



Memorandum

TO: PUBLIC SAFETY, FINANCE,
AND STRATEGIC SUPPORT
COMMITTEE **FROM:** Jim Shannon

SUBJECT: Bi-Monthly Financial Report **DATE:** October 4, 2024
For July/August 2024

Approved

Date: 10/9/2024

RECOMMENDATION

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

OVERVIEW

The Bi-Monthly Financial Report for July/August 2024 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 2024-2025 Modified Budget and the Finance Department has prepared a report that reflects the financial results for the two months ending August 2024.

Through the first two 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, as appropriate, to the City Council during the year as appropriate. The following are key highlights of this report:

- While it is very early in the fiscal year and there is minimal data, overall, General Fund revenues are anticipated to end the year within estimated levels.
- Overall, General Fund expenditures are within estimated levels through August. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels.

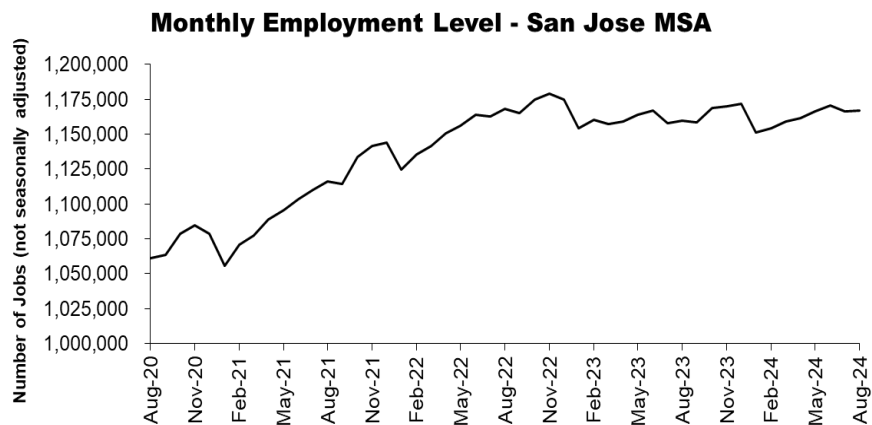
OVERVIEW (CONT'D.)

- 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 within or above the budgeted estimate.
- Construction Excise Tax and Building and Structure Construction Tax collections may end the year below budgeted levels. Both revenue sources are dependent on construction activity, which is overall lower than the prior year levels.
- Transient Occupancy Tax (TOT) activity levels are performing above the prior year. At this early point in the year, it is anticipated that TOT will slightly exceed the budgeted estimate by year-end.
- At this early point in the fiscal year, all Development Fee Programs revenues are anticipated to end the year within estimated levels. This sector will continue to be closely monitored in the coming months to better understand and forecast activity levels through the remainder of the fiscal year.
- The San José Mineta International Airport (SJC) has enplaned and deplaned 2.2 million passengers through August, a decrease of 3.3% from the figures reported through August of the prior year.
- The San José Clean Energy Fund is performing within expected levels, with Energy Sales anticipated to end the year below the budgeted revenue estimate by approximately 4%, and Cost of Energy expenditures are anticipated to end the year approximately 3% below the current budget.
- The Administration will continue to report to the City Council all significant developments through future Bi-Monthly Financial Reports and the 2024-2025 Mid-Year Budget Review.

OVERVIEW (CONT'D.)

Economic Environment

Silicon Valley’s economy is modestly growing, though there are areas of concern. While employment levels have increased slightly, the unemployment rate has increased slightly from prior year levels. Similarly, though real estate median sale prices are up and transfers are up, the homes are staying on the market for slightly longer. Construction activity, with the exception of the industrial category, is down year over year.



The August 2024 employment level of 1.17 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) expanded by 7,300 jobs, or 0.6%, from the August 2023 level. This net growth includes private education and health services increasing by 12,200 jobs and professional and business services expanding by 6,100 positions. Employment reductions include information jobs dropping by 6,100 positions and construction decreasing by 2,700 positions.¹

Unemployment Rate (Unadjusted)			
	August 2023	July 2024	August 2024**
San Jose Metropolitan Statistical Area*	4.1%	4.5%	4.5%
State of California	5.2%	5.8%	5.9%
United States	3.9%	4.5%	4.4%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** August 2024 estimates are preliminary and may be updated.			

As can be seen on the table to the left, the local unemployment rate has slightly increased over the past year, with the August 2023 unemployment rate totaling 4.1%, and the August 2024 rate growing to 4.5%. While the August 2024 unemployment rate is lower than the unadjusted employment rate for the State (5.9%), it is slightly higher than the national rate (4.4%).

Overall construction activity through August 2024 decreased 16.7% from prior year levels primarily due to activity for the residential and commercial land use categories experiencing year-over-year decreases from the prior year. The year-over-year decrease would be more prominent if it were not for the significant increase in industrial construction

¹ State of California Employment Development: Labor Market Information Division Press Release, September 20, 2024

OVERVIEW (CONT'D.)

which is showing a 66% increase when compared to the prior year. The 2024-2025 Adopted Budget was developed with the expectation that development activity would decrease slightly from the levels experienced in 2023-2024. If current trends continue, construction activity will overperform the activity projected by the Planning, Building and Code Enforcement Department in the 2025-2029 Five-Year Forecast, which was released in February 2024.

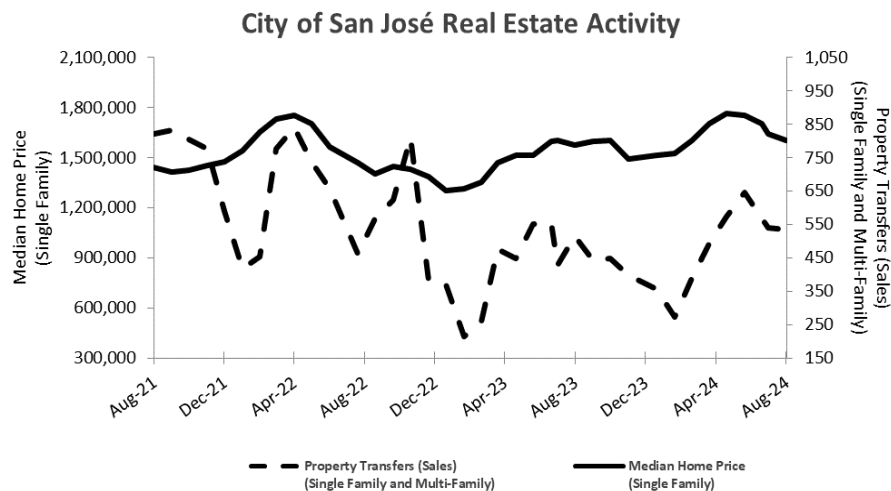
Private Sector Construction Activity (Valuation in \$ Million)			
	August 2023 (YTD)	August 2024 (YTD)	% Change
Residential	\$127.3	\$76.0	(40.3%)
Commercial	\$95.3	\$69.1	(27.5%)
Industrial	\$48.8	\$80.9	66.0%
TOTAL	\$271.4	\$226.0	(16.7%)

Through August, residential permit valuation has decreased 40.3% from prior year levels (\$76.0 million in 2024-2025 from \$127.3 million in 2023-2024). Residential activity through August included 28 multi-family units and 105 units of single-family construction for a total of 133 units. A notable project for July and August includes permits for a 12-unit condominium building located on Wisteria Court, near Highway 280 and Nutwood Drive.

Commercial valuation through August 2024 was 27.5% lower than the 2023-2024 level (\$69.1 million in 2024-2025 from \$95.3 million in 2023-2024). Additions and alterations accounted for 97% of the commercial activity for July and August (\$66.9 million).

Industrial construction valuation through August was 66.0% higher than the 2023-2024 level (\$80.9 million in 2024-2025 from \$48.8 million in 2023-2024). New construction accounted for 80% of the industrial activity in July and August (\$65.0 million). Major projects for July and August include permits for a 257,000 square foot industrial building and a 216,000 square foot warehouse building (both located on Piercy Road north of Tenant Avenue and west of Hellyer Avenue), 172,000 square foot industrial building (located on Hellyer Avenue north of Tenant Avenue and west of Highway 101), and a 28,878 square foot industrial building (located on Great Oaks Blvd).

According to data from the Santa Clara County Association of Realtors, in August 2024, the median single-family home price totaled \$1.60 million, which is slightly above the August 2023 price of \$1.57 million.



OVERVIEW (CONT'D.)

However, these slightly more expensive homes are staying on the market for slightly longer. The average days-on-market through August 2024 totaled 20 days, while the average days through August 2023 totaled 18 days. On a positive note, property transfers (sales) are strong through the first two months of the fiscal year. Through August, transfers have grown almost 14% compared to the same time period in the prior year.

On a national level, in August consumer confidence rose slightly, but consumers are showing more concern about the labor market. Dana M. Peterson, Chief Economist at the Conference Board, stated “Overall consumer confidence rose in August but remained within the narrow range that has prevailed over the past two years. Consumers continued to express mixed feelings in August. Compared to July, they were more positive about business conditions, both current and future, but also more concerned about the labor market. Consumers’ assessments of the current labor situation, while still positive, continued to weaken, and assessments of the labor market going forward were more pessimistic. This likely reflects the recent increase in unemployment.”² Economic conditions will continue to be closely monitored and will be factored into the assessment of the City’s performance in 2024-2025 as well as the development of the 2026-2030 General Fund Forecast that will be released in February 2025.

GENERAL FUND

REVENUES

General Fund revenues through August 2024 totaled \$104.3 million, which represents a decrease of \$12.0 million from the August 2023 level of \$116.2 million. This decrease is primarily attributable to lower Transfers and Reimbursements (\$2.4 million), Fees, Rates, and Charges (\$2.1 million), and Revenue from the Federal Government (\$1.5 million). These declines are primarily attributable to the timing of revenues being received and processed. Categories that have experienced year-over-year growth include Utility Tax (\$2.8 million) and Sales Tax (\$2.6 million). Utility Tax growth is due to higher utility rates and Sales Tax experienced growth due to the timing of revenue being received and processed. It is still very early in the fiscal year and only preliminary information is currently known. 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 and the 2024-2025 Mid-Year Budget Review.

The discussion on the following pages highlights General Fund revenue activities through August 2024.

² The Conference Board, Consumer Confidence Survey, August 27, 2024

GENERAL FUND (CONT'D.)

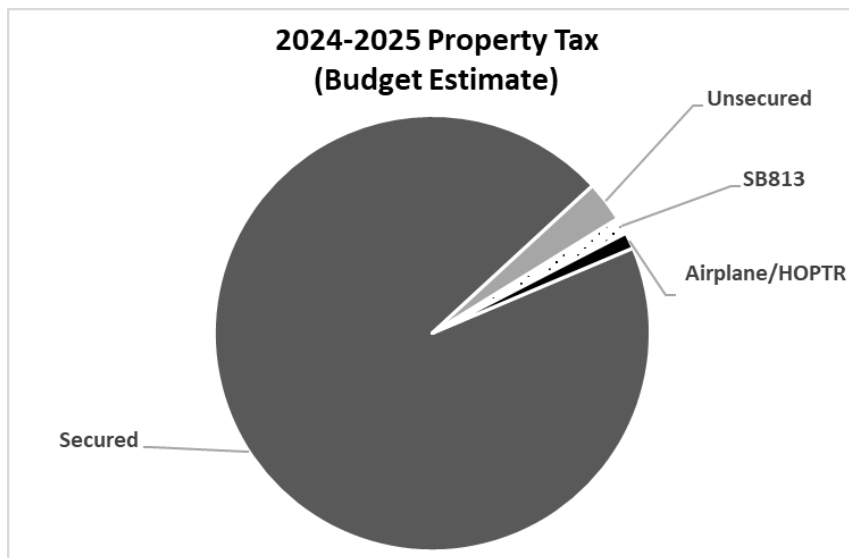
KEY GENERAL FUND REVENUES

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 495,000,000	(\$ 115,215)	\$ 0

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 \$493.6 million, which is slightly below the 2024-2025 budgeted estimate of \$495.0 million. However, as it is very early in the fiscal year, the County’s estimate will likely change as the fiscal year progresses. 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 \$465.6 million in 2024-2025. This estimate is comprised of general Secured Property Tax receipts of \$398.7 million, excess ERAF funds of \$42.3 million, and SARA Residual Property Tax receipts of \$24.7 million. The Secured Property Tax estimate provided by the County is \$2.4 million higher than the Adopted Budget estimate of \$468.0 million.

The general Secured Property Tax Adopted budget estimate totals \$400.0 million in 2024-2025, which reflects estimated growth of 5.5% 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 3.5%. 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.

GENERAL FUND (CONT'D.)

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, 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 22% of ERAF revenue is at risk on both an ongoing basis beginning in 2024-2025 (\$8 million annually) and a claw back to 2020-2021 (\$33 million) 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, the timing on a decision for this litigation is not currently known.

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 \$24.7 million, which is fairly consistent with the 2024-2025 Adopted Budget estimate of \$25.0 million and the prior year collection level of \$24.2 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. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$17.1 million, which is \$2.1 million above the 2024-2025 Adopted Budget estimate of \$15.0 million and \$257,000 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 \$5.2 million, which is \$800,000 below the 2024-2025 Adopted Budget estimate of \$6.0 million and \$2.2 million below the 2023-2024 collection level of \$7.4 million.

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 \$4.8 million, which is slightly below the 2024-2025 Adopted Budget estimate of \$5.0 million, but \$441,000 above the 2023-2024 collection level of \$4.4 million.

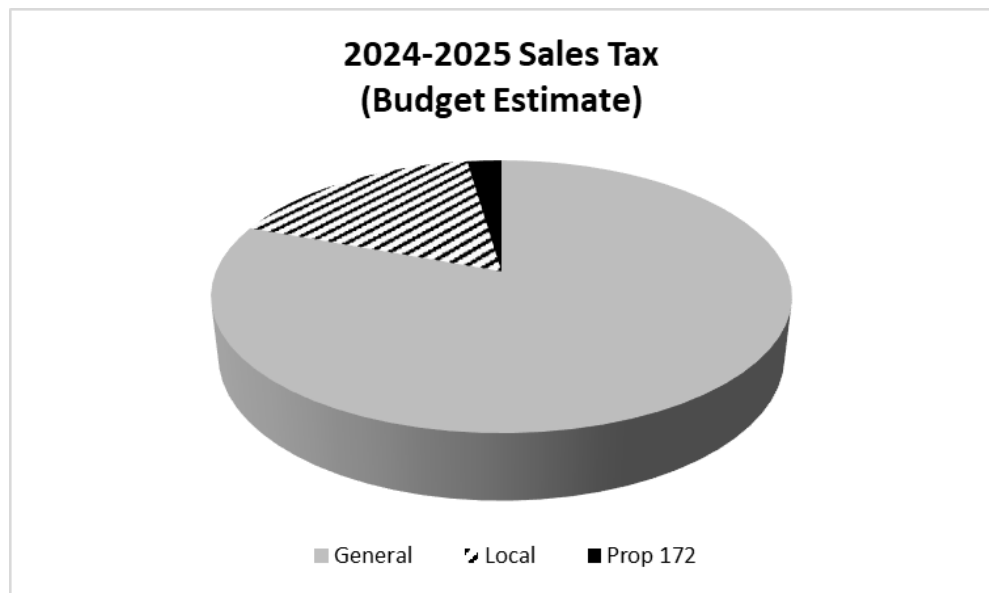
In the **Homeowners Property Tax Relief** category, revenues in 2024-2025 are anticipated at \$844,000, which is slightly below the budgeted estimate of \$1.0 million and the prior year collection level of \$885,000.

GENERAL FUND (CONT'D.)

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 352,000,000	\$ 2,575,506	\$ 0

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. The first Sales Tax payment for 2024-2025 will not be received until November 2024. Once the payment is received and analyzed, additional information will be included in future Bi-Monthly Financial Reports and the 2024-2025 Mid-Year Budget Review, which will be released on January 31, 2025. 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. The General Sales Tax 2024-2025 Adopted Budget estimate totals \$284.0 million, which is \$15.5 million above the 2023-2024



actual collection level of \$268.5. As mentioned above, when the 2024-2025 Adopted Budget was developed, it was anticipated that 2023-2024 General Sales Tax collections would total \$278.0 million and grow approximately 2% in 2024-2025. However, due to significantly lower than anticipated fourth quarter General Sales Tax receipts, actual collections ended the year at \$268.5 million. As a result, growth of 5.8% is required to

GENERAL FUND (CONT'D.)

meet the 2024-2025 budgeted estimate of \$284.0 million. The first Sales Tax payment for 2024-2025 will not be received until November 2024. Once the payment is received and analyzed, additional information will be included in future Bi-Monthly Financial Reports and the 2024-2025 Mid-Year Budget Review, which will be released on January 31, 2025.

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 2023-2024 actual collection level of \$56.9 million. As mentioned above, the first Sales Tax payment for 2024-2025 will not be received until November 2024. Once the payment is received and analyzed, additional information will be included in future Bi-Monthly Financial Reports and the 2024-2025 Mid-Year Budget Review, which will be released on January 31, 2025.

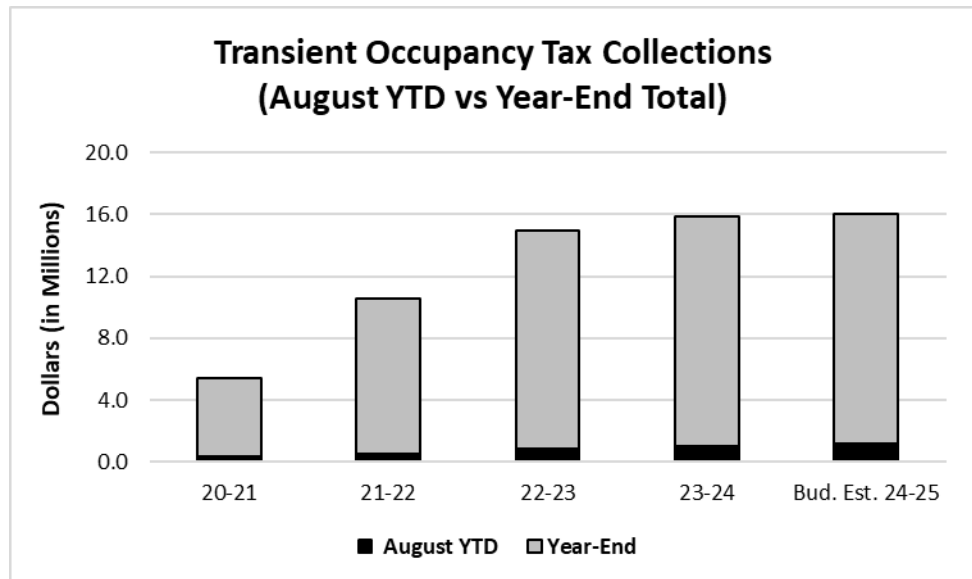
Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Revenue in 2024-2025 are estimated at \$8.0 million, which is consistent with the budgeted estimate and the 2023-2024 actual collection level.

GENERAL FUND (CONT'D.)

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 16,000,000	\$ 1,190,672	\$ 1,012,046

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 August, TOT collections total \$1.2 million, which is 17.6% above the prior year collection level of \$1.0 million. Although it is very early in the fiscal year and only preliminary information is known, it is currently anticipated that TOT receipts will meet or exceed budgeted levels.

Based on August 2024 data, the average hotel occupancy rate reported for the San José market was 69.0%, a 3.97 percentage point increase from the average of 65.1% through the same period in 2023-2024. The average daily room rate



increased by 5.7%, from \$155.69 as of August 2023 to \$164.53 as of August 2024; and the year-to-date average revenue-per-available room (RevPAR) increased by 12.1%, from \$101.28 to \$113.57, relative to the same period in 2023-2024.

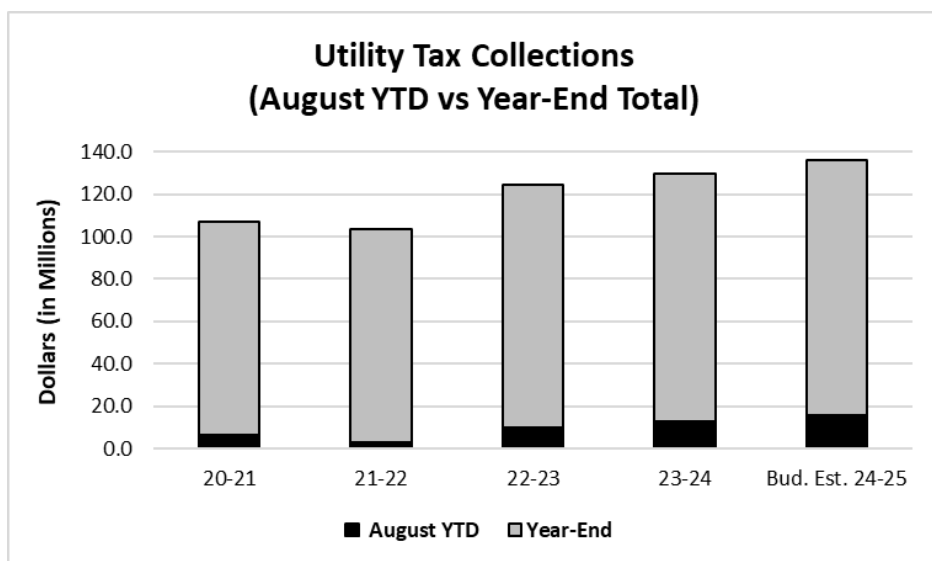
In partnership with Team San Jose (the City’s operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in future Bi-Monthly Financial Reports and the 2024-2025 Mid-Year Budget Review, which will be released on January 31, 2025.

GENERAL FUND (CONT'D.)

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 136,000,000	\$ 15,760,901	\$ 12,911,146

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through August, Utility Tax receipts totaled \$15.8 million, which is 22.1% higher than the prior year level of \$12.9 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. Although it is very early in the fiscal year and only preliminary information is known, it is currently anticipated that overall Utility Tax receipts will end the year at or above budgeted levels. Additional information about each of the Utility Tax sub-categories is provided below.

In the **Electricity Utility Tax** category, collections through August totaled \$11.2 million, which is 31% higher than the \$8.6 million received in the prior year. This increase is due to higher electricity utility rates and 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. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August and historical collection patterns, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

In the **Gas Utility Tax** category, collections through August totaled \$863,000, which is 26% higher than the \$685,000 received in the prior year. This increase is due to higher gas utility rates and 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. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August and historical collection patterns, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

GENERAL FUND (CONT'D.)

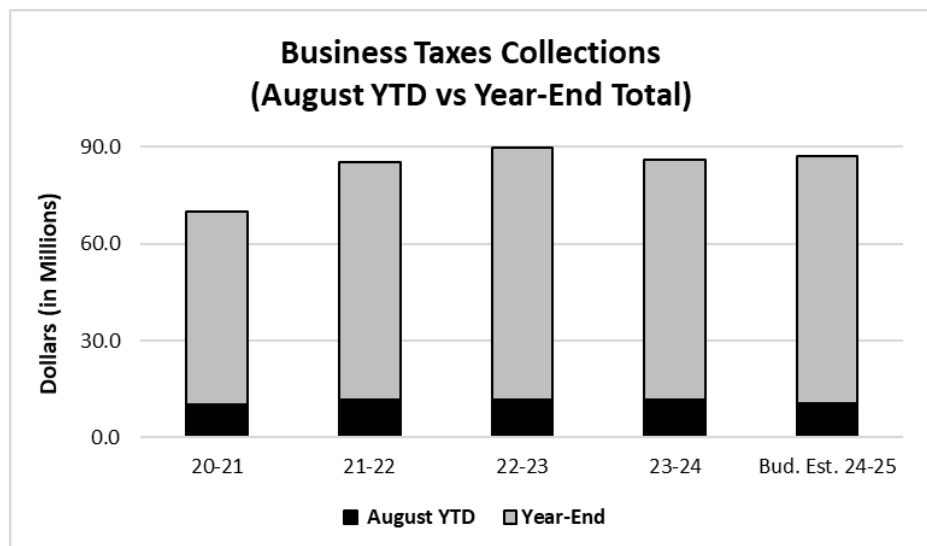
In the **Water Utility Tax** category, collections through August totaled \$2.1 million, which is 3.6% higher than the \$2.0 million received in the prior year. This increase is primarily due to higher water utility rates. The 2024-2025 Adopted Budget estimate totals \$25.0 million, which requires growth of 12.8% from the 2023-2024 collection level of \$22.2 million. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August and historical collection patterns, receipts are anticipated to end the year below the budgeted estimate.

Collections in the **Telephone Utility Tax** category of \$1.56 million through August are 3.3% below the prior year collections of \$1.61 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. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August and historical collection patterns, receipts are anticipated to meet the budgeted estimate by year-end.

<u>Revenue</u>	<u>2024-2025 Budget Estimate</u>	<u>YTD Actual</u>	<u>Prior YTD Collections</u>
Business Taxes	\$ 87,000,000	\$ 10,766,769	\$ 11,642,149

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through August, overall collections of \$10.8 million are 7.5% below the prior year collection levels of \$11.6 million. This year-over-year drop reflects lower collections in all Business Tax categories with the exception of the General Business Tax.

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. Although it is very early in the fiscal year and only preliminary information is known, it is currently anticipated that overall Business



Taxes receipts will end the year at or below budgeted levels. Additional information about each of the Business Taxes sub-categories is provided below.

GENERAL FUND (CONT'D.)

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 August, receipts of \$482,000 million are significantly below the prior year level of \$1.3 million. This drop is primarily due to the timing of payments being received and processed. 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. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August and historical collection patterns, receipts are anticipated to end the year at or below the budgeted estimate.

Through August, **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 \$2.5 million. This collection level is \$291,000 lower than the prior year receipts of \$2.8 million, which is due to slightly lower activity levels. The 2024-2025 Adopted Budget estimate totals \$30.0 million, which is consistent with the 2023-2024 collection level. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August and historical collection patterns, receipts are anticipated to meet the budgeted estimate by year-end.

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 August totaled \$353,000, which is significantly below the prior year collection level of \$1.1 million, which is due to the timing of payments being received and processed. The 2024-2025 Adopted Budget estimate of \$13.0 million is consistent with the 2023-2024 collection level of \$12.9 million. Although it is very early in the fiscal year and only preliminary information is known, based on performance through August and historical collection patterns, receipts in this category are anticipated to meet the budgeted estimate by year-end.

Through August, **General Business Tax** receipts of \$7.4 million are 14.7% above the prior year collection level of \$6.5 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. Although it is very early in the fiscal year and only preliminary information is known, based on the performance through August and historical collection patterns, receipts in this category are anticipated to end the year close to the budgeted estimate.

GENERAL FUND (CONT'D.)

EXPENDITURES

Through August, General Fund expenditures (without encumbrances) of \$187.4 million were 13.9% above the prior year level of \$164.6 million. Encumbrances of \$141.4 million were 17.0% above the prior year level of \$120.9 million. General Fund expenditures and encumbrances through August of \$328.8 million constitute 15.3% of the total budget including reserves and 17.9% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year within budgeted levels.

Through August, departments are overall performing within estimated levels for personal services expenditures, with the exception of the Parks, Recreation and Neighborhood Services Department. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels. A more extensive discussion may be included in the Bi-Monthly Financial Report for September/October, as necessary, which will have the benefit of additional expenditure data. Following is a discussion of the performance of the Police and Fire Departments, the largest General Fund departments.

KEY GENERAL FUND EXPENDITURES

Department	2024-2025 Budget	YTD Actual	Prior YTD Actual
Police	\$ 547,405,616	\$ 78,471,818	\$ 74,053,131

Overall, Police Department expenditures are slightly above estimated levels through August 2024, which is driven by Personal Services expenditures. Personal Services expenditures of \$69.0 million are slightly above the anticipated level for this point of the year (14.03% expended, compared to the par level of 13.43%), with overtime expenditures of \$9.2 million (35.28% of the total \$26.2 million Adopted Budget). Year-to-date overtime expenditures are 8.53% above 2023-2024 levels and overtime hours through August (121,855) increased by approximately 3.69% over the same period in the prior fiscal year (117,516). The increased overtime usage is attributed 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. Discussion on the Department's steps to reduce overtime expenditures while also maintaining minimum staffing and service levels follow below.

A total of \$9.5 million (17.1%) of the Department's Non-Personal/Equipment budget (\$55.5 million, including carry-over encumbrances) has been expended through August 2024. Excluding the remaining balances for centrally-determined details (\$30.6 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance, and replacement, the Department has approximately \$17.7 million, or 31.8% of its Non-Personal/Equipment budget available for the remainder of the fiscal year. Although Non-Personal/Equipment expenditures are tracking high at this point of

GENERAL FUND (CONT'D.)

the fiscal year due to encumbrances of \$4.0 million (42.2% of the year-to-date activity), overall expenditures are expected to remain within budget levels as this encumbrance balance is expended for planned activities. The Police Department is committed to maintain both its Personal Services and Non-Personal/Equipment expenditures within the current overall budgeted levels.

The Police Department and Budget Office are continuing to monitor the impacts of overtime. The following is a discussion on the Department's steps to reduce overtime expenditures while also maintaining minimum staffing and service levels. The Police Department continues to diligently work to fill vacancies in both sworn and civilian positions. Through the use of available vacancy savings and the \$3.0 million in one-time funding from the Police Department Sworn Backfill Reserve, 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 23.5% as of August 30, 2024. 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, which has contributed to a reduction in compensatory time hours across the Department (see the table below).

GENERAL FUND (CONT'D.)

The Police Department has been able to create a data visualization tool to review and audit overtime usage. This tool is currently being rolled out and used by the Police Department to better understand overtime use at a granular level, and will allow 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 Acting Police Chief has eliminated the use of gang suppression pay cars on overtime and significantly scaled back to the use of BFO staff to assist BOI in major investigative operations. The impact of these actions on overtime spending and public safety will be evaluated in the coming months.

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.

	August 2023	August 2024	% Change from 2023 to 2024	% Change from 2022 to 2023
# of Sworn Personnel at 480-hour limit	384	416	8.33%	(13.32%)
# of Sworn Personnel between 240 and 480 hours	322	294	(8.70%)	12.20%
Sworn Compensatory Time Balance Liability (hours)	340,206	342,437	0.66%	(3.98%)
Sworn Compensatory Time Balance Liability (\$)	\$28.4 M	\$31.0 M	9.20%	4.94%
YTD Overtime Expenses for Staff at 480-hour Limit (\$)	\$4.7 M	\$5.8 M	22.76%	20.21%

The table on the following page provides a summary of sworn staffing vacancies and street-ready officers. The February 2024 academy graduated 24 officers in September 2024, and the June 2024 academy started with 34 recruits. The October 2024 academy is expected to begin with 29 recruits. As of August 30, 2024, of the 1,172 authorized sworn staff, 77 were in training (6.6%) and 83 were on disability/modified duty/other leaves (7.1%).

GENERAL FUND (CONT'D.)

	2023-2024 (as of 09/01/2023)	2024-2025 (as of 08/30/2024)
Authorized Sworn Positions	1,173	1,172
(Vacancies)/Overstaff	(115)	(116)
Filled Sworn Positions³	1,058	1,056
Field Training Officer/Recruits	(59)	(77)
Street-Ready Sworn Officers Available	999	979
Disability/Modified Duty/Other Leaves	(73)	(83)
Street-Ready Sworn Officers Working	926	896

Department	2024-2025 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 299,603,217	\$ 45,190,895	\$ 42,596,180

The Fire Department's 2024-2025 Modified Budget totals \$299.6 million, which is comprised of \$283.7 million allocated in Personal Services and \$15.9 million allocated in Non-Personal/Equipment. Overall, the Fire Department's expenditures are performing slightly above estimated levels through August 2024. Personal Services expenditures of \$39.6 million, or 13.97% of the budgeted levels, are slightly higher than the expected level of 13.43% at this point in the year. The higher level can be partially attributed to the demand for frontline personnel to respond to incidents during the wildland fire season, running from July to November (anticipated to be reimbursed by the State of California's Office of Emergency Services), while maintaining the daily minimal staffing levels of 191 on-duty personnel.

The Department responded to approximately 18,446 incidents (Priority 1 and Priority 2 type calls) through August 2024, resulting in a 3.1% increase in emergency response services compared to 17,895 incidents over the same period in 2023-2024. The Fire Department's Non-Personal/Equipment budget of \$15.9 million was 35.05% expended or encumbered through August 2024. The Department's non-personal/equipment expenditures are above the expected levels of 13.43% primarily due to encumbrances (\$3.4 million). At this point in the year, the Fire Department is projected to end the year within budgeted levels.

³ 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 began its 20-week fall academy (Academy 24-03) with 21 Firefighter Recruits. The Department continues to focus on recruiting a diverse and qualified pool of Firefighters/Paramedics to overcome 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 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 August, of the 33 current authorized staffing level, the Fire Department had 33 sworn personnel on administrative assignments.

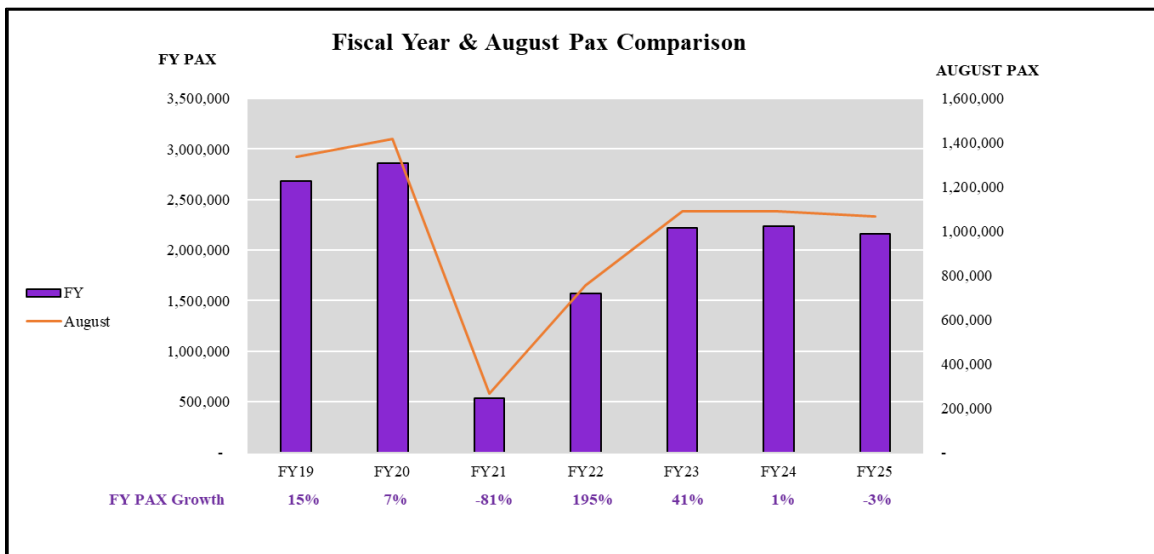
CONTINGENCY RESERVE

The General Fund Contingency Reserve is recommended to be increased as part of the 2023-2024 Annual Report – scheduled for City Council review and approval on October 22, 2024 – 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 2.2 million passengers, a decrease of 3.3% from the figures reported through August of the prior year. Year-to-Date domestic passengers have decreased 2.5% and international passengers have decreased 15.2%. The decrease in international passengers is due to the removal of British Airways’ flights to London and lower than expected growth in passenger activity to Japan and Mexico. The chart below depicts the year-over-year change for the month of August and Fiscal Year-to-Date for the last six years.



Fiscal year-to-date mail, freight and cargo totaled 10.4 million pounds, which represents a 5.7% decrease over year-to-date August 2023. Revenue-generating activities posted mixed results from prior year-to-date levels, with decreases in Parking Exits by 7.3% and Landed Weights by 4.1%, and increases in Ground Transportation by 9.7%, Gallons of Aviation Fuel sold by 4.0%, and Traffic Operations (landings and takeoffs) by 2.1%. Year-to-date Airport revenue through August primarily reflects just one month of receipts. Revenues will continue to be closely monitored through this fiscal year.

Through August, 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 13.1% of the budget compared to the benchmark of 13.4%, and non-personal/equipment expenditures were 4.1% compared to the benchmark of 8.2%. Non-Personal/Equipment expenditures in the Customer Facility and Transportation Fee Fund were 6.7% compared to the benchmark of 16.7%. The activity levels, revenues and expenditure status of the Airport Funds will continue to be closely monitored throughout the fiscal year.

OTHER FUNDS (CONT'D.)

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 2024, the City Council approved SJCE's rate package for the first half of calendar year 2024 at 6.5%-9% below PG&E rates for its standard GreenSource product inclusive of PG&E's added fees. This rate remained in place until PG&E's CPUC-approved mid-year rate drop went into effect. Subsequently, City Council approved a mid-year rate drop of 7% in August for SJCE's GreenSource product (1%-3% below PG&E) inclusive of fees and depending on customer class and usage. Energy content for GreenSource remains at 60% renewable energy and up to 95% carbon-free power.

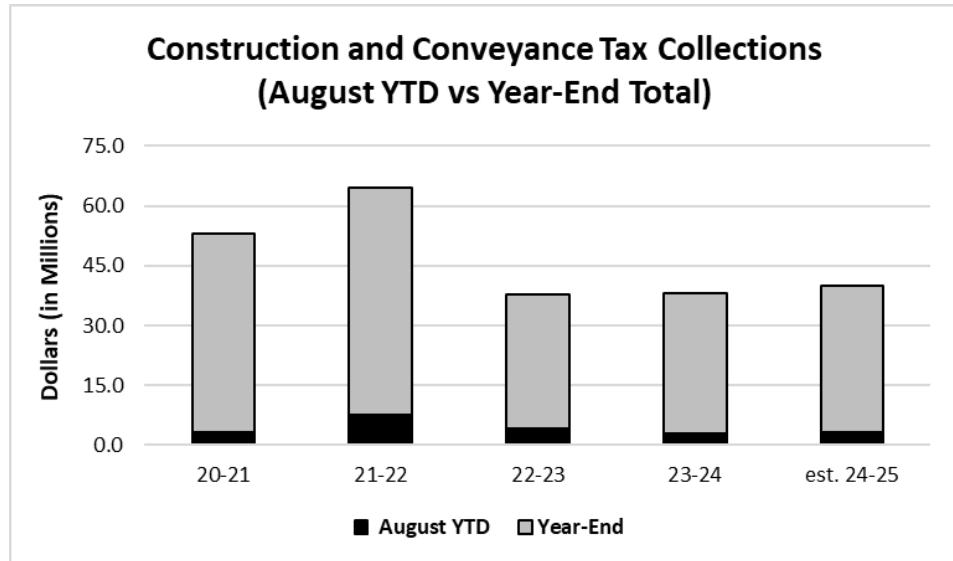
Through August, Energy Sales totaled \$118.0 million, 8.6% above prior year levels of \$108.6 million and 21.9% of the 2024-2025 Adopted Budget estimate of \$537.6 million. Cost of Energy expenditures including encumbrances totaled \$301.9 million, 9.4% above prior year levels of \$276.0 million and 61.6% of the Modified Budget. It is typical for SJCE to encumber a significant portion of funding for contracted energy early in the fiscal year. The Energy Department monitors energy procurement activities closely and, at this early point in the fiscal year, estimates that Energy Sales will end the year at approximately \$516.0 million or 4.0% below the budgeted estimate of \$537.6 million. Similarly, Cost of Energy is estimated to end the year at \$477.0 million, which is 2.7% below the Adopted Budget of \$490.0 million.

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 a risk factor for SJCE to continue to manage. 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 August 2024, Construction and Conveyance (C&C) Tax receipts totaled \$3.4 million, which represents 8.5% of the 2024-2025 Adopted Budget estimate of \$40.0 million. This amount is 13.2% above collections received through August 2023, which totaled \$3.0



million. In addition, the City has received the September Conveyance receipts from Santa Clara County, which total \$3.7 million, representing an 18.6% increase from September 2023 receipts. When taking into account total receipts through August and the estimated September collections, C&C receipts in 2024-2025 total \$7.1 million, which represents a 14.4% increase from the 2023-2024 collection level of \$6.2 million. 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 September, it is anticipated C&C receipts will slightly exceed the Adopted Budget estimate by year-end.

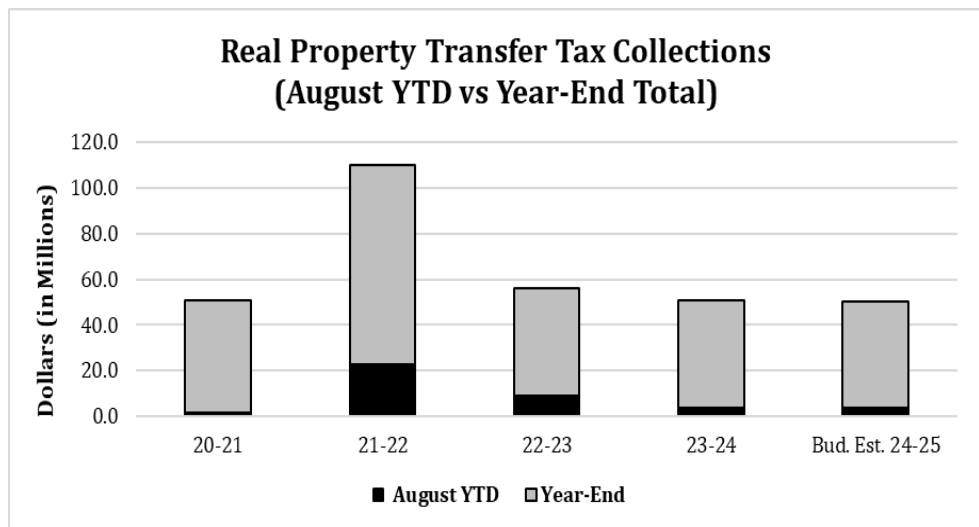
Over 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). As discussed in the Economic Environment section of this Bi-Monthly Financial Report, similar to C&C collections, property transfers are experiencing year-over-year 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 and the 2024-2025 Mid-Year Budget Review, which will be released on January 31, 2025.

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 August 2024, Real Property Transfer Tax collections totaled \$3.5 million, which is slightly below the prior year level of \$3.9 million. However, the City has also received the September tax receipts from Santa Clara

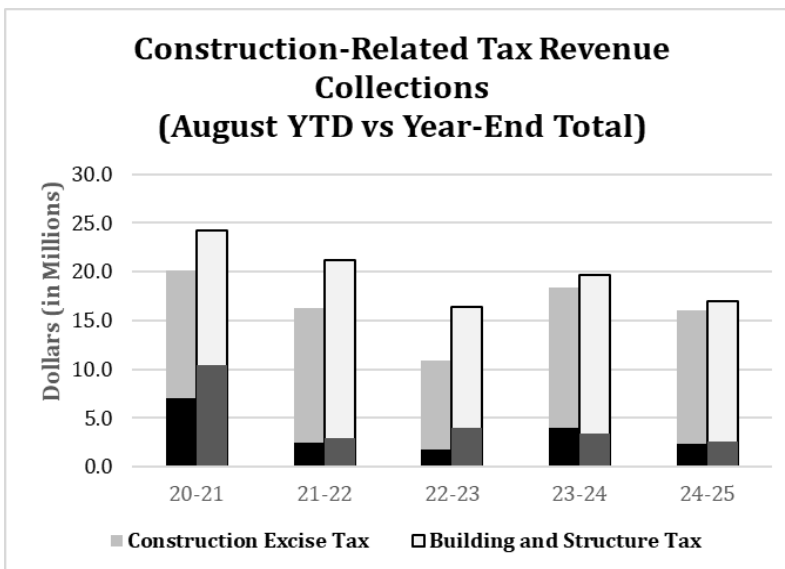


County, which totaled \$4.6 million and reflected growth of 35% from the prior year receipts. When taking into account total receipts through August and the September remittance, total Real Property Transfer Tax receipts in 2024-2025 totaled \$8.1 million, compared to the prior year level of \$7.3 million. The 2024-2025 Adopted Budget estimate totals \$50.0 million, which is consistent with the 2023-2024 collection level. Although it is very early in the fiscal year and only preliminary information is known, based on the performance through September and historical collection patterns, Real Property Transfer Tax revenue is anticipated to meet or exceed the budgeted estimate by year-end.

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 August, the Building and Structure Construction Tax and Construction Excise Tax are anticipated to end the year below the budgeted estimates.



Through August, the Building and Structure Construction Tax collections total \$2.6 million, which is 24.4% below prior year receipts of \$3.4 million. Overall, permit valuation through August is lower than the permit valuation for the same period last fiscal year as a result of lower residential and commercial permit activity, slightly offset by higher 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 \$19.4 million, 2024-2025 collections can drop by 13.4% to meet budgeted levels. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August, Building and Structure Construction Tax revenue is anticipated to end the year below the budgeted estimate.

Through August, the Construction Excise Tax collections total \$2.4 million, which is 40.6% below prior year receipts of \$4.0 million. This drop is attributable to lower construction permit valuation for the residential land use and commercial land use categories compared to the same time period in the prior year. 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 7% to \$16.0 million in 2024-2025. However, since 2024-2025 receipts ended the year at \$18.4 million, 2025-2025 collections can drop by 12.8% to meet budgeted levels. Although it is very early in the fiscal year and only preliminary information is known, based on collections through August, Construction Excise Tax revenue is anticipated to end the year below the budgeted estimate.

OTHER FUNDS (CONT'D.)**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 very preliminary information known at this point in the year, all Development Fee Programs, are anticipated to end the year within 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 August 2024, Building Permit revenues of \$6.5 million are 1.9% above the prior year collection level of \$6.4 million. The 2024-2025 Adopted Budget estimate of \$36.6 million allows for a 1.8% drop from the 2023-2024 collection level of \$37.3 million. Although it is very early in the fiscal year and only preliminary information is known, based on current collection trends, Building Fee revenues are anticipated to meet or exceed the 2024-2025 budgeted estimate by year-end.

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 August 2024, Citywide Planning Fee revenues of \$613,000 are 3.3% above the prior year collection level of \$593,000. The 2024-2025 Adopted Budget estimate of \$3.5 million allows for a 2.6% decrease from the 2023-2024 actual collection level of \$3.6 million. Although it is very early in the fiscal year and only preliminary information is known, based on current collection trends, Citywide Planning Fee revenues are anticipated to meet or exceed the 2024-2025 budgeted estimate by year-end.

The **Fire Development Fee Program** provides operational and construction permits and inspections to ensure that development within San José meets the City's fire code requirements. Fire Development-related fees and charges through August totaled \$1.5 million, reflecting an increase of \$89,000, or 6.3%, compared to the same time period in the prior year. The 2024-2025 Adopted Budget estimate of \$9.6 million requires growth of 5.5% from the 2023-2024 actual collection level of \$9.1 million. Although it is very early in the fiscal year and only preliminary information is known, based on current collection trends, Fire Development Fee revenues are anticipated to end the year within budgeted levels.

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 August 2024, Planning Fee revenues of \$1.4 million are 32.3% above the prior year collection level of \$1.0 million. The 2024-2025 Adopted Budget estimate of \$7.7 million allows for a 2.9% decrease from the 2023-2024 actual collection level of \$7.9 million. Although it is very early in the fiscal year and only preliminary information is known, based on current collection trends, Planning Development Fee revenues are anticipated to meet or exceed the 2024-2025 budgeted estimate by year-end.

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 August of \$1.72 million increased 2.2% from the prior year level of \$1.69 million. The Public Works Development Fee Program total revenue collections are comprised of \$486,000 from the Development Services Fee Program, \$1.2 million from the Utility Fee Program, and approximately \$17,000 of interest. 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. Although it is very early in the fiscal year and only preliminary information is known, based on current collection trends, Public Works Development Fee revenues are anticipated to end the year within budgeted levels.

CONCLUSION

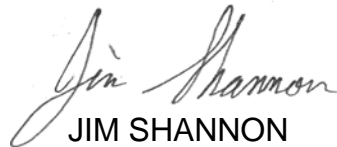
The City ended the 2023-2024 fiscal year in a relatively solid position as the starting point for 2024-2025. However, although overall economic conditions have remained positive on an overall basis, economically sensitive revenue categories are not experiencing significant year-over-year levels of growth. For example, Property Tax (the largest revenue source for the General Fund), continues to grow, but at an anticipated level of 5.5%, versus 7.5-8% experienced a few years ago. Additionally, Sales Tax experienced significant growth from 2020-2021 through 2022-2023, however 2023-2024 experienced declines and revenues for 2024-2025 are estimated to only have very slight growth.

While it is still very early in the fiscal year, overall General Fund and other City funds revenues and expenditures are tracking within anticipated levels. Additionally, several revenue categories are currently projected to end the year above budgeted levels, including the Utility Tax and Construction and Conveyance Tax. Conversely, Building and Structure Construction Tax, Construction Excise Tax, and Business Taxes may fall short of budgeted estimates. In addition, Airport activity continues to decline.

If warranted, budget adjustments to align revenue with revised estimates will be brought forward for City Council consideration as part of the 2024-2025 Mid-Year Budget Review, which will be released on January 31, 2025. However, since only very preliminary information is currently known for all categories, revenues and expenditures will continue

CONCLUSION (CONT'D.)

to be closely monitored. The Administration will follow and report on economic indicators and revenues in 2024-2025 through future Bi-Monthly Financial Reports and the Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions, if necessary. 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