



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Jim Shannon

SUBJECT: BI-MONTHLY FINANCIAL REPORT
FOR MARCH/APRIL 2024

DATE: June 10, 2024

Approved

Date: 6/10/24

RECOMMENDATION

Accept the Bi-Monthly Financial Report on actual revenues and expenditures as compared to the 2023-2024 Budget for the ten months ending April 2024.

OVERVIEW

The Bi-Monthly Financial Report for March/April 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 2023-2024 Modified Budget and the Finance Department has prepared a report that reflects the financial results for the ten months ending April 2024.

Through the first ten 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 as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum, which will be reviewed at the June 18, 2024 City Council meeting. The following are key highlights of this report:

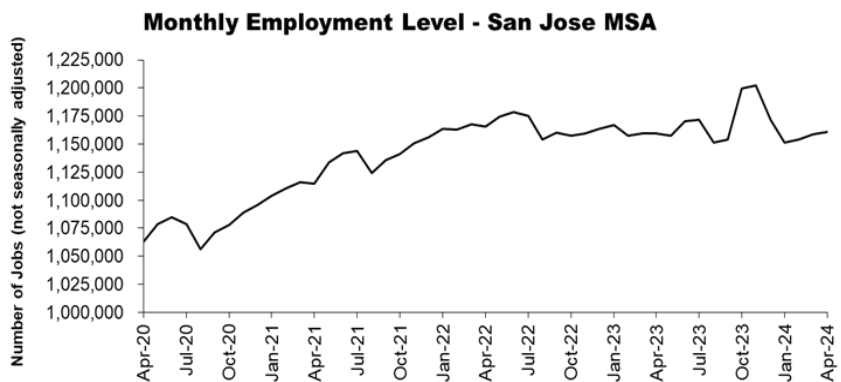
- General Fund revenues are anticipated to exceed budgeted levels by approximately \$15 million. As discussed further in this report, several revenue categories are performing stronger than anticipated, including Sales Tax, Utility Taxes and Transfers and Reimbursements. Budget adjustments are included in the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum to recognize this revenue to more closely align the budget with anticipated collections.
- Overall, General Fund expenditures are anticipated to end the year approximately \$11 million below budgeted levels, primarily due to vacancy savings, City-Wide Expenditure appropriation savings and Capital-funded project savings. This savings represents a net of overall expenditure savings offset by department budgets that are anticipated to end the year above their budgeted levels. As discussed further in this report, actions of approximately \$15 million are included in the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum to increase various departments expenditure allocations to align the budget with estimated expenditures.

OVERVIEW (CONT'D.)

- When combined with the \$13.5 million included in the 2023-2024 Ending Fund Balance Reserve that was established with City Council’s approval as part of the 2023-2024 Mid-Year Budget Review and the assumed liquidation of prior year encumbrances (\$500,000), approximately \$40.0 million of unrestricted Ending Fund Balance in the General Fund will be available as a source for the 2024-2025 Proposed Budget. Of this amount, \$35.0 million was assumed in the 2025-2029 Five-Year General Fund Forecast and \$5.0 million was factored into the developed of the 2024-2025 Proposed Budget.
- As a result of a recovering, though still struggling, local real estate market, Construction and Conveyance Tax (C&C) revenue and Real Property Transfer Tax revenues are performing below prior year levels. However, the Modified Budget assumes the lower activity level, therefore collections are anticipated to meet or slightly exceed the budgeted estimate by year-end.
- Construction Excise Tax collections are anticipated to end the year within budgeted levels; however, Building and Structure Construction Tax collections may fall below budgeted levels. Both of these revenue sources are dependent on construction activity, which is lower than recent years, though trending slightly above prior year levels.
- Transient Occupancy Tax activity levels are performing at a similar pace as the prior year. As the 2023-2024 Adopted Budget assumed revenue would grow from 2022-2023 collections, it is anticipated receipts in the General Fund will end the year \$500,000 - \$1 million below the budgeted estimate.
- Based on performance through February, all Development Fee Programs revenues, with the exception of the Public Works Development Fee Program, are anticipated to end the year below budgeted levels.
- The San José Mineta International Airport (SJC) has enplaned and deplaned 9.8 million passengers through April, a slight decrease of 1.3% from the figures reported through April of the prior year.
- The San José Clean Energy Fund is performing within expected levels, with Energy Sales anticipated to exceed the budgeted revenue estimate by approximately 3%, and Cost of Energy expenditures anticipated to end the year approximately 6% below the current budget.

Economic Environment

While Silicon Valley continues to show overall positive economic performance, there are several areas of continued economic weakness, including the local real estate market and unemployment rates. While employment figures continue to be relatively stable, unemployment rates have been steadily rising.



OVERVIEW (CONT'D.)

The April 2024 employment level of 1.16 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) expanded by a modest 1,200 jobs, or 0.1%, from the April 2023 level. This net growth includes private education and health services increasing by 11,200 jobs and leisure and hospitality jobs expanding by 2,200 positions. Employment reductions include information jobs cutting back 6,500 positions, durable goods dropping by 5,300 jobs, and manufacturing decreasing by 5,200 positions.¹

Unemployment Rate (Unadjusted)			
	April 2023	March 2024	April 2024**
San Jose Metropolitan Statistical Area*	2.9%	4.2%	3.9%
State of California	4.1%	5.4%	4.8%
United States	3.1%	3.9%	3.5%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** April 2024 estimates are preliminary and may be updated.			

As can be seen on the table to the left, the local unemployment rate has experienced growth over the past year with the April 2023 unemployment rate totaling 2.9%, and the April 2024 rate growing to 3.9%. While the April 2024 unemployment rate is lower than the unadjusted employment rate for the State (4.8%), it is slightly higher than the national rate (3.5%).

Overall construction activity through April 2024 increased 15.8% from prior-year levels primarily due to activity for the residential and industrial land use categories experiencing year-over-year increases from the prior year. The year-over-year increase would be more prominent if it were not for the significant decrease in commercial construction which is showing a 21.3% decrease when compared to the prior year. The 2023-2024 Adopted Budget was developed with the expectation that development activity would increase slightly from the levels experienced in 2022-2023. If current trends continue, construction activity would 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)			
	April 2023 (YTD)	April 2024 (YTD)	% Change
Residential	\$281.5	\$348.0	23.6%
Commercial	\$493.5	\$388.5	(21.3%)
Industrial	\$289.2	\$495.5	71.4%
TOTAL	\$1,064.2	\$1,232.0	15.8%

Through April, residential permit valuation has increased 23.6% from prior-year levels (\$348.0 million in 2023-2024 from \$281.5 million in 2022-2023). Residential activity through April included 957 multi-family units and 424 units of single-family construction for a total of 1,381 units.

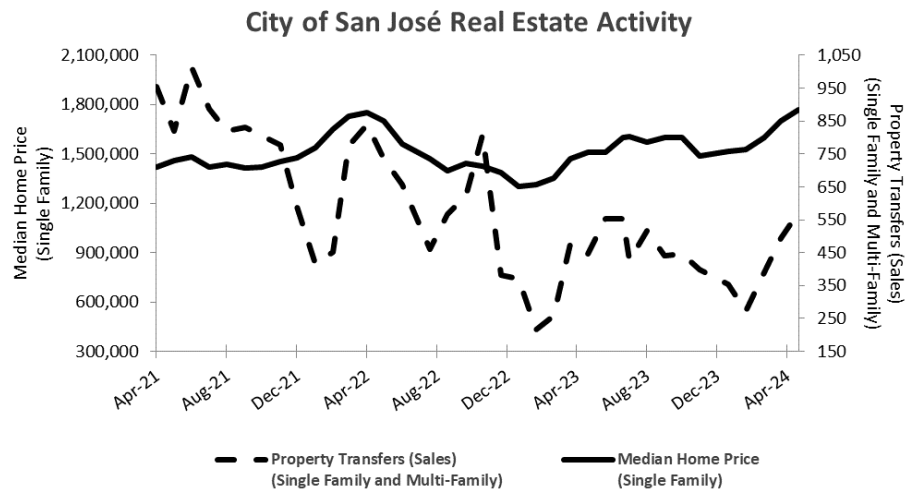
¹ State of California Employment Development: Labor Market Information Division Press Release, May 17, 2024

OVERVIEW (CONT'D.)

Commercial valuation through April 2024 was 21.3% lower than the 2022-2023 level (\$388.5 million in 2023-2024 from \$493.5 million in 2022-2023). Alterations accounted for almost 80% of the commercial activity for March and April (\$62.5 million). A notable project for March and April includes a permit issued for a finished interior 45,000 square foot medical clinic located on Story Road, near the intersection of McLaughlin Ave.

Industrial construction valuation through April 2024 was 71.4% higher than prior-year levels, with receipts totaling \$495.5 million in 2023-2024 and \$289.2 million in 2022-2023. Alterations accounted for almost 66% of the commercial activity for March and April (\$70.1 million). A notable project for March and April includes a permit issued for foundation only permit for a new data center located on Trade Zone Boulevard, south of Montague Expressway.

According to data from the Santa Clara County Association of Realtors, in April 2024, the median single-family home price totaled \$1.8 million, which is 16.8% above the April 2023 price of \$1.5 million. In addition, these more expensive homes are selling at a quicker rate. The average days-on-market through April



2024 totaled 19 days, while the average days through April 2023 totaled 26 days. In addition, while property transfers during the first half of the fiscal year dropped an average of 20% compared to the prior year; beginning in January 2024, transfer activity began rising. Property transfers from January through April 2024 is 24% higher than the same time period in 2023. It is important to note that prior to January and February 2024, property transfers had not experienced consecutive months of growth since fall 2021.

On a national level, in April Americans' confidence in the economy fell for the third straight month. Dana Peterson, Chief Economist at The Conference Board, stated "Confidence retrated further in April, reaching its lowest level since July 2022 as consumers became less positive about the current labor market situation, and more concerned about future business conditions, job availability, and income."² Economic conditions were taken into consideration in the development of the 2024-2025 Proposed Budget, which was released in May 2024.

² The Conference Board, Consumer Confidence Survey, April 30, 2024

GENERAL FUND

REVENUES

General Fund revenues through April 2024 totaled \$1.04 billion, which represents a decrease of \$221.9 million from the April 2023 level of \$1.26 billion. This decrease is primarily attributable to the City not issuing Tax and Revenue Anticipation Notes (TRANs), which were previously issued (\$275.0 million) for cash flow purposes to facilitate the annual prefunding of Tier 1 employer retirement contributions for both Federated and Police and Fire retirement systems. However, in 2023-2024, due to increased interest rates for short-term borrowing, the City is only prepaying Tier 1 contributions for the Police and Fire retirement systems using available cash balances, which will not require TRANs issuance. In addition, Real Property Transfer Tax revenue has experienced year-over-year declines (\$11.0 million) due to a more constrained real estate market resulting in fewer high-value property transfers occurring. Other categories that have experienced year-over-year declines due to lower activity levels include Business Tax (\$2.1 million) and Fines, Forfeitures and Penalties (\$1.2 million). Offsetting the revenues performing below prior year levels, there are several categories experiencing increases including, Property Tax (\$19.1 million), Sales Tax (\$17.2 million), Franchise Fees (\$7.5 million), and Utility Tax (\$4.7 million). These higher collections are due to higher activity levels and increased utility tax rates.

Through April, a total of \$40 million is anticipated to be available in 2024-2025 from a combination of excess revenues and expenditure savings, including: \$13.5 million from the 2023-2024 Ending Fund Balance Reserve established with City Council's approval of the 2023-2024 Mid-Year Budget Review; \$5 million from excess revenue; \$21 million from expenditure savings; and \$500,000 from the liquidation of prior year carryover encumbrances. Of this amount, \$35 million was assumed as part of the 2025-2029 General Fund Forecast, with the remaining \$5 million being factored into the development of the 2024-2025 Proposed Budget.

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

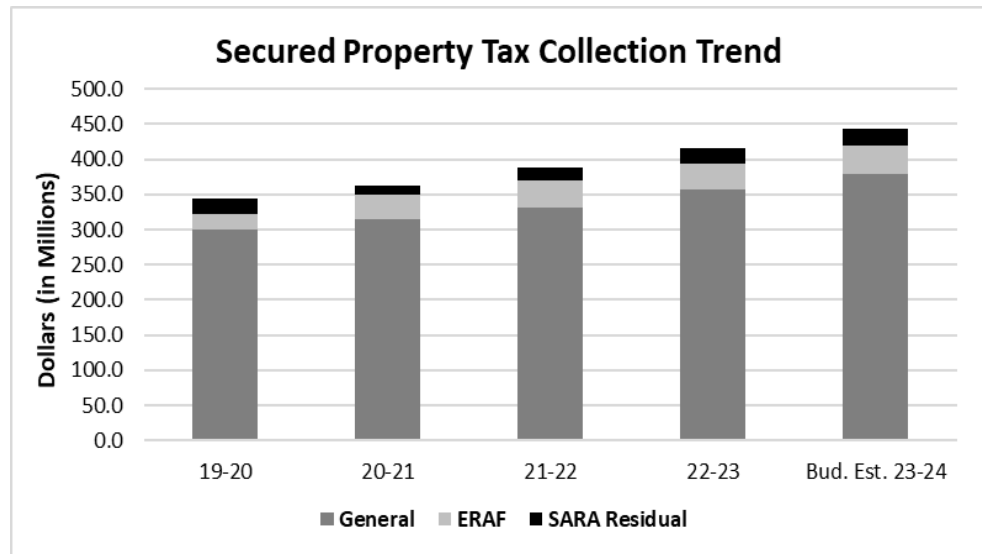
GENERAL FUND (CONT'D.)

KEY GENERAL FUND REVENUES

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 473,900,000	\$ 305,463,876	\$ 286,399,428

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 2023-2024 are estimated at \$474.0 million, which is consistent with the 2023-2024 budgeted estimate of \$473.9 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, Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax, and



Educational Revenue Augmentation Fund (ERAF) revenues. Based on the most recent information provided by Santa Clara County, Secured Property receipts are anticipated to total \$444.0 million in 2023-2024. This estimate is comprised of general Secured Property Tax receipts of \$379.0 million, excess ERAF funds of \$41.0 million, and SARA Residual Property Tax receipts of \$24.0 million.

As mentioned above, the general Secured Property Tax estimate totals \$379.0 million in 2023-2024, which assumes growth of approximately 6.4% from the 2022-2023 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 4.4%. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment.

GENERAL FUND (CONT'D.)

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. According to the most recent information from Santa Clara County, 2023-2024 receipts are estimated at \$24.0 million, which is consistent with the 2023-2024 Adopted Budget estimate and is \$1.6 million above the 2022-2023 collection level of \$22.4 million.

Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. Once there are sufficient funds in ERAF to fulfill obligations, the remainder of the funding is returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. Based on information recently provided by the State of California and Santa Clara County, 2023-2024 receipts are estimated at \$41 million, which is consistent with the 2023-2024 Modified Budget estimate. 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, a decision on this litigation is not likely to occur until after this fiscal year.

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, 2023-2024 receipts are estimated at \$17.0 million, which is consistent with the 2023-2024 Modified Budget estimate and \$1 million above the 2022-2023 collection level of \$16.0 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, 2023-2024 receipts are estimated at \$7.1 million, which is slightly higher than the 2023-2024 Modified Budget estimate of \$7.0 million, but \$4.8 million below the 2022-2023 collection level of \$11.9 million.

Aircraft Property Tax receipts are typically received in October of each year. According to the most recent information from Santa Clara County and actual collections received, 2023-2024 receipts are estimated at \$5.0 million, which is consistent with the 2023-2024 Modified Budget estimate and \$1.1 million above the 2022-2023 collection level of \$3.9 million.

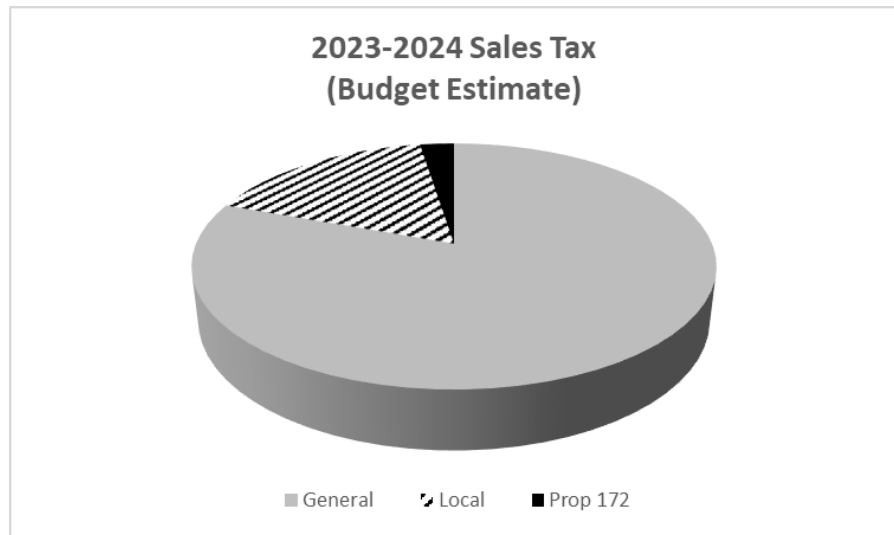
In the **Homeowners Property Tax Relief** category, revenues in 2023-2024 are expected to be at the budgeted estimate of \$900,000, which is consistent with the 2023-2024 Adopted Budget estimate and the 2022-2023 collection level.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 336,400,000	\$ 222,580,844	\$ 205,344,272

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). Based on information received through May 2024 (which reflects three quarters of Sales Tax activity; from July 2023 through March 2024), it is anticipated that 2023-2024 Sales Tax revenue will total \$343.4 million, which is \$7.0 million above the budgeted estimate. A budget adjustment to increase the Sales Tax budgeted estimate by \$7.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024. The final Sales Tax payment is anticipated to be received at the end of August 2024 and will be discussed as part of the 2023-2024 Annual Report that will be released on September 30, 2024. 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. As mentioned above, three quarters of General Sales Tax receipts have been received; the first quarter reflected a year-over-year decline of 1% and the second quarter reflected a year-over-year decline of 10%, reflecting a slowing



economy. Third quarter receipts, however, were recently received and reflected year-over-year growth of 8%. Detailed information about the revenue is not yet available. As a result of the higher than anticipated growth in the third quarter and the assumption that the fourth quarter will grow approximately 5% from the prior year, General Sales Tax revenue is anticipated to end the year at \$278.0 million, which is \$7.0 million above the budgeted estimate. A budget adjustment to increase the General Sales Tax budgeted estimate by \$7.0 million (from \$271.0 million to \$278.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024.

GENERAL FUND (CONT'D.)

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. As mentioned above, three quarters of Local Sales Tax receipts have been received; the first quarter reflected a year-over-year decline of 1%, second quarter reflected a year-over-year decline of 3%, and the third quarter reflected a year-over-year decline of 1.5%. The final quarter is anticipated to remain flat or experience slight growth compared to the prior fiscal year, resulting in Local Sales Tax revenue ending the year at \$57.0 million, which is consistent with the budgeted estimate.

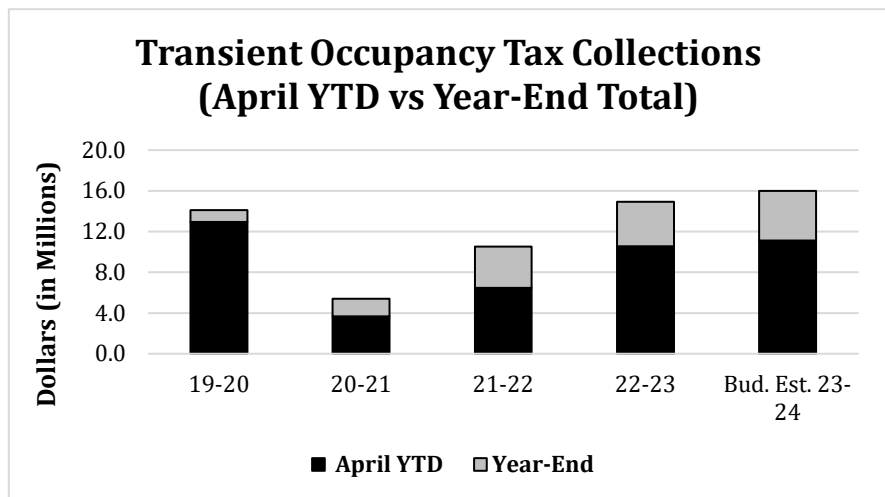
Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Revenue in 2023-2024 are estimated at \$8.4 million, which is consistent with the budgeted estimate.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 16,000,000	\$ 11,131,284	\$ 10,545,972

The 2023-2024 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$16.0 million. When the 2023-2024 Adopted Budget was developed, it was anticipated that 2022-2023 collections would total \$16.0 million and remain flat in 2023-2024. However, 2022-2023 ended the year at \$14.9 million; therefore, 2023-2024 collections require growth of 7.1% to meet the budgeted estimate. Through April 2024, TOT receipts total \$11.1 million, which is 5.6% above the prior year collection level of \$10.5 million. Based on the activity through April, receipts are anticipated to end the year \$500,000 - \$1 million below the budgeted estimate.

Based on April 2024 data, the average hotel occupancy rate reported for the San José market was 64.1%, a slight increase (1.8%) from the average of 62.3% through the same period in 2022-2023. The average daily room rate increased by 3.2%, from \$157.88 as of April 2023 to \$162.98 as of April 2024; and the year-to-date average revenue-per-available room (RevPAR) increased by 6.3%, from \$98.34 to \$104.52, relative to the same period in 2022-2023.



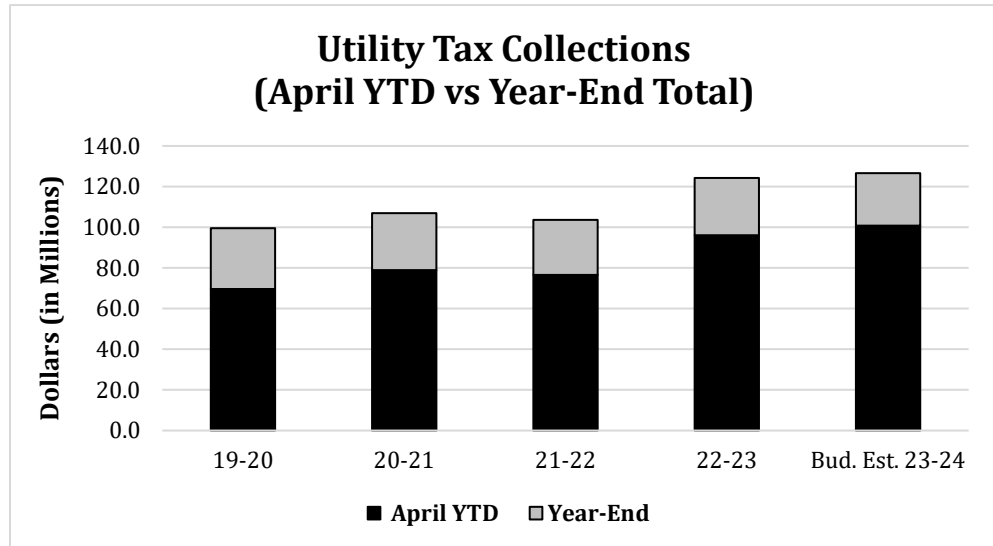
In partnership with Team San Jose (the City’s operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in future Bi-Monthly Financial Reports.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 126,550,000	\$ 100,762,544	\$ 96,017,649

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through April, Utility Tax receipts totaled \$100.8 million, which is 4.9% higher than the prior-year level of \$96.0 million. The year-over-year increase represents higher collections in the Electricity, Water, and Telephone Utility Tax categories, partially offset by lower Gas Utility Tax receipts. The overall increase in Utility Tax collections is attributable to higher utility tax rates and higher activity levels.

The 2023-2024 Adopted Budget was built on the assumption that 2022-2023 Utility Tax revenue would end the year at \$121.0 million and increase by almost 5% to \$127.6 million in 2023-2024. However, 2022-2023 ended the year at \$124.3



million, due to stronger year-end collections. As a result, 2023-2024 collections require growth of only 2% to meet the budgeted estimate. Based on collections through April, Utility Tax receipts are estimated to end year \$3 million above the budgeted estimate. A budget adjustment to increase the Utility Tax budgeted estimate by \$3.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024. Additional information about each of the Utility Tax sub-categories is provided below.

In the **Electricity Utility Tax** category, collections through April totaled \$57.1 million, which is 9.1% higher than the \$52.3 million received in the prior year. This increase is due to higher electricity rates. The 2023-2024 Adopted Budget estimate totals \$70.0 million, which requires growth of 4.7% from the 2022-2023 collection level of \$66.9 million. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$3 million above the budgeted estimate. A budget adjustment to increase the Electricity Utility Tax by \$3.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024.

GENERAL FUND (CONT'D.)

In the **Gas Utility Tax** category, collections through April 2024 totaled \$12.5 million, which is 7.7% lower than the prior year level of \$13.5 million. This decrease is primarily due to lower activity levels. The 2023-2024 Adopted Budget estimate totals \$19.0 million, which is 5.4% below the 2022-2023 collection level of \$20.1 million. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$500,000 below the budgeted estimate. A budget adjustment to decrease the Gas Utility Tax by \$500,000 will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024.

In the **Water Utility Tax** category, collections through April 2024 totaled \$16.9 million, which is 0.5% lower than prior year receipts of \$17.0 million. This decrease is due to lower activity levels, partially offset by increased water rates. The 2023-2024 Adopted Budget estimate totals \$19.0 million, which is consistent with the prior year receipts. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$500,000 below the budgeted estimate. A budget adjustment to decrease the Water Utility Tax by \$500,000 will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024.

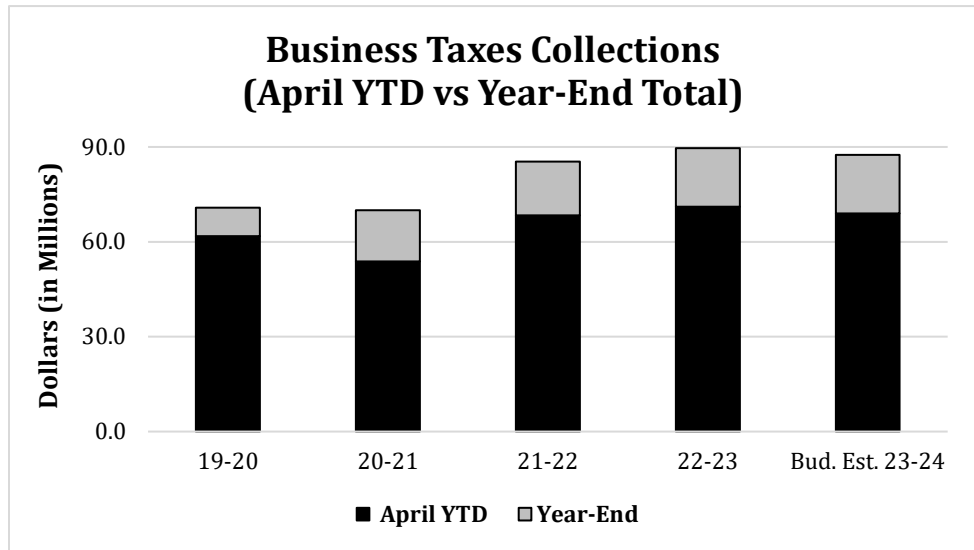
Collections in the **Telephone Utility Tax** category of \$14.3 million through April are 8.3% above the prior-year collections of \$13.2 million. The 2023-2024 Adopted Budget estimate totals \$18.6 million, which is consistent with prior year receipts. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$1.0 million above the budgeted estimate. A budget adjustment to increase the Telephone Utility Tax by \$1.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Business Taxes	\$ 87,500,000	\$ 68,973,255	\$ 71,082,024

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through April, overall collections of \$69.0 million are 3.0% below the prior-year collection levels of \$71.1 million. This year-over-year drop reflects lower collections in all Business Tax categories.

The 2023-2024 Modified Budget of \$87.5 million allows for a 2.4% drop from the 2022-2023 Business Taxes collection level of \$89.6 million. Based on collections through April, receipts are anticipated to end the year approximately \$1 million below the budgeted estimate. Additional information about each of the Business Tax sub-categories is provided below.



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 April, receipts of \$10.8 million are 7.5% below the prior-year level of \$11.7 million. The 2023-2024 Adopted Budget estimate of \$15.0 million is \$1.6 million below the 2022-2023 collection level of \$16.6 million. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$500,000 below the budgeted estimate.

GENERAL FUND (CONT'D.)

Through April, **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 \$22.1 million. This collection level is 1% lower than the prior year receipts of \$22.3 million, which is primarily due to lower tax revenue from third party funding sources. The 2023-2024 Modified Budget estimate for Cardroom Tax totals \$30.0 million, which is consistent with the 2022-2023 actual collection level. Based on the performance through April, receipts in this category are anticipated to meet or fall slightly below 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. DFT revenue through April totaled \$9.6 million, which is 3.7% below the prior-year collection level of \$10.0 million, which is due to lower activity levels. The 2023-2024 Adopted Budget estimate of \$13.0 million is 2.5% below the 2022-2023 collection level of \$13.3 million. Based on performance through April and historical collection patterns, receipts in this category are anticipated to meet or fall slightly below the budgeted estimate by year-end.

Through April, **General Business Tax** receipts of \$26.4 million are 2.6% below the prior-year collection level of \$27.1 million. The 2023-2024 Modified Budget estimate for General Business Tax totals \$29.5 million, which is 1% below the 2022-2023 actual collection level. Based on the performance through April, receipts in this category are anticipated to end the year approximately \$500,000 below the budgeted estimate.

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Real Property Transfer Tax	\$ 50,000,000	\$ 33,049,516	\$ 44,008,557

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

Through April 2024, Real Property Transfer Tax collections totaled \$33.0 million, which is significantly below the prior-year level of \$44.0 million. In addition, the City has received the May and June tax receipts from Santa Clara County, which totaled \$6.8 million. When taking into account total receipts through April and the May remittance, total Real Property Transfer Tax receipts in 2023-2024 totaled \$39.8 million, compared to the prior year level of \$47.2 million. This significant variance is primarily due to a more constrained real estate market resulting in few high-value property transfers occurring in the current year. The 2023-2024 Adopted Budget estimate totals \$50.0 million, which allows for a 11.2% drop from the 2022-2023 collection level of \$56.3 million. Based on the most recent information from the County, it is currently estimated that Real Property Transfer Tax receipts will total \$50-\$55 million at year-end.

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

Through April, General Fund expenditures (without encumbrances) of \$1.1 billion were 6.3% below the prior-year level of \$1.2 billion. Encumbrances of \$128.3 million were 42.0% above the prior-year level of \$90.3 million. Combined, General Fund expenditures and encumbrances through April of \$1.2 billion constitute 57.0% of the total budget including reserves and 68.3% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year approximately \$11 million below budgeted levels, primarily due to vacancy savings, City-Wide Expenditure appropriation savings and Capital-funded project savings. This savings represents a net of overall expenditure savings offset by department budgets that are anticipated to end the year above their budgeted levels. As discussed further in this report, actions of approximately \$15 million are included in the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum to increase various departments expenditure allocations to align the budget with estimated expenditures.

Through April, departments are overall performing within estimated levels for personal services expenditures, with the exception of the City Attorney's Office, Fire Department, Housing Department, Parks, Recreation, and Neighborhood Services Department, Police Department, and Public Works Department. City Attorney's Office, Housing Department, and Parks, Recreation, and Neighborhood Services Department are reviewing expenditures and re-allocating expenditures as appropriate, and are anticipated to end the year within budgeted levels. However, several departments, including the Police Department, Fire Department, and Public Works Department have budgetary adjustments recommended in the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024. Following is a discussion of the performance of these three departments.

KEY GENERAL FUND EXPENDITURES

Department	2023-2024 Budget	YTD Actual	Prior YTD Actual
Police	\$ 524,796,187	\$ 408,726,940	\$ 395,566,875

Overall, Police Department expenditures are tracking slightly over the estimated levels through April 2024, primarily driven by overages in personal services and non-personal/equipment expenditures (excluding centrally determined details). Despite cost control measures implemented by the Department, discussed in more detail below, both personal services and non-personal/equipment spending are estimated to exceed budgeted levels by year-end. Discussion on budget actions being taken during the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024 are discussed below.

Personal services expenditures of \$379.9 million are above the anticipated level for this point of the year (79.9% expended, compared to the par level of 78.7%), with overtime expenditures of \$49.3 million (4.0% above the \$47.4 million 2023-2024 Modified Budget). Year-to-date overtime

GENERAL FUND (CONT'D.)

expenditures are 14.2% above 2022-2023 levels and overtime hours through April (510,062) increased by approximately 5.3% over the same period in the prior fiscal year (484,218). The year-over-year increase is primarily attributable to: the high number of sworn vacancies in the Bureau of Field Operations (BFO), which require increased levels of overtime to maintain minimum staffing levels to effectively respond to calls for service; vacancies within the Bureau of Investigations (BOI), which require patrol officers to perform preliminary investigative activities while closing out certain calls for service; and several required trainings that were completed on overtime (Crowd Control Training and First Aid and Domestic Violence Trainings, etc.). Further overtime discussion follows below.

The Department is currently anticipated to exceed its personal services allocation by up to \$9.0 million. Actions will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024 to increase the Personal Services budget by \$9.0 million and to realign funding between salaries and overtime to rebalance allocations.

A total of \$28.8 million (58.8%) of the Department's non-personal/equipment budget (\$48.9 million, including carry-over encumbrances) has been expended through April 2024. Excluding the remaining balances for centrally-determined details (\$15.2 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance, and replacement. The Department has approximately \$5.0 million, or 10.1% of its non-personal/equipment budget available for the remainder of the fiscal year. An increase to the non-personal/equipment budget of \$300,000 will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024 to cover costs related to board-up services and software licensing services.

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 \$5.0 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 22.5% as of May 3, 2024. Historically, the effective vacancy rate has averaged 18.9% (based on the 5-year period between 2018-2019 and 2022-2023), 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.

GENERAL FUND (CONT'D.)

In accordance with the POA MOA, the Police Department is enforcing compensatory time controls by requiring all sworn staff, outside of 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).

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:

GENERAL FUND (CONT'D.)

	April 2023	April 2024	% Change from 2023 to 2024	% Change from 2022 to 2023
# of Sworn Personnel at 480-hour limit	413	413	0.00%	2.74%
# of Sworn Personnel between 240 and 480 hours	307	284	(7.49%)	(3.15%)
Sworn Compensatory Time Balance Liability (hours)	347,433	337,909	(2.74%)	(1.29%)
Sworn Compensatory Time Balance Liability (\$)	\$27.9 M	\$28.5 M	1.99%	3.70%
YTD Overtime Expenses for Staff at 480-hour Limit (\$)	\$18.7 M	\$21.3 M	13.86%	19.95%

The table below provides a summary of sworn staffing vacancies and street-ready officers. The June 2023 Academy graduated 19 recruits and currently 17 continue the next phase in their career as Field Training Officers. There are currently two active academies, October 2023 (24 recruits) and February 2024 (32 recruits). The Department is anticipating that the June 2024 academies will have 39 recruits. In addition, there are currently 4 lateral candidates in the background process. As of May 3, 2024, of the 1,173 authorized sworn staff, 73 or 6.2% of the positions were in training, while 74 or 6.3% of the positions were on disability/modified duty/other leaves.

	2022-2023 (as of 5/05/2023)	2023-2024 (as of 5/03/2024)
Authorized Sworn Positions	1,173	1,173
(Vacancies)/Overstaff	(114)	(117)
Filled Sworn Positions³	1,059	1,056
Field Training Officer/Recruits	(58)	(73)
Street-Ready Sworn Officers Available	1,001	983
Disability/Modified Duty/Other Leaves	(73)	(74)
Street-Ready Sworn Officers Working	928	909

³ Filled sworn positions and authorized sworn positions may vary due to vacancies or the approval of overstrength (temporary) positions. The Police Department has special authority under the City's Sworn Hire Ahead Program to overstaff sworn positions to get a head start on training recruits due to retirement and other separation.

GENERAL FUND (CONT'D.)

Department	2023-2024 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 286,167,173	\$ 228,563,680	\$ 223,741,759

The Fire Department's budget totals \$286.2 million, comprising \$270.3 million in personal services and \$15.9 million in non-personal/equipment expenditures. Overall, Fire Department expenditures are performing above estimated levels through April 2024. Personal services expenditures of \$216.3 million, or 80.03% of the budgeted levels, are considerably higher than the expected level of 78.69% at this point in the year and are currently anticipated to end the year \$5.0 million above budgeted levels. This overage is primarily attributed to the demand for frontline personnel required to maintain the daily minimal staffing levels of deployed resources of 191 personnel. The Department responded to over 86,500 incidents (Priority 1 and Priority 2 type calls) through April 2024, similar to emergency response services activity through the same period in 2022-2023. A budget adjustment to increase the Fire Department Personal Services budget by \$5.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024.

The Fire Department's non-personal/equipment budget of \$15.9 million has reached a utilization rate of 77.12%, slightly below the expected level of 78.69% at this point in the year. This variance can be attributed primarily to encumbrances of \$3.0 million, which are anticipated to be released as the corresponding balances are expended. It is forecasted that non-personal/equipment expenditures will conclude the fiscal year within the parameters of the allocated budgetary provision.

The Department continues to vigilantly work to increase the pool of qualified Firefighters/Paramedics to mitigate the impacts of the continued nationwide shortage of paramedics. To extend its reach for recruitment and to pull from a larger, diverse audience, the Department is advancing outreach efforts through partnerships with local, regional, and nationwide public safety agencies. In January 2024, the Department initiated its firefighter recruit academy (Academy 24-01) with 24 recruits (16 Paramedics and 8 EMTs) with an anticipated completion date of June 2024. The Department continues to address paramedic recruitment challenges and will recruit, hire, and train personnel to keep pace with staffing attrition and address key vacancies.

Following 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 levels, the Fire Department had 31 sworn personnel on administrative assignments.

GENERAL FUND (CONT'D.)

Department	2023-2024 Budget	YTD Actual	Prior YTD Actual
Public Works	\$ 56,690,847	\$ 45,971,896	\$ 40,937,689

The Public Works Department expenditures are above estimated levels through April, which is due to both higher personal services and non-personal/equipment costs. Personal services expenditures of \$24.2 million are above the anticipated level for this point of the year (82.7% expended, compared to the par level of 78.7%). Non-personal/equipment expenditures of \$21.8 million (includes \$3.3 million in encumbrances) are also above anticipated levels with 79.4% of the 2023-2024 Modified Budget expended through April. In total, departmental expenditures are currently estimated to exceed the personal services budgeted levels by approximately \$905,000.

Through April, personal services expenditures are above expected levels primarily due to higher than anticipated expenditures for Animal Care Services (ACS) operations, building maintenance, and city hall facility management. Overall, Public Works Department overtime expenditures totaled \$1.4 million compared to the budgeted amount of \$874,000 (157.6%, compared to the par level of 78.7%) and temporary staffing expenditures totaled \$2.3 million compared to the budgeted amount of \$1.2 million (194.5%, compared to the par level of 78.7%) through April.

The current high costs of the ACS operations are mostly attributed to elevated temporary staffing expenditures amongst Animal Care Attendants and the part-time Recreation Leaders that were temporarily redeployed to Animal Care Center earlier in the fiscal year. The other attributable factors are building maintenance and City Hall facility management for elevated staff costs due to the focus on maintenance work in the summer and fall months. As part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by City Council in June 2024, a recommendation will be brought forward to increase the Personal Services budget approximately by \$905,000 and recognize additional fee revenue and reimbursement costs of \$205,000, resulting in an overall impact of \$700,000 to the General Fund.

Non-personal/equipment expenditures, including encumbrances, of \$21.8 million are slightly above budgeted levels of \$27.4 million (79.4% expended through April). Overall, non-personal/equipment expenditures are anticipated to meet budgeted levels by year-end.

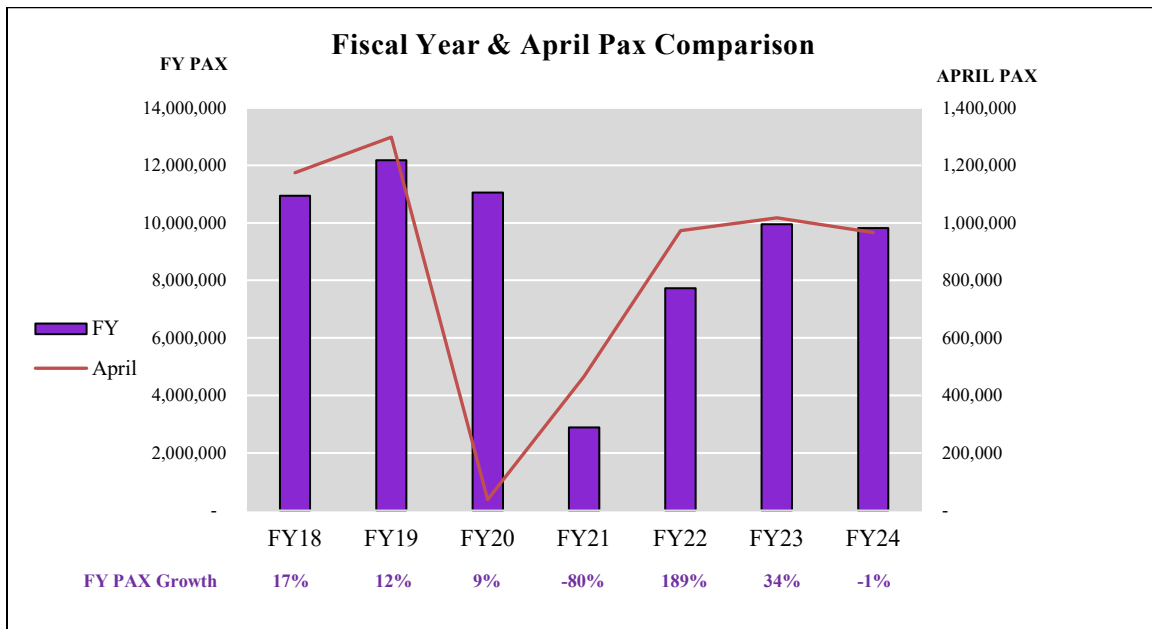
CONTINGENCY RESERVE

The General Fund Contingency Reserve was amended as part of the 2022-2023 Annual Report, increasing the reserve by \$3.0 million, from \$47.0 million to \$50.0 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 has enplaned and deplaned 9.8 million passengers, a decrease of 1.3% from the figures reported through April of the prior year. The chart below depicts the year-over-year change for the month of April and Fiscal Year-to-Date for the last six years.



Fiscal year-to-date mail, freight and cargo totaled 53.9 million pounds, which represents a 12.1% decrease over year-to-date April 2023. Revenue-generating activities posted mixed results from prior year-to-date levels, with decreases in Gallons of Aviation Fuel sold by 6.9%, Landed Weights by 4.9%, and Traffic Operations (landings and takeoffs) by 3.5%, while Ground Transportation trips have increased by 11.3% and Parking Exits are on pace with the previous fiscal year.

Through April, overall revenue performance at the Airport was in line with estimated levels. Airport revenue categories with continued strong performance that tracked above benchmark levels include Terminal Concessions (+17.4%), Airfield (+14.3%), and General and Non-Aviation (+5.0%) revenue, while Landing Fees (-10.6%), Terminal Rentals (-3.7%), and Parking and Roadway (-1.0%) revenue tracked below budgeted levels. In addition, the Airport has recognized \$10 million of American Rescue Plan Act grant funding this fiscal year, in line with expectations. The mixed performance can be attributed to Airline activity falling slightly below projections, as Airlines continue to adjust their service levels post-pandemic and in preparation for upcoming summer travel; meanwhile the continual strong performance of Terminal Concessions revenue is a result of the Airport’s ongoing efforts in promoting new and existing food and retail options to passengers and strong advertising revenue performance. The Airport revenues will continue to be closely monitored through the remainder of the fiscal year.

OTHER FUNDS (CONT'D.)

Through April, 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 76.0% of the budget, compared to the Airport benchmark of 80.8%, while non-personal/equipment expenditures were 54.7% compared to the benchmark of 74.5%. Non-Personal/Equipment expenditures in the Customer Facility and Transportation Fee Fund were 60.0% compared to the straight-line benchmark of 83.3%. 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. SJCE's City Council approved rate package for calendar year 2023 included a shift to a new cost-of-service rate setting in place of setting rates at a fixed discount or premium to PG&E's standard generation rates, inclusive of PG&E added fees. For the first half of the fiscal year (July – December 2023), SJCE's 2023 rates for its standard GreenSource service were 1-3% below PG&E rates, inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge, depending on customer class and usage. Approved by City Council on February 6, 2024, SJCE's new calendar year 2024 rate package set GreenSource rates at 6.5-9.0% below current PG&E rates, inclusive of fees and depending on customer class and usage. Also on February 6, 2024, City Council approved an expansion of SJCE's SJ Cares discount program to customers who are residents of 16,854 affordable housing units. SJ Cares provides an additional 10% discount off GreenSource rates to income qualified customers. Energy content for SJCE's GreenSource standard service remains at 60% renewable energy and up to 95% carbon-free power while SJCE's TotalGreen product continues at 100% renewable and carbon-free power.

PG&E's PCIA fees are highly volatile and are a significant factor when setting SJCE rates each year. Lower PCIA fees combined with high market energy prices have created a favorable environment for SJCE since 2022, which is a marked improvement from 2021 when SJCE's financials projected a cash flow shortage for which the City Council approved a total Commercial Paper Notes authorization of up to \$95.0 million. SJCE drew a total of \$60.0 million of Commercial Paper notes in 2020-2021 and 2021-2022. As financial conditions for SJCE have improved over the past two years, the City Council lowered the total Commercial Paper authorization to \$75.0 million in June 2023; SJCE repaid the entire \$60.0 million in November 2023.

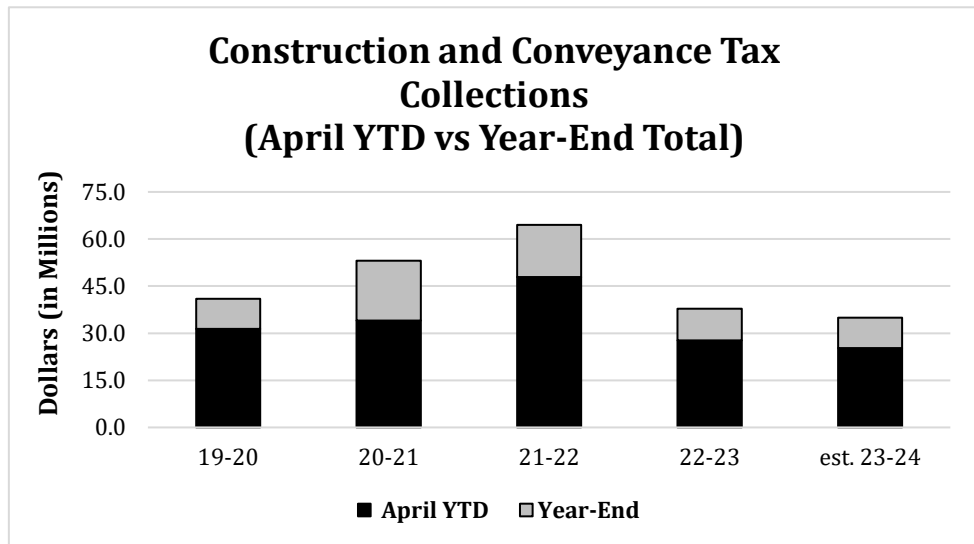
Through April, Energy Sales totaled \$430.7 million, 3.3% above prior year levels of \$417.1 million and 83.2% of the 2023-2024 Adopted Budget estimate of \$517.5 million. Cost of Energy expenditures including encumbrances totaled \$366.2 million, 1.9% above prior year levels of \$359.4 million and 86.9% of the Modified Budget. The Energy Department monitors energy procurement activities closely and estimates that Energy Sales will end the year at approximately \$535.1 million, or 3.4% above the budgeted estimate of \$517.5 million. Similarly, Cost of Energy is estimated to end the year below the Adopted Budget of \$421.5 million at \$397.2 million, or 5.8% below the current budget.

OTHER FUNDS (CONT'D.)

The Energy Department maintains an operating reserve that City Council approved as part of SJCE’s Financial Reserves Policy. The policy sets a goal to build and maintain at least 180 days of operating reserves to achieve financial resiliency and rate stability. The 2023-2024 Modified Budget estimates a combined operating reserve and unrestricted ending fund balance at \$218 million. Based on year-to-date activity and year-end projections, available fund balance is expected to moderately increase. Currently, the 180-day reserve goal is estimated at \$240 million; though due primarily to increasing energy costs, this threshold is expected to rise in 2024-2025.

Construction and Conveyance Tax Funds

Through April 2024, Construction and Conveyance (C&C) Tax receipts totaled \$25.3 million, which represents 72.2% of the 2023-2024 Modified Budget estimate of \$35.0 million. This amount is 8.9% below collections received through April 2023, which



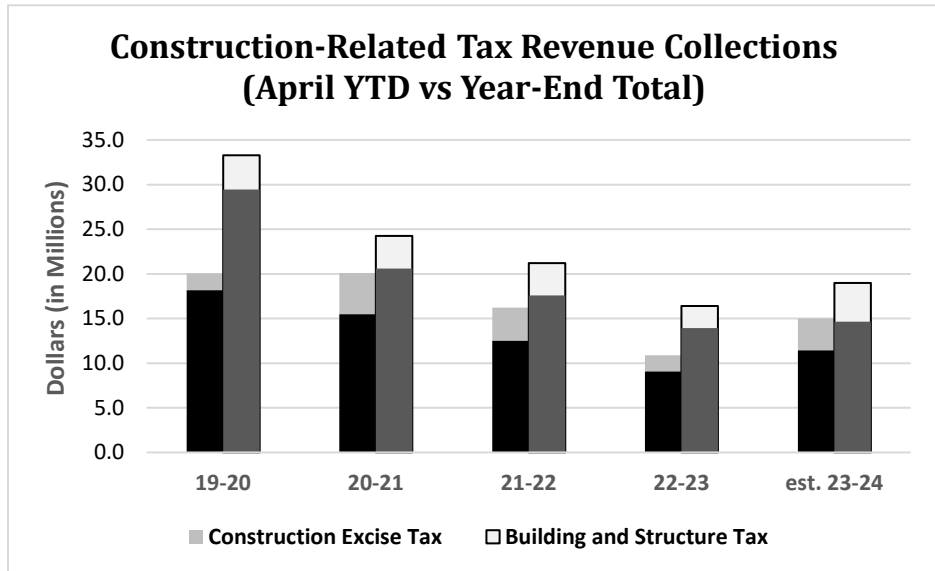
totalled \$27.8 million. However, the City has received the May Conveyance receipts from Santa Clara County, which total \$4.4 million, representing a 55.0% increase from May 2023 receipts. When taking into account total receipts through April and the estimated May collections, C&C receipts in 2023-2024 total \$29.7 million, which represents a 2.9% decline from the 2022-2023 collection level of \$30.6 million. The 2023-2024 Modified Budget estimate allows for collections to drop by 7.5% from the 2022-2023 collection level. As mentioned above, through May receipts have fallen by 2.9% which is due to strong activity levels in recent months. If C&C collections continue to perform positively for the remainder of the year, it is anticipated receipts will slightly exceed the modified budgeted 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, after many months of declining activity, beginning in January 2024, property sales began improving. 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 the 2023-2024 Annual Report, which will be released on September 30, 2024.

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 April, the Building and Structure Construction Tax is anticipated to end the year below the budgeted estimate; however, the Construction Excise Tax is anticipated to meet the budgeted estimate.

Through April, the Building and Structure Construction Tax collection level of \$14.6 million represents 77.1% of the budgeted estimate of \$19.0 million, and is 5.3% above receipts through April 2023 of \$13.9 million. Overall permit valuation through April is higher than the permit valuation for the same period last fiscal year as a result of higher residential and industrial permit activity. When the 2023-2024 Adopted Capital Budget was developed, it was anticipated that 2022-2023 Building and Structure Construction Tax receipts would total \$19.0 million, and remain flat in 2023-2024. However, since 2022-2023 receipts ended the year at \$16.4 million, the 2023-2024 budgeted estimate requires a 16.0% increase from the prior-year level. Based on collections through April, the Building and Structure Construction Tax Revenue is anticipated to end the year approximately \$2 million below the budgeted estimate.

Through April, the Construction Excise Tax collection level of \$11.4 million represents 76.1% of the budgeted estimate of \$15.0 million, and is 26.0% above receipts through April 2023 of \$9.1 million. The year-over-year increase is attributable to higher construction permit valuation for the residential land use category compared to the same period last fiscal year. When the 2023-2024 Adopted Capital Budget was developed it was anticipated 2022-2023 Construction Excise Tax receipts would total \$14.0 million, then increase by approximately 7.0% to \$15.0 million in 2023-2024. However, since 2022-2023 receipts ended the year at \$10.9 million, the 2023-2024 budgeted estimate requires a 37.8% increase from the prior-year collection level. Based on collections through April and preliminary information regarding May receipts which indicate growth, the Construction Excise Tax Revenue is anticipated to meet the budgeted estimate by year-end.

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, with the exception of the Public Works Development Fee Program, are anticipated to end the year below the budgeted estimates. Additional information about each of the Development Fee Program Funds is provided below.

The **Building Development Fee Program** issues building permits and oversees construction on private property. Through April 2024, Building Permit revenues of \$29.9 million are 2.5% below the prior-year collection level of \$30.7 million. The 2023-2024 Adopted Budget estimate of \$38.4 million allows for a 3.2% increase from the 2022-2023 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 approximately \$1.7 million below the budgeted revenue estimate.

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 April 2024, Citywide Planning Fee revenues of \$2.82 million are 2.0% below the prior-year collection level of \$2.88 million. The 2023-2024 Adopted Budget estimate of \$3.8 million anticipates a 10.0% increase from the 2022-2023 actual collection level of \$3.4 million. Based on current collection trends, Citywide Planning Fee revenues are anticipated to end the year approximately \$350,000 below the budgeted revenue estimate.

The **Fire Development Fee Program** provides operational and construction permits and inspections to ensure that development within San José meets the City's fire codes. Fire Development related fees and charges through April 2024 totaled \$7.4 million, which is 8.1% above the prior year collection level. The 2023-2024 Adopted Budget estimate of \$8.9 million requires growth of 9.2% from the 2022-2023 actual collection level of \$8.2 million. Based on collection trends through April, Fire Development Fee revenues are anticipated to end the year at approximately \$200,000 below the budgeted estimate.

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 April 2024, Planning Fee revenues of \$6.37 million are 0.3% below the prior-year collection level of \$6.39 million. The 2023-2024 Adopted Budget estimate of \$7.7 million anticipates an 8.9% increase from the 2022-2023 actual collection level of \$7.1 million. Based on current collection trends, Planning Fee revenues are anticipated to end the year approximately \$600,000 below the budgeted estimate.

OTHER FUNDS (CONT'D.)

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 April of \$13.2 million increased 6.1% from the prior-year level of \$12.5 million. The Public Works Development Fee Program total revenue collections are comprised of \$6.6 million from the Development Services Fee Program, \$6.5 million from the Utility Fee Program, and approximately \$135,000 of interest. The 2023-2024 Adopted Budget estimate of \$15.4 million allows for a 9.0% decrease from the 2022-2023 actual collection level of \$17.0 million. Based on activity through April, revenue collections in the Public Works Development Fee Program are projected to exceed the budgeted levels by \$1.5 million. As part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024, a recommendation is included to conservatively increase the Public Works Development Fee revenue estimate by \$1.5 million with an offsetting adjustment to the Public Works Department's Personal Services appropriation.

CONCLUSION

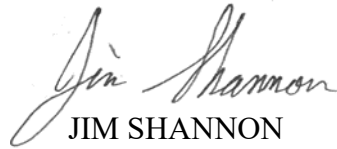
Although overall economic conditions remain positive, previous actions taken by the Federal Reserve Board to lower inflation have had the corresponding effect of cooling sectors of the economy. However, while high interest rates have contributed to a significantly softened real estate market and development activity, both sectors have made modest year-over-year gains.

Through April, a total of \$40 million is anticipated to be available in 2024-2025 from a combination of excess revenues and expenditure savings, including: \$13.5 million from the 2023-2024 Ending Fund Balance Reserve established with City Council's approval of the 2023-2024 Mid-Year Budget Review; \$5 million from excess revenue; \$21 million from expenditure savings; and \$500,000 from the liquidation of prior year carryover encumbrances. Of this amount, \$35 million was assumed as part of the 2025-2029 General Fund Forecast, with the remaining \$5 million being factored into the development of the 2024-2025 Proposed Budget.

Due to the slowing economy, several revenue sources such as the Real Property Transfer Tax and C&C Tax (which are driven by real estate transactions), and revenues from the Development Fee Programs are lower than prior year levels. Due to strong activity in the last few months, Real Property Transfer Tax and C&C Tax are anticipated to end the year within budgeted levels; unfortunately, all Development Fee Programs, with the exception of the Public Works Fee Program are anticipated to end the year below budgeted levels. Several other City funds are performing below anticipated levels and are anticipated to end the year below budgeted levels, including the Building and Structure Construction Tax and Transient Occupancy Tax collections. Conversely, although Airport passenger activity is slightly lower than prior year levels, revenues and expenditures are tracking within estimated levels. Finally, in the SJCE Fund, Energy Sales (revenue) are anticipated to end the year slightly above budgeted levels, and the Cost of Energy (expenditures) will end the year below the budgeted levels.

CONCLUSION (CONT'D.)

The Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum includes recommendations to adjust both the General Fund and various Special and Capital Funds to align the budget with current estimates to avoid any overages in individual appropriations and to recognize new revenues and associated expenditures and reserves. The final outcome of the 2023-2024 budget performance will be reported through the 2023-2024 Annual Report, scheduled to be released on September 30, 2024 and reviewed by the City Council in mid-October 2024.



JIM SHANNON
Budget Director

Attachment: Finance Department Monthly Financial Report