 2025)	% Change (2023 to 2024)
# of Sworn Personnel at 480-hour limit	411	402	(2.19%)	7.59%
# of Sworn Personnel between 240 and 480 hours	284	292	2.82%	(14.71%)
Sworn Compensatory Time Balance Liability (hours)	335,268	336,181	0.27%	(2.35%)
Sworn Compensatory Time Balance Liability (\$)	\$28.2 M	\$29.5 M	4.68%	2.49%
YTD Overtime Expenses for Staff at 480-hour Limit (\$)	\$17.2 M	\$19.7 M	14.33%	15.67%

The table below provides a summary of sworn staffing vacancies and street-ready officers. The June 2024 Academy graduated 21 recruits that have now begun the next phase in their career as Field Training Officers. There are currently two active academies, October 2024 (21 recruits) and February 2025 (31 recruits). The Department is anticipating that the June 2025 academy will draw 40 recruits. As of February 28, 2025, of the 1,172 authorized sworn staff, 82 or 7.0% of the positions were in training, while 77 or 6.6% of the positions were on disability/modified duty/other leaves.

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

	<b>2023-2024</b> <b>(as of 3/1/2024)</b>	<b>2024-2025</b> <b>(as of 2/28/2025)</b>
<b>Authorized Sworn Positions</b>	<b>1,173</b>	<b>1,172</b>
(Vacancies)/Overstaff	(100)	(119)
<b>Filled Sworn Positions<sup>3</sup></b>	<b>1,073</b>	<b>1,053</b>
Field Training Officer/Recruits	(87)	(82)
<b>Street-Ready Sworn Officers Available</b>	<b>986</b>	<b>971</b>
Disability/Modified Duty/Other Leaves	(72)	(77)
<b>Street-Ready Sworn Officers Working</b>	<b>914</b>	<b>894</b>

<u>Department</u>	<u>2024-2025 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
<b>Fire</b>	<b>\$ 302,251,833</b>	<b>\$ 197,846,849</b>	<b>\$ 184,162.601</b>

The Fire Department's modified budget totals \$302.3 million, comprising \$285.9 million in personal services and \$16.4 million in non-personal/equipment expenditures. Overall, the Fire Department's expenditures are performing above estimated levels through February 2025. Personal services expenditures of \$186.8 million, or 65.33% of budgeted levels, are trending higher than the expected par level of 63.29% at this point in the year. This trend can be partially attributed to frontline personnel responding to incidents during the wildland fire season. The Fire Department deployed resources through the mutual aid system, including more recent deployments to Southern California for the Los Angeles and Altadena fires— all while maintaining the daily minimal staffing levels of 190 on-duty personnel. With City Council's approval of the 2024-2025 Mid-Year Budget Review, the Fire Department's budget increased by appropriately \$900,000 due to reimbursements from the State of California's Office of the Emergency Services and Cal Fire related to wildfire mutual aid response. The Fire Department projects an additional \$2.1 million in reimbursements, scheduled to be recognized as part of a future budget action, bringing the total anticipated wildfire mutual aid response reimbursement to approximately \$3.0 million. Based on expenditures through February, personal services expenditures are anticipated to end the year approximately \$4 million to \$5 million above the budgeted level. In addition to fire response, the budgeted vacancy rate of 2.0% for the Fire Department – previously at 2.5% - is likely too high to maintain minimum staffing requirements and will be further lowered in subsequent years. Personal services expenditures will continue to be closely monitored and controlled through the end of the fiscal year; any necessary budgetary adjustments will be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2024- 2025 memorandum.

<sup>3</sup> 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.)**

The Fire Department responded to approximately 71,252 incidents (Priority 1 and Priority 2 type calls) through February 2025, resulting in a 2% increase in emergency response services compared to 69,848 incidents over the same period in 2023-2024. The Fire Department's non-personal/equipment budget of \$16.4 million was 67.64% expended or encumbered through February 2025. The Fire Department's non-personal/equipment expenditures are above the expected levels of 63.29% primarily due to encumbrances (\$2.7 million). However, the Fire Department is projected to remain within the non-personal/equipment modified budgeted levels for the year. The Fire Department is committed to maintaining its personal services and non-personal/equipment expenditures within the current budgeted levels. The Fire Department will begin its spring academy (Academy 25-01) in March 2024 with a cadre of 25 Firefighter Recruits. All recruits are certified as Emergency Medical Technicians, including five who are also certified as Paramedics.

The Fire Department continues to vigilantly focus on recruiting a diverse and qualified pool of Firefighters/Paramedics to overcome a shortage of paramedics experienced nationwide while advancing to keep pace with increasing call volumes and reduce delays in patient transport and escort during medical emergencies. The Fire Department is continuing efforts to address paramedic recruitment challenges and will recruit, hire, and train personnel to keep pace with staffing attrition and address key vacancies. 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 February, of the 33 current authorized staffing level for administrative assignments, the Fire Department had 33 sworn personnel on administrative assignments.

Department	2024-2025 Budget	YTD Actual	Prior YTD Actual
<b>Parks, Recreation and Neighborhood Services</b>	<b>\$ 147,427,989</b>	<b>\$ 87,967,957</b>	<b>\$ 78,686,018</b>

Overall, Parks, Recreation and Neighborhood Services (PRNS) Department expenditures are just below estimated levels through February 2025, which is an improvement from earlier in the fiscal year. Personal services expenditures of \$51.0 million are slightly below estimated levels (62.4% expended, compared to par of 63.3%). Non-personal/equipment expenditures of \$29.6 million (includes \$5.3 million in unspent encumbrances) are also below anticipated levels, with 56.5% expended of the Modified Budget of \$52.4 million. It is important to note that department expenditures occur according to seasonal peak programming schedules, which are higher at the beginning and end of the fiscal year. PRNS expects that expenses will remain within budget levels by year-end.

Through December 2024, PRNS Department personal services expenditures were tracking to exceed the budgeted level by approximately \$1.4 million to \$2.4 million, as part-time and overtime salary expenditures were significantly above estimated levels. Through February, part-time expenditures were still high at \$7.5 million, or 80.3% of the budgeted

<b>GENERAL FUND (CONT'D.)</b>
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amount of \$9.4 million and overtime staffing expenditures totaled \$1.2 million, which is 312.0% above the budget of \$388,200. Only one unit in PRNS, parks maintenance, has an overtime budget. All other overtime expenditures necessary to run programming is paid with vacancy savings. A large portion of the overtime expenditure (\$482,000) was related to Police Department direct support of the Beautify San José Encampment Management Program. After allocating these charges to the correct funding source, PRNS has spent 188% of their overtime budget through February. The Department has put into place firm guidelines for department overtime usage; all supervisory groups were directed to further limit the use of overtime, and overtime approval was elevated to PRNS Executive staff. In addition, part-time staff hour usage remains high, which is largely due to demand at Happy Hollow Park & Zoo, daily in-person senior nutrition services, sports field marshal demand, park maintenance work, and community center programming at various sites. To mitigate the high expenditure trend, PRNS has reduced the use of part-time labor to curb unplanned expenditures. As a result, field marshal services have been curtailed and there is limited front desk coverage at community centers and fitness centers. With these changes, plus the Salary and Benefits Program adjustment approved by City Council as part of the 2024-2025 Mid-Year Budget Report, expenditures are expected to end the year within budgeted levels.

Non-Personal/Equipment expenditures (including encumbrances) totaled \$29.6 million, which is 14.7% above the prior year level and constitutes 56.5% of the 2024-2025 Modified Budget. Water spending and other utility spending is within anticipated levels, and 12.6% lower than prior year spending through February. PRNS' decision to turn off irrigation at all locations (with the exception of tree and plant establishment, turf renovation, and community gardening) contributed to this regression. Keeping irrigation systems off is anticipated to generate savings in the water budget with minimal landscape impacts, (assuming normal levels of precipitation throughout San José's rainy season) and will ensure that the non-personal/equipment allocation ends the year within the budgeted level.

Fee Activity expenditures, which include activities such as R.O.C.K. (Recreation of City Kids) afterschool programs, Camp San José programming, and Happy Hollow Park & Zoo education programs, of \$7.3 million are 6.0% above prior year levels of \$6.9 million and constitute 55.0% of the Adopted Budget. PRNS will continue to actively monitor expenditures to ensure Fee Activity expenditures remain within budgeted levels or that any necessary increases are offset by a corresponding increase in fee revenues attributable to the higher activity levels.

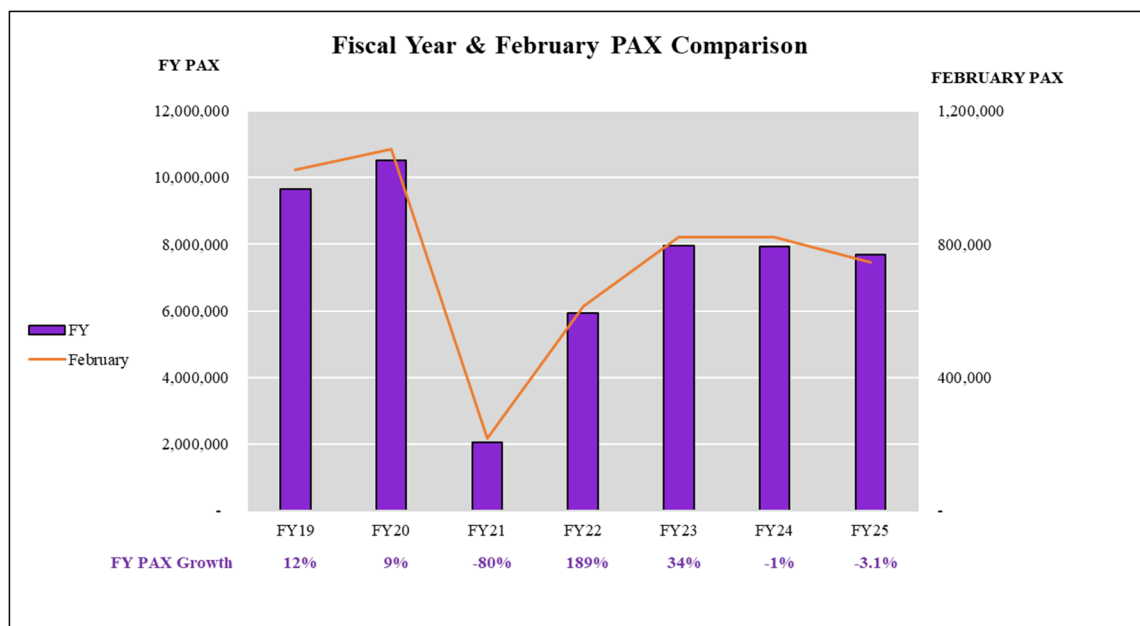
### **CONTINGENCY RESERVE**

The General Fund Contingency Reserve was amended as part of the 2023-2024 Annual Report, increasing the reserve by \$3.0 million, from \$50.0 million to \$53.0 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 7.7 million passengers, a decrease of 3.1% 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 39.7 million pounds, which represents an 8.6% decrease over year-to-date February 2024. Revenue-generating activities had mixed performance with year-over-year decreases occurring in Landed Weights (-2.0%) and Parking Exits (-6.6%). However, increases were noted in Traffic Operations (landings and takeoffs) by 0.3%, Ground Transportation by 5.9%, and Gallons of Aviation Fuel sold by 7.7%.

Through February, overall revenue performance at the Airport tracked 8.0% above estimated levels. All revenue categories are tracking above budgeted levels: Landing Fees (+7.8%), Terminal Rentals (+3.6%), Airfield (+5.9%), Terminal Concessions (+34.0%), Parking and Roadway (+5.2%), and General and Non-Aviation (+14.6%). In addition, the Airport has recognized \$10 million of American Rescue Plan Act Grant Funding this fiscal year, in line with expectations. Despite slowing passenger growth, the positive revenue performance can be attributed to increased fees and strong utilization of Airport facilities, such as parking. The continual strong performance of Terminal Concessions revenue is a result of the Airport's ongoing efforts in opening new concession locations and promoting current options to passengers. Airport revenues will continue to be closely monitored through this fiscal year.

<b>OTHER FUNDS (CONT'D.)</b>
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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 61.6% of budget compared to the benchmark of 63.3%, while non-personal/equipment expenditures were 43.2% compared to the benchmark of 55.9%. Non-personal/equipment expenditures in the Customer Facility and Transportation Fee Fund were 48.7% compared to the straight-line benchmark of 66.7%. The Administration will continue to closely monitor and report activity, revenue, and expenditure status.

### **San José Clean Energy Fund**

The 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. In February, the City Council approved SJCE's power mix and rate package for 2025 at 7.2% - 9.5% below PG&E rates for its standard GreenSource product inclusive of PG&E's added fees and depending on customer class and usage. SJCE's rate-setting process considers PG&E's generation rates, which are expected to be lower in calendar year 2025 compared to 2024. Energy content for GreenSource increases to 62% renewable energy and up to 95% carbon-free power.

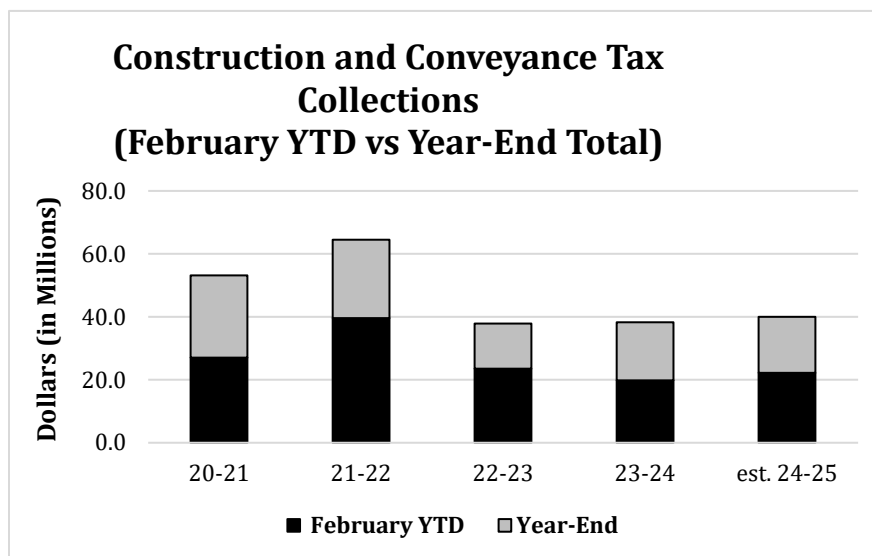
Through February, Energy Sales totaled \$360.5 million, 4.1% above prior year levels of \$346.2 million and 67.0% of the 2024-2025 Adopted Budget estimate of \$537.6 million. Cost of Energy expenditures including encumbrances totaled \$407.1 million, or 28.7% above prior year levels of \$316.2 million and 77.2% of the Modified Budget. The Energy Department monitors energy procurement activities closely and estimates that Energy Sales will end the year at approximately \$499.9 million or 7.0% below the budgeted estimate of \$537.6 million. However, Cost of Energy is estimated to end the year at \$447.4 million, which is 8.7% below the Adopted Budget of \$490.0 million. Power supply costs make up over 90% of what SJCE must recover in revenue and are expected to decrease over time due market conditions, the increased reliance on long-term power purchase agreements coming online, and the issuance of bond proceeds to pre-pay for certain long-term power agreements.

SJCE recently received its first investment-grade credit rating, indicating a strong and stable financial outlook. Nonetheless, the high volatility of market prices and PG&E's Power Charge Indifference Adjustment fees remain risk factors for SJCE to continue to manage. To help mitigate these risks and protect SJCE customers from market variability, the City Council approved a Financial Reserve Policy that authorizes an Operations and Maintenance Reserve with a goal to achieve 180 days of operating costs, and a Rate Stabilization Reserve that defers ratepayer revenue to be recognized in a future year to offset expenditures and ensure customer rates remain competitive and affordable. In 2024-2025, the Operating Reserve is budgeted at \$219.0 million, or the equivalent of 168 days of coverage and the Rate Stabilization Reserve has a balance of \$50.0 million.

**OTHER FUNDS (CONT'D.)**

**Construction and Conveyance Tax Funds**

Through February 2025, Construction and Conveyance (C&C) Tax receipts totaled \$22.2 million, which represents 55% of the 2024-2025 Adopted Budget estimate of \$40.0 million. This amount is 12.1% above collections received through February 2024. In addition, the City has received the March Conveyance receipts from Santa Clara



County, which total \$2.8 million, representing a 5.0% increase from March 2024 receipts. When taking into account total receipts through February and the estimated March collections, C&C receipts in 2024-2025 total \$25.0 million, which represents an 11% increase from the 2023-2024 collection level. The 2024-2025 Adopted Budget estimate requires growth of approximately 4.5% from the 2023-2024 collection level of \$38.2 million. Based on collections through March, it is anticipated C&C receipts will total \$43.0 million, which is \$3.0 above the Adopted Budget estimate.

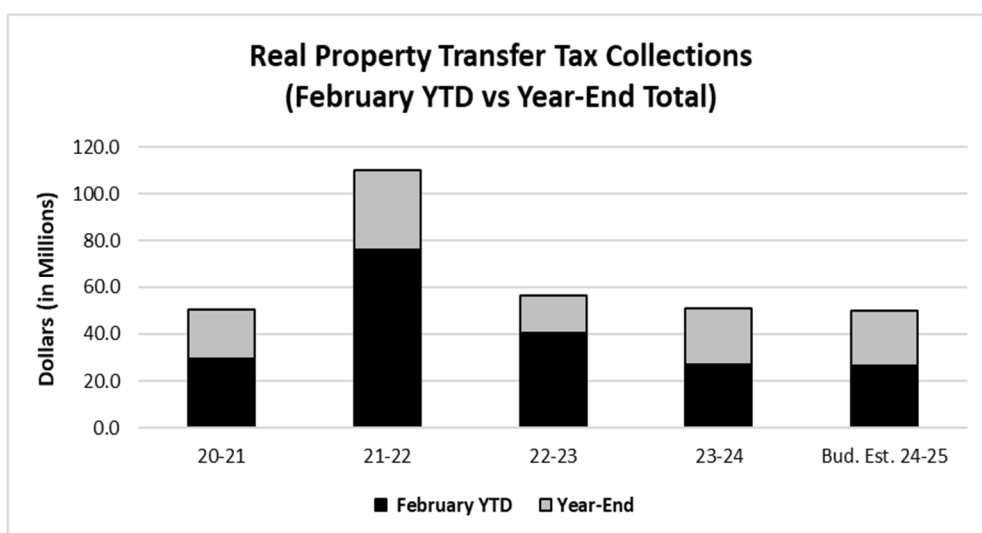
Over 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). As discussed in the Economic Environment section of this Bi-Monthly Financial Report, similar to C&C collections, property transfers are experiencing year-over-year gains. 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. The local market will continue to be closely monitored, with updates provided in future Bi-Monthly Financial Reports.

## OTHER FUNDS (CONT'D.)

### Real Property Transfer Tax Fund

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. Beginning in 2024-2025 Real Property Transfer Tax revenue and its associated expenditures were moved from the General Fund to the Real Property Transfer Tax Fund.

Through February 2025, Real Property Transfer Tax collections totaled \$26.3 million, which is slightly below the prior year level of \$27.0 million. In addition, the City has also received the March tax receipts from Santa Clara County, which



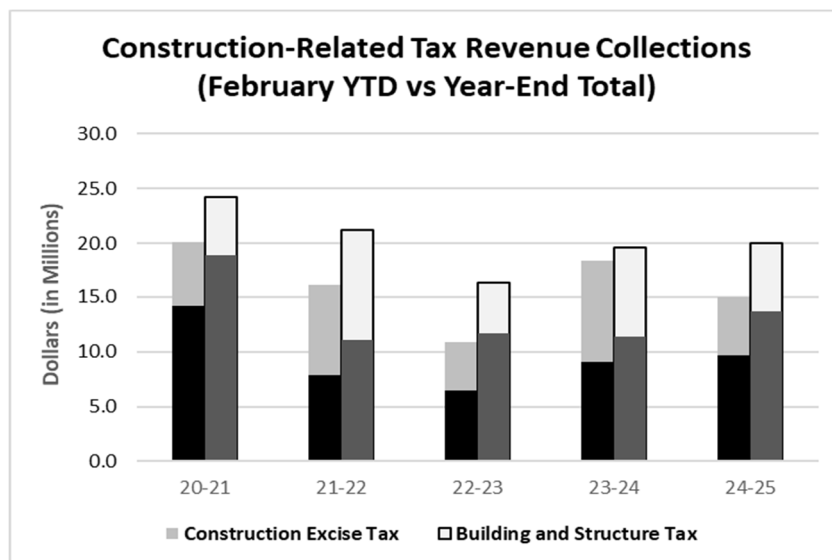
totaled \$4.3 million and reflected growth of 10% from the prior year receipts. When taking into account total receipts through February and the March remittance, total Real Property Transfer Tax receipts in 2024-2025 totaled \$40.6 million, compared to the prior year level of \$30.9 million. The 2024-2025 Adopted Budget estimate totals \$50.0 million, which is consistent with the 2023-2024 collection level. Based on the performance through March and historical collection patterns, Real Property Transfer Tax revenue is anticipated to meet or slightly exceed the budgeted estimate.



## OTHER FUNDS (CONT'D.)

### 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 activity through February, both the Building and Structure Construction Tax and Construction Excise Tax are anticipated to end the year above the budgeted estimate.



Through February, the Building and Structure Construction Tax collection level of \$13.7 million represents 80.6% of the budgeted estimate of \$17.0 million, and is 20.2% above receipts through February 2024 of \$11.4 million. Overall permit valuation through February is higher than the permit valuation for the same period last fiscal year as a result of higher commercial activity, offset by lower residential permit and industrial permit activity. When the 2024-2025 Adopted Capital Budget was developed, it was anticipated that 2023-2024 Building and Structure Construction Tax receipts would total \$17.0 million, and remain flat in 2024-2025. However, since 2023-2024 receipts ended the year at \$19.6 million, the 2024-2025 budgeted estimate allows for a 13.4% decrease from the prior-year collection level to meet budgeted levels. Based on collections through February, the Building and Structure Construction Tax Revenue is anticipated to end the year \$3.0 million above the budgeted estimate of \$17.0 million.

Through February, the Construction Excise Tax collection level of \$9.7 million represents 60.6% of the budgeted estimate of \$16.0 million, and is 6.6% above receipts through February 2024 of \$9.1 million. Construction Excise Tax receipts tend to follow the trend for residential and commercial project valuation. While February 2025 valuation is lower for residential projects than the same period last fiscal year, the valuation for commercial projects is considerably higher. When the 2024-2025 Adopted Capital Budget was developed it was anticipated 2023-2024 Construction Excise Tax receipts would total \$15.0 million, then increase by approximately 6.7% to \$16.0 million in 2024-2025. However, since 2023-2024 receipts ended the year at \$18.4 million, the 2023-2024

<b>OTHER FUNDS (CONT'D.)</b>
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budgeted estimate allows for a 12.8% decrease from the prior-year collection level. Based on collections through February, the Construction Excise Tax Revenue is anticipated to end the year \$1.0 million above the budgeted estimate of \$16.0 million.

### **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 Funds. Based on collections through February, the Citywide Planning and Public Works Development Fee Programs will meet or exceed the budgeted estimate; however, the Building, Planning, and Fire Development Fee Programs may fall short of their budgeted levels. 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. Through February 2025, Building Permit revenues of \$22.1 million are 6.1% below the prior-year collection level of \$23.5 million. The 2024-2025 Adopted Budget estimate of \$36.6 million anticipates a 1.75% decrease from the 2023-2024 collection level of \$37.2 million. Based on current collection trends at this point in the year, Building Fee revenues are anticipated to end the year below the budgeted estimate by approximately \$2 million after accounting for \$4.6 million of projected revenue to be deferred for works-in-progress.

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 2025, Citywide Planning Fee revenues of \$2.4 million are 9.6% above the prior-year collection level of \$2.2 million. The 2024-2025 Adopted Budget estimate of \$3.4 million anticipates a 2.6% decrease from the 2023-2024 actual collection level of \$3.5 million. Based on current collection trends at this point in the year, Citywide Planning Fee revenues are anticipated to end the year within or slightly above the budgeted estimate.

**Fire Development Fee Program** revenues of \$6.6 million through February are tracking 15.8% higher than the 2023-2024 collection level for the same period (\$5.7 million), representing 69.23% of the budgeted revenue estimate (\$9.6 million) for 2024-2025. Approximately \$6.5 million is attributable to permitting activity, inspection activities, and plan reviews and plan checks, representing a 16.8% above 2023-2024 levels, led by fire alarm system, sprinkler head, alarm device, and architecture plan reviews and inspections. This data suggests the Fire Development Fee revenue would meet the 2024-2025 Adopted Budget estimate of \$9.6 million, which assumed a 5.5% increase from the 2023-2024 actual collection level of \$9.1 million; however, the estimated revenue deferral of \$1.6 million for works-in-progress is currently projected to result in an equivalent shortfall. While expenditure savings are projected to largely offset this shortfall, staff will continue to track closely the fund to maintain an adequate Ending Fund Balance.

## OTHER FUNDS (CONT'D.)

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 2025, Planning Fee revenues of \$3.9 million are 14.0% below the prior-year collection level of \$4.6 million. The 2024-2025 Adopted Budget estimate of \$7.7 million anticipates a 2.9% decrease from the 2023-2024 actual collection level of \$7.9 million. Based on current collection trends at this point in the year, Planning Fee revenues are anticipated to end the year below the budgeted revenue estimate by \$1.5 - \$2 million after accounting for \$800,000 of projected revenue to be deferred for works-in-progress.

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 \$12.8 million increased 23.0% from the prior-year level of \$10.4 million. The Public Works Development Fee Program total revenue collections are comprised of \$5.2 million from the Development Services Fee Program, \$7.4 million from the Utility Fee Program, and approximately \$105,000 of interest. The overall year-over-year increase is tempered by small growth in the Development Fee Program activity, which increased by 4.1% compared to the prior the year. The Utility Fee Program is leading the overall year-over-year increase with 41.5% increase compared to the prior the year, which is primarily due to PG&E, Comcast, and other telecommunication related projects. The 2024-2025 Adopted Budget estimate of \$16.8 million allows for a 4.6% decrease from the 2023-2024 actual collection level of \$17.7 million. Revenue collections in the Public Works Development Fee Program are projected to meet or slightly exceed the budgeted levels based on current trends after accounting for \$2.0 million of projected revenue to be deferred for works-in-progress.

## CONCLUSION

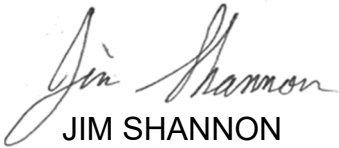
Although economic conditions have remained positive on an overall basis, major economically sensitive revenue categories are experiencing only modest year-over-year growth or have declined. Property Tax (the largest revenue source for the General Fund), continues to grow, but at an anticipated level of 6.5%, versus 7.5-8% experienced a few years ago. Conversely, Sales Tax revenue (the second largest revenue source for the City), which had experienced significant growth from 2020-2021 through 2022-2023; began dropping in 2023-2024 and continues to decline in 2024-2025. It is currently anticipated that Sales Tax revenue in 2024-2025 will fall \$20 - \$25 million below the budgeted estimate. As a result, departments have been directed to control costs to the extent possible without noticeably impacting high-priority services, with the primary goal of generating General Fund savings in the current fiscal year, minimizing rate and fee increases, and ensuring flexibility in the development of budget reductions for 2025-2026.

<b>CONCLUSION (CONT'D.)</b>
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Through the first eight months of the fiscal year, General Fund expenditures overall are generally tracking within anticipated levels, with savings of \$10 - \$15 million anticipated at year end. If General Fund revenues and expenditures end the year as currently projected, approximately \$20 million to \$25 million of the Budget Stabilization Reserve (currently \$53.0 million) will be necessary to achieve the 2024-2025 fund balance estimate of \$30 million included in the 2025-2026 City Manager's Budget Request and 2026-2030 Five-Year Forecast. Potential use of the Budget Stabilization Reserve will continue to be monitored throughout the fiscal year as conditions change. Additionally, several non-General Fund revenue categories are currently projected to end the year at or above budgeted levels, including Building and Structure Construction Tax, Construction Excise, Construction and Conveyance Tax, Citywide and Public Works Development fees, and Real Property Transfer Tax. Conversely, Building, Planning, and Fire Development fees are projected to end the year below budgeted levels, Airport activity continues to decline, and in the SJCE Fund, Energy Sales (revenue) is projected to end the year below budgeted levels and the Cost of Energy (expenditures) will end the year with savings.

The Administration will follow and report on economic indicators, revenue projections, and anticipated expenditure savings in 2024-2025 through the 2025-2026 Proposed Budget and future Bi-Monthly Financial Reports. If warranted, budget adjustments to align revenue with revised estimates will be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

As always, staff will continue to report to the City Council significant developments through this and other budget reporting processes.

  
JIM SHANNON  
Budget Director

**ATTACHMENT:** Finance Department Monthly Financial Report