CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO:	PUBLIC SAFETY, FINANCE, AND STRATEGIC SUPPORT COMMITTEE	**FROM:**	Jim Shannon
SUBJECT:	**BI-MONTHLY FINANCIAL REPORT FOR MARCH/APRIL 2022**	**DATE:**	June 9, 2022

Approved | Date 6/9/2022

RECOMMENDATION

Accept the Bi-Monthly Financial Report on actual revenues and expenditures as compared to the 2021-2022 Budget for the ten months ending April 2022.

OVERVIEW

The Bi-Monthly Financial Report for March/April 2022 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 2021-2022 Modified Budget and the Finance Department has prepared a report that reflects the financial results for the ten months ending April 2022.

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 continues to closely monitor economic conditions and the performance in all City funds, and will bring forward adjustments, as appropriate, to the City Council as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum, which will be reviewed at the June 21, 2022 City Council meeting. Following are key highlights in this report:

- General Fund revenues are anticipated to exceed budgeted levels by $46 million. As further described in this report, this variance is due to several revenue categories performing stronger than anticipated. Budget adjustments are included in the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum to recognize a significant portion of the additional revenue to more closely align the budget with anticipated collections.

- Overall, General Fund expenditures are anticipated to end the year at least $3 million - $5 million below budgeted levels. This net savings accounts for necessary adjustments to address a very limited number of appropriations that are anticipated to exceed budgeted levels, which are included in the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum.

OVERVIEW (CONT'D.)

- The 2022-2023 Proposed Budget assumed at least $50 million of unrestricted 2021-2022 ending fund balance in the General Fund would be available as a source for the 2022-2023 Beginning Fund Balance. This included the 2021-2022 Ending Fund Balance Reserve ($12.0 million), the assumed liquidation of prior year carryover encumbrances ($500,000), and excess revenue/expenditure savings ($37.5 million). Of this amount, $25.0 million was assumed as part of the 2023-2027 General Fund Forecast. Additional revenue, expenditure savings, and the liquidation of carryover encumbrances is projected to be realized by year-end to fully meet the $50.0 million assumed in the 2022-2023 budget.

- As a result of the strong local real estate market, Construction and Conveyance Tax revenue and Real Property Transfer Tax revenue are continuing to perform strongly. Budget adjustments for both of these revenue collections were included in the 2021-2022 Mid-Year Budget Review, which was approved by the City Council on February 15, 2022. Both revenue categories are anticipated to end the year at or above the Modified Budget estimates.

- Building and Structure Construction Tax and Construction Excise Tax collections are experiencing year-over-year declines from the extraordinarily high levels experienced at the beginning of last year. These revenue sources, which are dependent on construction activity, are anticipated to end the year below budgeted levels. The lower revenue collections were incorporated into the 2023-2027 Proposed Capital Improvement Program that was released on April 29, 2022.

- Revenues from the Development Fee Programs, with the exception of the Fire Development Fee Program, are anticipated to end the year at or above budgeted levels. The Fire Development Fee Program may fall below the budgeted revenue estimate due to lower than anticipated activity levels. In comparison to the other programs, Accessory Dwelling Unit (ADU) permits, which have significantly increased in comparison to previous years and drive activity within other programs, typically do not require a significant level of fire-related inspections. However, the ongoing impacts from the pandemic can abruptly affect these revenue collections, therefore, activity levels will continue to be closely monitored.

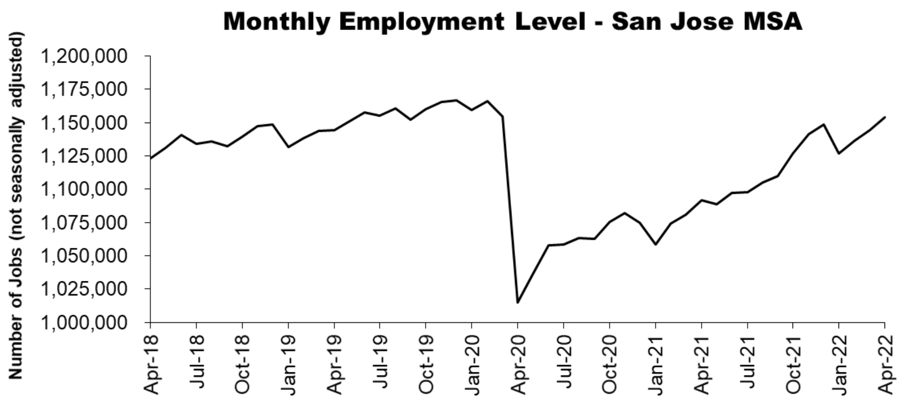
- The Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned close to 7.7 million passengers through April, an increase of 168.4% from the figures reported through April of the prior year. This year-over-year increase is due to the ongoing recovery of passenger traffic, which was significantly impacted as a result of the pandemic.

- With the recent City Council-approved rate increase in January 2022 and as the lower cost long-term agreements of new renewable energy developments come online, the fiscal outlook of San José Clean Energy (SJCE) has significantly improved since the beginning of the fiscal year.

OVERVIEW (CONT'D.)

Economic Environment

The City of San José has steadily rebounded since the initial onset of the COVID-19 pandemic, growth that accelerated with the arrival and widespread use of effective vaccines. In spite of this growth, the broader economic environment is still recovering and, in some areas, not yet back to pre-pandemic levels.



California's employment was significantly impacted when health orders in response to the pandemic severely curtailed economic activity. As can be seen from the chart, after the immediate employment drop in April 2020, employment levels have progressively grown, with a small decline at the end of 2020 when COVID-19 cases re-surged. Between April 2021 and April 2022, employment in the San José MSA increased by 62,400 jobs, or 5.7%. This increase includes leisure and hospitality jobs increasing by 24,500 jobs; professional and business services expanding by 12,600 jobs; private educational and health services jobs growing by 6,500; and the manufacturing sector increasing by 5,500 jobs.[1]

Prior to the COVID-19 pandemic, the unemployment rate for the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) had not exceeded 3.0% since August 2017. Further, between September 2017 and February 2020, the average local unemployment rate was 2.6%, which is considered full employment. However, as can be seen on the chart below, once the shelter-in-place mandate began, unemployment rates began to immediately rise, with the local rate hitting a high of 12.4% in April 2020.

Unemployment Rate (Unadjusted)

	Feb. 2020	April 2020	April 2021	April 2022**
San Jose Metropolitan Statistical Area*	2.6%	12.4%	5.5%	2.2%
State of California	4.3%	16.0%	8.3%	3.8%
United States	3.8%	14.4%	5.7%	3.3%

* San Benito and Santa Clara Counties Source: California Employment Development Department.
** April 2022 estimates are preliminary and may be updated.

After topping over 12% near the beginning of the pandemic in April 2020, the local unemployment rate has significantly dropped, and as of

[1] State of California Employment Development: Labor Market Information Division Press Release, May 20, 2022

OVERVIEW (CONT'D.)

April 2022, the unemployment rate is lower than pre-pandemic levels. In April 2022, the local unemployment rate was 2.2%, which is lower than the April 2021 rate (5.5%) and the pre-pandemic level of 2.6%. Additionally, in this region, the April 2022 unemployment rate continues to be lower than the unadjusted unemployment rate for the State (3.8%) and the nation (3.3%).

Overall construction activity through April 2022 decreased 20.7% from prior-year levels primarily due to activity for commercial and industrial land use categories experiencing significant year-over-year declines from the prior year, especially for commercial activity. The 2021-2022 Adopted Budget was developed with the expectation that development activity would decrease from the high levels experienced in 2020-2021 but would remain relatively strong. Construction activity is moderately outperforming the 2021-2022 activity projected by the Planning, Building and Code Enforcement Department in the 2023-2027 Five-Year Forecast, which was released in February 2022.

Through April, residential permit valuation has increased 17.2% from prior-year levels ($328.5 million in 2021-2022 from $280.4 million in 2020-2021). Residential activity through April included 1,255 multi-family units and 515 units of single-family construction for a total of 1,770 units. Major projects for March and April include a permit for an eight-story multi-family residence with 783 units next to the Bascom Avenue light rail station.

Private Sector Construction Activity (Valuation in $ Million)

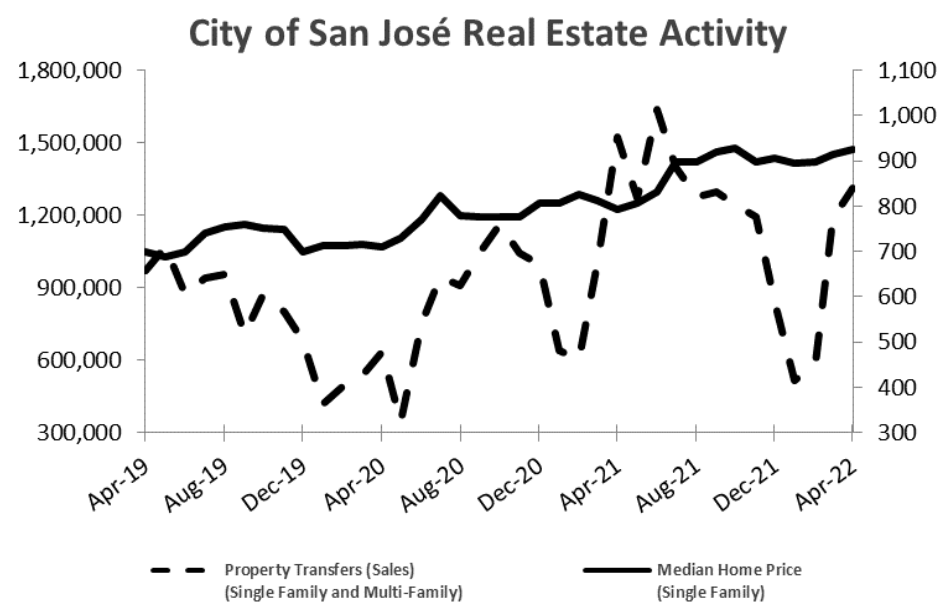
	April 2021 (YTD)	April 2022 (YTD)	% Change
Residential	$280.4	$328.5	17.2%
Commercial	$1,026.7	$719.4	(29.9%)
Industrial	$357.9	$271.7	(24.1%)
TOTAL	**$1,665.0**	**$1,319.6**	**(20.7%)**

Commercial valuation through April 2022 was 29.9% lower than the 2020-2021 level ($719.4 million in 2021-2022 from $1,026.7 million in 2020-2021). Commercial activity in March was the highest all year ($249.8 million), with April dropping to more modest activity levels ($42.4 million). Additions/alterations accounted for 60% of the commercial activity for the two months ($176.0 million). Notable projects for March and April include permits for a 200,000 square foot office building next to the Bascom Avenue light rail station and for a finished interior for an 8,000 square foot building office located on Industrial Avenue north of the Highway 880 and Highway 101 interchange.

Industrial construction valuation through April was 24.1% lower than prior-year levels, with receipts totaling $271.7 million in 2021-2022 and $357.9 million in 2020-2021. A spike in permit valuations in August has propped up the valuation level thru April of this fiscal year. Alterations accounted for all of the activity in March and April.

OVERVIEW (CONT'D.)

The local real estate market has continued to perform strongly; recording record high median single home prices, very strong sales activity, and properties are selling quickly. According to data from the Santa Clara County Association of Realtors, the number of property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranging from -10% to -54% between the beginning of the shelter-in-place in March 2020 through June 2020. However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains.



As of April 2022, the record-setting median single-family home price totaled $1.75 million, which is 23.2% above the April 2021 price of $1.4 million. Additionally, it is taking less time to sell these more expensive houses. The average days-on-market through April 2022 totaled 14 days, which is significantly below the average of 25 days experienced year-to-date through April 2021. However, while still performing well, property transfers have begun to experience year-over-year declines. Property sales for the first five months of the fiscal year grew over 20% compared to the prior-year sales. However, beginning in December 2021, sales activity has declined an average of 5.0% compared to the prior year. Additionally, April 2022 sales were 12.0% below April 2021 levels.

On a national level, in April, consumer confidence fell slightly, after an increase in March. Lynn Franco, Senior Director of Economic Indicators at The Conference Board, stated "Consumer confidence fell slightly in April, after a modest increase in March. The Present Situation Index (consumers' assessment of current business and labor market conditions) declined, but remains quite high, suggesting the economy continued to expand in early Q2. Expectations (consumers' short-term outlook for income, business, and labor market conditions), while still weak, did not deteriorate further amid high prices, especially at the gas pump, and the war in Ukraine. Vacation intentions cooled but intentions to buy big-ticket items like automobiles and many appliances rose somewhat. Still, purchasing intentions are down overall from recent levels as interest rates have begun rising. Meanwhile, concerns about inflation retreated from an all-time high in March but

GENERAL FUND

remain elevated. Looking ahead, inflation and the war in Ukraine will continue to pose downside risks to confidence and may further curb consumer spending this year."[2] As suggested by a number of economic indicators, the local economy is continuing to experience growth in most sectors. These economic conditions were taken into consideration in the development of the 2022-2023 Proposed Budget, which was released on May 4, 2022.

REVENUES

General Fund revenues through April 2022 totaled $1.27 billion, which represents an increase of $217.8 million from the April 2021 level of $1.05 billion. This increase is primarily attributable to higher Tax and Revenue Anticipation Notes (TRANs) receipts, which facilitate the pre-payment of a portion of the City's retirement contributions. TRANs receipts increased by $155.0 million, from $130.0 million in 2020-2021 to $285.0 million in 2021-2022. The higher level of TRANs receipts is due to the City also including in the prefunding other pensionable employer-paid benefits (OPEB) and increasing the amount borrowed to take advantage of the low interest rate environment. In addition, several other categories are experiencing increases compared to prior-year levels, the largest of which include Transfers and Reimbursements ($53.1 million), which includes the $53.8 million transfer from the American Rescue Plan Fund, Real Property Transfer Tax ($53.3 million), Sales Tax ($53.3 million), Business Tax ($14.6 million), and Fees, Rates, and Charges ($10.8 million). However, while many revenues are performing stronger than the prior year, there are several categories experiencing declines that are primarily attributable to the timing of payment, including, Property Tax (-$88.1 million), Franchise Fees (-$8.6 million), Utility Tax (-$2.4 million), and Revenue from the State of California (-$6.3 million).

General Fund revenues are anticipated to exceed budgeted levels by $46 million, due to several revenue categories performing stronger than anticipated, including Sales Tax, Property Tax, Utility Tax, Fines, Forfeitures and Penalties, Business Taxes, Franchise Fees, and Revenue from the State of California. Budget adjustments are included in the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum to recognize a significant portion of the additional revenue to more closely align the budget with anticipated collections.

The 2022-2023 Proposed Budget assumed at least $50 million of unrestricted 2021-2022 ending fund balance in the General Fund would be available as a source for the 2022-2023 Beginning Fund Balance. This included the 2021-2022 Ending Fund Balance Reserve ($12.0 million), the assumed liquidation of prior year carryover encumbrances ($500,000), and excess revenue/expenditure savings ($37.5 million). Of this amount, $25.0 million was assumed as part of the 2023-2027 General Fund Forecast. Additional revenue, expenditure savings, and the liquidation of carryover encumbrances are projected to be realized by year-end to fully meet the $50.0 million assumed in the 2022-2023 budget.

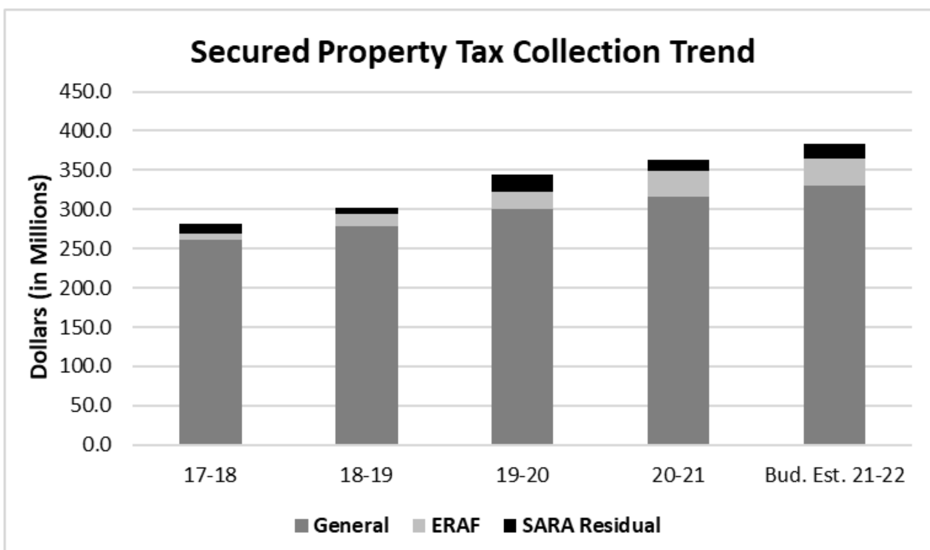
[2] The Conference Board, Consumer Confidence Survey, April 26, 2022

GENERAL FUND (CONT'D.)

KEY GENERAL FUND REVENUES

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	**$ 406,500,000**	**$ 226,348,608**	**$ 314,459,843**

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 by Santa Clara County, Property Tax receipts in 2021-2022 are estimated at $412.1 million, which reflects overall growth of 5.4% from the 2020-2021 collection level of $390.9 million. This increase is primarily due to higher Secured Property Tax receipts (6.9%), partially offset by lower SB 813 (-30.0%) and Unsecured (-7.9%) Property Tax revenues. Additional information about each of the Property Tax sub-categories is provided on the following pages.



Secured Property Taxes represent over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax, and Educational Revenue Augmentation Fund (ERAF) revenues. Based on the most recent information provided by Santa Clara County, Secured Property receipts are anticipated to total $387.6 million in 2021-2022. The revised estimate is comprised of General Secured Property Tax receipts of $330.6 million, excess ERAF funds of $38.9 million, and SARA Residual Property Tax receipts of $18.1 million. The revised Secured Property receipts estimate is $14.7 million higher than the Adopted Budget estimate; however, a significant portion of the additional revenue ($11.0 million) was anticipated and allocated in the 2021-2022 Mid-Year Budget Review that was approved by the City Council on February 15, 2022. The remaining additional Secured Property Tax receipts, generated primarily from excess ERAF funds, may be brought forward as a separate budget adjustment as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022.

GENERAL FUND (CONT'D.)

As mentioned above, the general Secured Property Tax estimate totals $330.6 million in 2021-2022, which assumes growth of approximately 4.7% from the 2020-2021 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 1% and increased valuation due to changes in ownership or new construction of 3.7%. 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.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. In 2021-2022, receipts are estimated at $18.1 million, which reflects an increase of $4.5 million from the 2020-2021 collection level but is $800,000 below the 2021-2022 Adopted Budget estimate of $18.9 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. The 2021-2022 budget estimate was built on the assumption that 2020-2021 collections would total $23.6 million, then grow to $28.0 million in 2021-2022. However, due to unanticipated additional revenue received at the end of 2020-2021, receipts actually ended the year at $33.2 million. Based on the most recent information provided by Santa Clara County, revised ERAF receipts of $38.9 million are anticipated to be received, which is $10.9 million above the Adopted Budget estimate. A significant portion of this excess revenue ($7.0 million) was anticipated and allocated in the 2021-2022 Mid-Year Budget Review, which was approved by the City Council on February 15, 2022. The remaining additional receipts may be brought forward as a separate budget adjustment as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022.

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. The 2021-2022 Modified Budget estimate of $14.5 million allows for a drop of approximately 10% from the 2020-2021 collection level of $15.8 million. It is currently anticipated that Unsecured Property Tax receipts will end the year within the budgeted level.

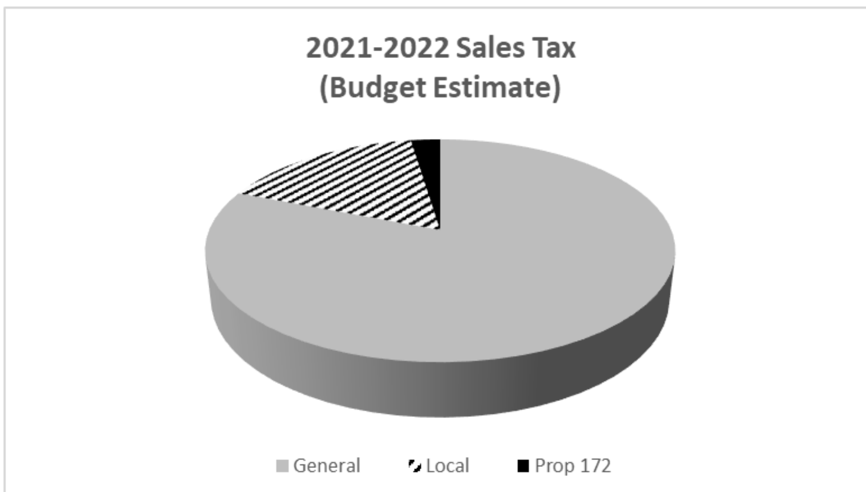
The **SB 813 Property Tax** category represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Santa Clara County Assessor formally revalues the property. Based on the most recent information provided by Santa Clara County, receipts are anticipated at $5.9 million, which is $1.8 million above the 2021-2022 Modified Budget estimate of $4.1 million. The additional receipts may be brought forward as a separate budget adjustment as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022.

GENERAL FUND (CONT'D.)

Aircraft Property Tax receipts are typically received in October of each year. The 2021-2022 Adopted Budget estimate of $3.1 million is consistent with the 2020-2021 receipts but is slightly above the $3.0 million estimate from the County of Santa Clara.

In the **Homeowners Property Tax Relief** category, revenues in 2021-2022 are expected to be at the budgeted estimate of $900,000, which is consistent with the 2020-2021 collection level.

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
Sales Tax	**$ 300,200,000**	**$ 214,536,307**	**$ 189,582,735**



The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. The 2021-2022 Modified Budget estimate totals $300.2 million, which is 5.7% above the 2020-2021 receipts of $284.0 million. Based on the stronger than anticipated performance for the first three quarters of 2021-2022, Sales Tax revenue is anticipated to exceed the Modified Budget by approximately $23 million and end the year at $323.5 million. A budget adjustment to increase Sales Tax by $23.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022.

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 2022 (which reflects three-quarters of Sales Tax activity; from July 2021 through March 2022), it is anticipated that 2021-2022 Sales Tax revenue will total $323.5 million. This robust growth parallels the strong economic growth being experienced locally and nationally. In addition, the pandemic has resulted in many people shifting their spending habits to purchasing goods (which are taxable) versus spending money on services (which are not taxable). This shift of consumers spending habits, along with higher levels of sustained inflation, have also positively impacted Sales Tax collections. Additional information about each of the Sales Tax sub-categories is provided below.

GENERAL FUND (CONT'D.)

General Sales Tax is the largest driver of the Sales Tax category and accounts for over 80% of all Sales Tax receipts. The 2021-2022 General Sales Tax estimate was built on the assumption that 2020-2021 receipts would total $219.0 million and grow to $228.0 million in 2021-2022. This estimate assumed underlying growth of 7%, though after adjusting for lower growth of internet-related sales as people shift some online spending to general retail shopping, the overall growth rate was set at approximately 4%. However, as mentioned above, General Sales Tax receipts for the first quarter (sales tax activity for July-September), second quarter (sales tax activity for October-December), and third quarter (sales tax activity for January-March) were received and continue to reflect strong growth. Based on the revenue received for the first three quarters, plus anticipated growth of 15% in the fourth quarter, General Sales Tax collections are anticipated to total $261.0 million in 2021-2022, which is $18.0 million above the 2021-2022 Modified Budget estimate and reflects an increase of 13% from the 2020-2021 collection level. A budget adjustment to increase the General Sales Tax by $18.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022. In addition, the final General Sales Tax payment is anticipated to be received in August 2022. A complete reconciliation of Sales Tax will be included in the 2020-2021 Annual Report, which will be released on September 30, 2022

The City's Sales Tax consultant, Avenu Insights & Analytics, has provided performance data for General Sales Tax revenue, as displayed on the chart below. This analysis measures the first and second quarter General Sales Tax receipts for 2020-2021 and 2021-2022, excluding Sales Tax associated with the Revenue Capture Agreement. Information related to the third quarter payment is not yet available.

General Sales Tax Revenue Economic Performance
First and Second Quarter Payment

Category	2021-2022 % of Total Revenue	2020-2021 % of Total Revenue	% Change of Revenue Received by Category
General Retail	19.7%	17.9%	29.4%
Transportation	18.0%	16.6%	27.1%
Business-to-Business	15.4%	15.6%	15.8%
Food Products	13.1%	11.8%	30.1%
Construction	9.5%	10.8%	3.7%
Miscellaneous	0.8%	0.8%	14.5%
County Pool	23.5%	26.5%	3.5%
Total	**100.0%**	**100.0%**	

As can be seen in the table above, all categories have experienced year-over-year growth, the largest of which include Food Products, General Retail (apparel stores, department stores, furniture/appliance stores, drug stores, recreation products, and florists/nurseries), Transportation, and Business-to-Business.

GENERAL FUND (CONT'D.)

In addition, the County Pool, which is where the majority of online transactions are captured, has continued to grow. This growth is attributable to the pandemic's sustained impact of redirecting a significant amount of activity to online sales. The recent growth in County Pool receipts has been fueled by online purchases during the pandemic and is facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 40% - 50% of the total County Pool. In 2021-2022, it is anticipated the County Pool receipts will continue to remain strong, though may taper off in the second half of the year from the extremely high levels experienced in 2020-2021 as consumers slightly shift online spending to general retail stores.

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 40% - 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.

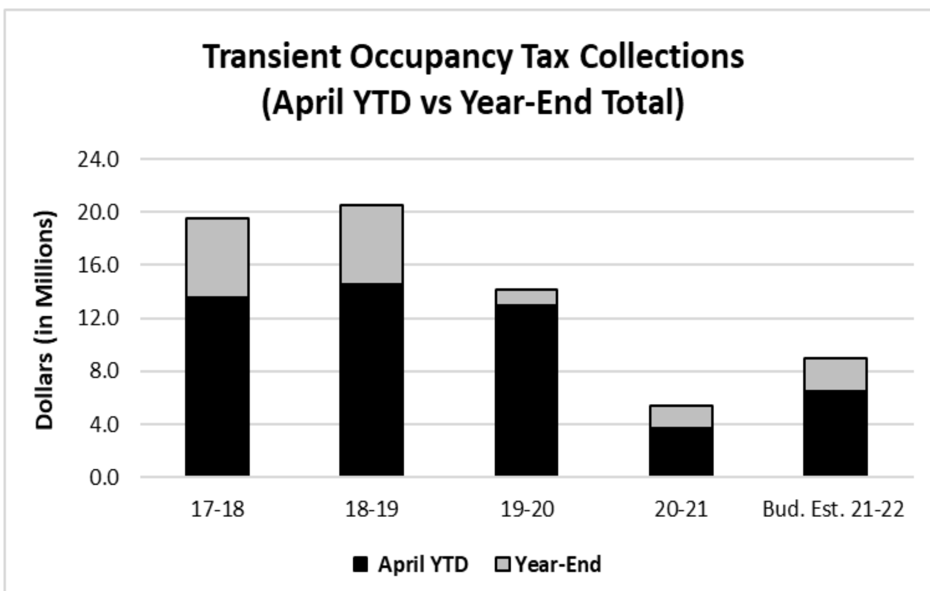
Similar to General Sales Tax, Local Sales Tax receipts for the first three quarters (sales tax activity for July-March) were received and continue to reflect strong growth. Based on the revenue received for these quarters, plus anticipated growth of 10% in the fourth quarter, Local Sales Tax collections are anticipated to total $54.0 million in 2021-2022, which is $4.0 million above the Modified Budgeted estimate and reflects an increase of 15% from the 2020-2021 collection level. A budget adjustment to increase the Local Sales Tax by $4.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022. The final Local Sales Tax payment is anticipated to be received in August 2022. A complete reconciliation of Sales Tax will be included in the 2021-2022 Annual Report, which will be released on September 30, 2022

Proposition 172 Sales Tax collections represent the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Based on current year collection levels and historical collection patterns, receipts are anticipated to end the year at $8.5 million, which is approximately $1 million over the 2021-2022 Modified Budget Estimate and 20% above the 2020-2021 actual collection level. A budget adjustment to increase the Proposition 172 Sales Tax by $1.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022.

GENERAL FUND (CONT'D.)

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	**$ 9,000,000**	**$ 6,468,033**	**$ 3,659,666**

The 2021-2022 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) of $9.0 million, which was decreased from $10.0 million as part of the 2021-2022 Mid-Year Budget Review, assumes a 64% increase from the 2020-2021 estimated collection level of $5.5 million. However, actual 2020-2021 receipts were slightly below ($91,000) the revised estimate, which was also lowered to account for the continued impact of COVID-19 pandemic on the hospitality industry and associated revenue losses. Relative to this actual performance for 2020-2021, the current budget estimate represents an increase of 66%. Year-to-date TOT receipts through April 2022 of $6.5 million are 76.7% higher than the prior-year collection level of $3.7 million, continuing to signal a sustained, gradual resumption of demand for hotel rooms following the unprecedented impacts of COVID-19.



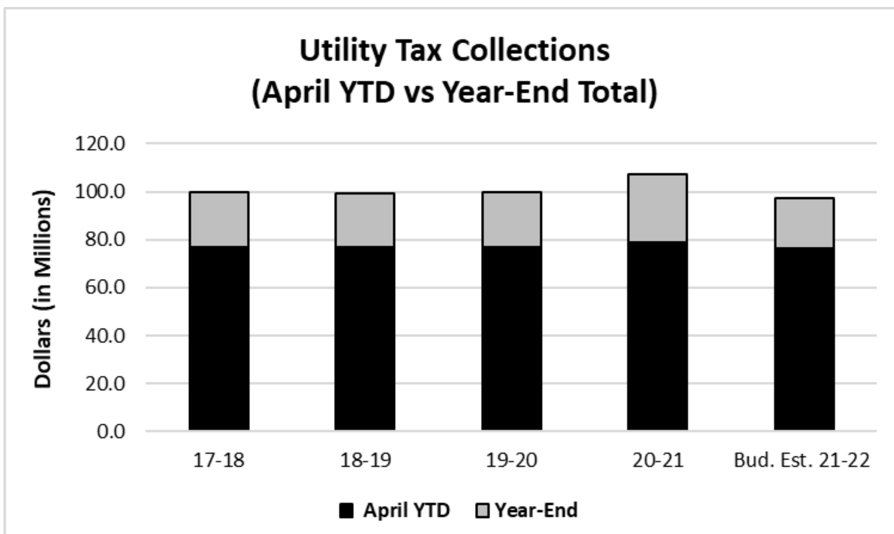
Overall, the average room rate across the City's reporting hotels decreased by $78.81 (from $181.72 to $102.91) in 2020-2021 relative to 2019-2020, with average occupancy decreasing 18.4% (from 57.56% to 39.15%). Occupancy levels hovered between 30.2% and 42.5% from July 2020 to March 2021, with room rates ranging between $95.29 and $105.11. However, room demand and revenues began to exhibit incremental gains over the final quarter of 2020-2021, closing at an occupancy rate of 52.31% and room rate of $112.37 for June 2021. This incremental rebound has continued into 2021-2022, except for a temporary decline in December and January coinciding with a surge in COVID-19 infection rates. Occupancy, room rate, and revenue per available room (RevPAR) reached 64.78%, $140.87, and $87.03 respectively in April 2022 – the highest performance levels to date since April 2020. However, cumulative averages as of May 2022 – occupancy rate (55.90%), room rate ($123.91), and RevPAR ($69.27) – are still well below pre-pandemic levels, most notably for RevPAR ($141.96 as of December 2020).

GENERAL FUND (CONT'D.)

Given the recent upward trend and positive, preliminary indicators for activity for May 2022, Transient Occupancy Tax revenues are anticipated to meet the revised budget estimate, provided COVID-19 infection rates stabilize or decline. However, COVID-19 continues to present considerable uncertainty for this already volatile revenue source. The Administration is partnering closely with Team San Jose (the City's operator of convention and cultural facilities, as well as the Convention and Visitors Bureau) to actively monitor hotel and revenue performance.

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	**$ 97,060,000**	**$ 76,486,819**	**$ 78,892,255**

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 of $76.5 million are $2.4 million, or 3.0%, lower than the prior-year level. The year-over-year decrease is primarily due to lower Electricity, Water, and Telephone Utility Tax receipts. The decrease in Electricity and Water Utility Tax receipts is attributable to a payment processing timing issue, and the lower Telephone Utility Tax collections are due to decreased activity. The 2021-2022 Adopted Budget was built on the assumption that 2020-2021 Utility Tax revenue would end the year at $100.2 million and then decline approximately 3% to $97.1 million in 2021-2022. However, since 2020-2021 ended the year at $107.0 million, receipts can drop by over 9% in 2021-2022 to meet the budgeted estimate. Based on historical collection trends and performance through April, it is anticipated overall Utility Taxes will exceed the budgeted levels by approximately $3.0 million by year-end. A budget adjustment will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to align the Utility Tax revenue with the anticipated collection level.



In the **Electricity Utility Tax** category, collections through April totaled $39.5 million, which is approximately 1% below the prior-year level, which is due to a payment processing timing issue. The 2021-2022 Adopted Budget assumed that 2020-2021 receipts would total $51.1 million, then

GENERAL FUND (CONT'D.)

decline approximately 5% to $48.5 million in 2021-2022. However, since 2020-2021 ended the year above estimated levels, receipts can decline by approximately 10% in 2021-2022 and meet the budgeted estimate. Based on performance through April and historical collection patterns, receipts are anticipated to exceed the budgeted estimate by $3.5 million by year-end. A budget adjustment will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to align the Electricity Utility Tax revenue with the anticipated collection level.

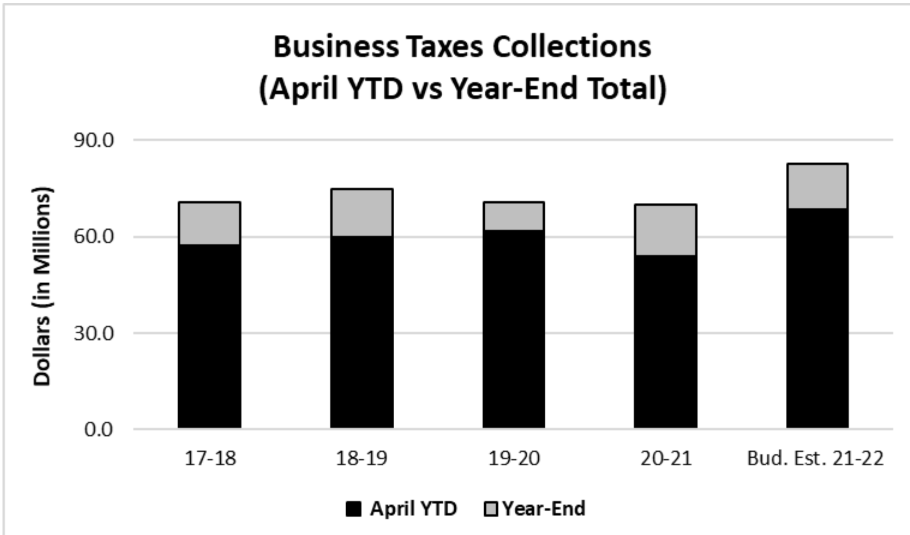
In the **Gas Utility Tax** category, collections through April totaled $10.9 million, which is 9% above the prior-year level. The 2021-2022 Adopted Budget estimate of $11.7 million allows for an approximate 10% drop from the prior-year collection level of $12.9 million. Based on performance through April and historical collection patterns, receipts are anticipated to exceed the budgeted estimate by $1.3 million by year-end. A budget adjustment will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to align the Gas Utility Tax revenue with the anticipated collection level.

Water Utility Tax collections of $12.1 million through April are 8% below the prior-year level of $13.1 million due to a payment processing timing issue and decreased activity. The 2021-2022 Adopted Budget allows for an approximate 8% drop from prior-year collection level of $19.1 million. Based on performance through April and historical collection patterns, receipts are anticipated to end the year approximately $1.6 million below the budgeted estimate. A budget adjustment will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to align the Water Utility Tax revenue with the anticipated collection level.

Collections in the **Telephone Utility Tax** category of $14.0 million through April are 11% below the prior-year collections of $15.7 million. The 2021-2022 Adopted Budget estimate of $19.3 million allows for a 10% drop from the 2020-2021 actual collection level of $21.3 million. The anticipated decline in this revenue category is the result of wireless consumers shifting to less expensive prepaid wireless plans, competition with cellular companies that keep prices down, and the shifting of wireless communications to increase reliance on data plans, which are not taxable. Based on performance through April and historical collection patterns, receipts in this category are anticipated to end the year approximately $200,000 below the budgeted estimate. A budget adjustment will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to align the Telephone Utility Tax revenue with the anticipated collection level.

GENERAL FUND (CONT'D.)

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
Business Taxes	**$ 82,500,000**	**$ 68,359,670**	**$ 53,764,930**



The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through April, overall collections of $68.4 million are 27.1% above the prior-year collection levels of $53.8 million, primarily reflecting higher Cardroom Business Tax collections. The 2021-2022 Adopted Budget estimate of $74.5 million requires growth of over 6% from the 2020-2021 actual collection level. Based on overall Business Taxes performance through April and historical collection patterns, it is anticipated that receipts will exceed the budgeted level by $1 million by year end. A budget adjustment will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to align the Business Taxes revenue with the anticipated collection level.

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 $13.3 million are 1.5% below the prior-year level of $13.5 million. The 2021-2022 Modified Budget estimate allows for a 1% drop from the 2020-2021 collection level of $19.2 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.

GENERAL FUND (CONT'D.)

Through April, **Cardroom Tax** receipts totaling $20.0 million have been received, while only $5.3 million had been received in the prior year due to the cardrooms not being operational for part of last fiscal year. As a result of the shelter-in-place mandate, cardrooms suspended operations from March 2020 to August 2020, then again from November 2020 to January 2021 due to health orders by the County of Santa Clara and/or the State of California. Since late January 2021, cardrooms have once again been operational, under modified restrictions. In 2020-2021, Cardroom Tax collections totaled $11.1 million; in 2021-2022 receipts are anticipated to grow to approximately $27 million, which is inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021.

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 $9.3 million, which is 11.2% below the prior-year collection level of $10.5 million. The 2021-2022 Modified Budget estimate allows for a 10.8% drop from the 2020-2021 collection level of $13.8 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 $25.7 million are 5.1% above the prior-year collection level. The 2021-2022 Adopted Budget estimate was built on the assumption that 2020-2021 receipts would total $25.7 million and remain flat in 2021-2022. The 2021-2022 estimate reflects a moderate annual inflation rate change of 1.6%, offset by reduced activity levels. However, due to stronger than anticipated performance at the end of the fiscal year, receipts ended 2020-2021 the year at $26.5 million. Therefore, 2021-2022 collections may fall by 3.0% and meet the budgeted estimate. On September 28, 2021, the City Council approved the Temporary Extension of Business Tax Financial Hardship Exemptions memorandum, which extended (through June 30, 2022) the eligibility for the existing financial hardship exemptions for low-revenue generating small businesses and small business owners with limited household incomes to include all persons engaged in business in the City who satisfy certain financial hardship requirements. Based on revenue received through April, it is anticipated that receipts in this category will exceed the budgeted estimate by approximately $1 million by year-end. A budget adjustment will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to align the General Business Tax revenue with the anticipated collection level.

GENERAL FUND (CONT'D.)

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
Real Property Transfer Tax	**$ 90,000,000**	**$ 86,010,582**	**$ 32,692,006**

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 2022, Real Property Transfer Tax collections total $86.0 million, which is significantly higher than the prior-year level of $32.7 million. In addition, the City has received the May tax receipts from Santa Clara County, which total $6.7 million. When taking into account total receipts through April and the May remittance, total Real Property Transfer Tax receipts in 2021-2022 total $92.7 million. The significant 2021-2022 collection level is due to several factors. First, due to the timing of when the payment from Santa Clara County was processed for June collections, funding of $9.7 million is reflected in 2021-2022 but is attributable to 2020-2021 activity. In addition, 11 high-value property transfers occurred between July 2021 and March 2022, totaling $34.7 million. Combined, the revenue due to the prior-year activity ($9.7 million) and the 11 high-value transfers ($34.7 million) attributed over $44 million of the total $86 million collections received so far in 2021-2022. The Real Property Transfer Tax collections began in 2020, therefore limited historical collection information is known. In addition, receipts are significantly influenced by large property transfers, which are difficult to estimate. It is currently anticipated that Real Property Transfer Tax collections will end the year approximately $20 million above the budgeted estimate. The additional receipts and offsetting adjustments for City Council-approved expenditures for homelessness will be brought forward as a separate budget adjustment as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022.

EXPENDITURES

Through April, General Fund expenditures (without encumbrances) of $1.13 billion million were 0.7% above the prior-year level of $1.12 billion. Encumbrances of $83.0 million were 0.6% below the prior-year level of $83.6 million. General Fund expenditures and encumbrances through April of $1.21 billion constitute 57.9% of the total budget including reserves and 68.9% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year approximately $3 - $5 million below the budgeted levels, primarily as the result of position vacancy savings throughout the organization ($10 million) and capital project and City-Wide expenses savings ($5 - $6 million) that are offset by higher than budgeted expenditures related to the Police and Fire Departments ($8.5 million), Workers' Compensation Claims ($3.3 million) and other miscellaneous anticipated overages that will be addressed as part of the Approval of Various

GENERAL FUND (CONT'D.)

Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022Through April, departments are overall performing within estimated levels for personal services expenditures, with exception of the Police Department and Fire Department. In addition, the Public Works Department may over-expend their Non-Personal/Equipment appropriation but may be able to shift personal services savings to offset these costs. Actions will be included in the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to adjust funding levels for the Police Department, Fire Department, Public Works Department, as well as other adjustments to ensure expenditure appropriations end the year within budgeted levels. Following is a discussion of the performance of the Police and Fire Departments, the largest General Fund departments.

KEY GENERAL FUND EXPENDITURES

Department	2021-2022 Budget	YTD Actual	Prior YTD Actual
Police	**$ 488,198,553**	**$ 390,739,027**	**$ 371,796,653**

Overall, Police Department expenditures are tracking slightly above estimated levels through April. Personal services expenditures of $362.2 million are slightly above the anticipated level for this point of the year (79.98% expended, compared to the par level of 79.45%), with overtime expenditures of $35.7 million having exceeded the budget for this fiscal year (152.7% of the total $23.4 million budget). Although overtime expenditures have exceeded budgeted levels, average monthly usage of $3.6 million for the ten-month period (July 2021 – April 2022) is below the recent monthly average of $3.9 million for comparable periods in 2019-2020 and 2020-2021. This year-over-year decrease also includes the overtime that was required to backfill for the temporary absences related to COVID-19, which surged in December through February and still continue, though at lower levels. This reduction is partly attributable to the implementation of additional approvals and other controls to actively manage overtime use. However, the Department is still on pace to exceed its overall Personal Services budget of $452.9 million by approximately $3.0 - $4.0 million (0.7% - 0.9%), as projected vacancy savings are insufficient to fully offset the additional overtime expenditures. Actions will be brought forward as part of the forthcoming memorandum (Approval of Various Budget Actions for Fiscal Year 2021-2022) to adjust the Personal Services budget and to realign funding between salaries and overtime to rebalance allocations.

A total of $28.5 million (80.8%) of the Department's Non-Personal/Equipment budget ($35.3 million, including carry-over encumbrances) has been expended or encumbered through April. Excluding the remaining balances for centrally-determined details ($4.4 million), which include utilities (electricity, gas, and water), vehicle operations and maintenance, and vehicle replacement, the Police Department has approximately $2.3 million, or 6.6%, of its total Non-Personal/Equipment budget available for the remainder of the fiscal year. Adjusting for the $4.3 million encumbered as of April 2022, and anticipating the capacity needed to rebudget funds for the purchase of replacement vehicles that will not occur until 2022-2023, Non-Personal/Equipment

GENERAL FUND (CONT'D.)

expenditures are tracking high and are anticipated to exceed budgeted levels in specific areas, notably for higher than anticipated vehicle operations and maintenance charges ($1.2 million) and for FirstNet cellular data and equipment needs ($630,000). As discussed in the Vehicle Maintenance and Operations Fund section of this report, unforeseen and sustained high prices for fuel and parts have contributed to significant increased costs for vehicle operations and maintenance. Higher overall utility costs are also limiting the departments' capacity to offset these increased costs. In addition, annualized cellular data and equipment costs for FirstNet devices are anticipated to exceed funding levels by approximately $630,000, due to a higher number of officers requiring the devices and services than previously estimated, necessitating the reallocation of funds in the FirstNet Emergency Communications Network Reserve that was originally set aside for this purpose. An increase to the Non-Personal/Equipment budget of approximately $1.9 million will be included as part of the forthcoming memorandum (Approval of Various Budget Actions for Fiscal Year 2021-2022) to address these identified overages.

Overtime consists of both overtime expenditures and compensatory time. The Memorandum of Agreement (MOA) with the Police Officer's Association (POA) limits how much overtime can be earned for pay versus compensatory time. The Police Department continues to fill vacancies in both sworn and civilian positions, using vacancy savings and the $7.0 million in one-time funding from the Sworn Hire Ahead Program to pay for Police Academy Recruits as well as to backfill 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 until the new recruits are ready to serve as solo beat officers. Effective vacancy levels, which include vacancies, 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 16.8% as of May 6, 2022. Historically, the effective vacancy rate has averaged 22.4% (based on the 5-year period between 2016-2017 and 2020-2021), resulting in the build-up of compensatory time balances for sworn personnel, for which there is a limit of 480 hours after which sworn personnel are paid in overtime for any additional hours worked.

In accordance with the POA MOA, the Police Department is enforcing compensatory time controls by requiring all sworn staff, outside of the Bureau of Field Operations (BFO), to reduce compensatory time balances by the end of the calendar year, or to submit a request for an extension. On November 22, 2021, the Chief issued an order to reduce compensatory time balances for any sworn staff member who believes they will not be able to take the excess time off before the end of the calendar year. This order requires sworn staff to submit a plan to their immediate supervisor, consistent with MOA section 13.6.5.1, by December 1, 2021, excluding sworn staff assigned to Patrol. Each plan needed to outline how a sworn staff member will reduce their compensatory time by March 31, 2022. These changes are intended to and have reduced the number of officers reaching the 480-hour limit, which would thereby reduce future overtime expenditures. The plans have been implemented but due to the needs of the Department (staffing, workload, and specific assignments) has somewhat limited flexibility in allowing staff to take time off; however, the

GENERAL FUND (CONT'D.)

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 comp time hours. The Department will continue to enforce the implementation of these plans, as well as other overtime and compensatory time approvals to slow, and eventually reduce, compensatory time balance growth, including revisions for BFO approvals to the extent possible.

Finally, an internal working group will be established – comprised of varying ranks of sworn personnel, fiscal personnel, other civilian staff, and the Assistant Budget Director – tasked with identifying approaches to further increase the controls surrounding overtime. To start this process, focus groups have been created in each Bureau of the department. These groups have started meeting to discuss solutions around workload and overtime issues and will bring recommendations to be considered by the internal working group. These actions, as well as the other recommendations included in the *Police Staffing, Expenditures, and Workload* audit report are intended to address, slow, and reverse the growth of overtime and compensatory time use. Progress toward the development and implementation of these recommendations has been slowed by other emergent priorities; however, this process remains a priority for the Police Department.

The City Auditor's March 2021 *Police Staffing, Expenditures, and Workload* audit report included several recommendations to increase the number of compensatory time-related data that should be included in the Mid-Year Budget Review, Bi-Monthly Financial Reports, and Annual Report. The table below summarizes this data. While compensatory time usage and balances remain high, it is important to note that the Police Department has made meaningful progress in some of these categories when compared to the prior year. This progress can be seen in the short term, as the department reported a sworn compensatory time balance liability of 355,595 hours in the 2021-2022 Mid-Year Report, which has now been reduced to 352,151.

	April 2021	**April 2022**	**% Change from 2021 to 2022**	**% Change from 2020 to 2021**
# of Sworn Personnel at 480-hour limit	459	415	(9.6%)	24.7%
# of Sworn Personnel between 240 and 480 hours	242	301	24.4%	(11.36%)
Sworn Compensatory Time Balance Liability (hours)	350,507	352,151	0.47%	9.2%
Sworn Compensatory Time Balance Liability ($)	$24.7M	$26.9M	9.0%	8.5%
YTD Overtime Expenses for Staff at 480-hour limit ($)	$16.3M	$15.3M	(6.5%)	29.2%

GENERAL FUND (CONT'D.)

The table below provides a summary of sworn staffing vacancies and street-ready officers. There are currently two active academies, October 2021 (26 recruits; graduating on June 10) and February 2022 (33 recruits), with an additional academy scheduled for June 2022. The June 2021 academy graduated on January 23, 2022 with 25 officers. As of May 6, 2022, of the 1,153 authorized sworn staff, 93 were in training (8.1%) and 84 were on disability/modified duty/other leaves (7.3%).

	2020-2021 (as of 05/07/2021)	2021-2022 (as of 05/06/2022)
Authorized Sworn Positions	**1,159**	**1,153**
Vacancies	(20)	(17)
Filled Sworn Positions[3]	**1,139**	**1,136**
Field Training Officer/Recruits	(126)	(93)
Street-Ready Sworn Officers Available	**1,013**	**1,043**
Disability/Modified Duty/Other Leaves	(61)	(84)
Street-Ready Sworn Officers Working	**952**	**959**

The table below further identifies the length of time that sworn officers have been on leave status, as of May 6, 2022. Although the Department makes every effort to support the health and well-being of all staff members, as well as the safe resumption of duties as quickly as possible, the particularly physical and dangerous nature of the work performed by sworn officers results in a higher potential for injury. Of the total sworn officers on leave status, 11 have been on leave for more than one year with most of these sworn officers on modified duty (7). More than half of the sworn officers (54) have been on leave status for less than three months. Over the last five years, between 2016-2017 and 2020-2021, the number of sworn officers on leave ranged from a high of 112 to a low of 51. During this time, the average number of sworn officers on leave was approximately 73 with a standard deviation of approximately eight sworn officers. The current number of sworn officers on leave (84) is higher than the historical average (73) and outside the normal range of variability seen over the last 5 years. The higher-than-average amount of sworn officers on leave can partially be attributed to COVID-19-related leave.

Length of Leave Status (as of 5/6/2022)					
Type of Leave	**0-3 Months**	**3-6 Months**	**6-12 Months**	**1 Year +**	**Total**
Disability	19	4	4	2	**29**
Modified Duty	13	4	3	7	**27**
Other	22	3	1	2	**28**
Total	**54**	**11**	**8**	**11**	**84**

[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.)

Department	2021-2022 Budget	YTD Actual	Prior YTD Actual
Fire	**$ 266,639,417**	**$ 215,547,763**	**$ 190,430,439**

The Fire Department's budget totals $266.5 million, which is comprised of $252.2 million in personal services and $14.4 million in non-personal/equipment expenditures. Overall, Fire Department expenditures are performing slightly above estimated levels through April 2022. Personal services expenditures of $203.1 million, or 80.52% of the 2021-2022 Modified Budget, are above the expected level of 79.45% at this point of the year. The higher than estimated expenditures are primarily due to increased overtime activity in response to meeting minimal staffing level requirements. The Department experienced unanticipated drivers that increased costs to their Personal Services appropriation, including retirement or separation vacation balance payouts, active wildfire season, and unanticipated overtime to maintain minimum staffing levels for personnel impacted by COVID-19. As a result, an action is included in the Approval of Variance Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to increase the Fire Department's Personal Services budget by $2.5 million to ensure the Department is able to maintain the minimum staffing level requirements for the remainder of the fiscal year. The Fire Department's Non-Personal/Equipment budget of $14.3 million was 86.4% expended or encumbered through April 2022. The Department's non-personal/equipment expenditures are above the expected levels of 79.45% primarily due to a large encumbrance amount and are expected to end the year within budget.

Overtime has primarily been used to backfill vacancies and absences of the line duty positions (vacation, modified duty, sick, disability, and other absences) and for deployments. Mutual Aid and Strike Team resources were deployed to assist with 10 wildland fires across California. The Department is anticipating to receive the additional remaining reimbursement for wildland fire incidents including the Beckwourth Complex (Plumas County), Caldor Fire (El Dorado, Alpine, and Amador Counties), KNP Complex (Tulare County), Lava Fire (Siskiyou County), River Complex (Siskiyou and Trinity Counties), SCU Coverage (Santa Clara County, Alameda County, Contra Costa County, San Joaquin County, Stanislaus County), Dixie (Butte, Plumas, Lassen, Shasta, and Tehama Counties), Monument (Trinity County), and Estrada Fire (Santa Cruz County). Reimbursement for Task Force 3 expenditures has been requested from the State of California Office of Emergency Services. As part of the Approval of Variance Budget Actions for Fiscal Year 2021-2022 memorandum, a budgetary adjustment is included to recognize $2.3 million in mutual aid reimbursements that will be allocated to Fire Department's Personal Services appropriation.

Overall, the average sworn vacancy rate of 8.34% through April 2022 is higher than the vacancy rate of 3.11% experienced this time last year, and above the budgeted rate of 2.5%. The current firefighter academy began in November 2021 and was completed in April 2022 with 19 graduates. Conditional offers and final steps are being made to complete the firefighter recruitment process. Another academy is scheduled to begin on June 27, 2022, with an estimated 23-25 recruits.

GENERAL FUND (CONT'D.)

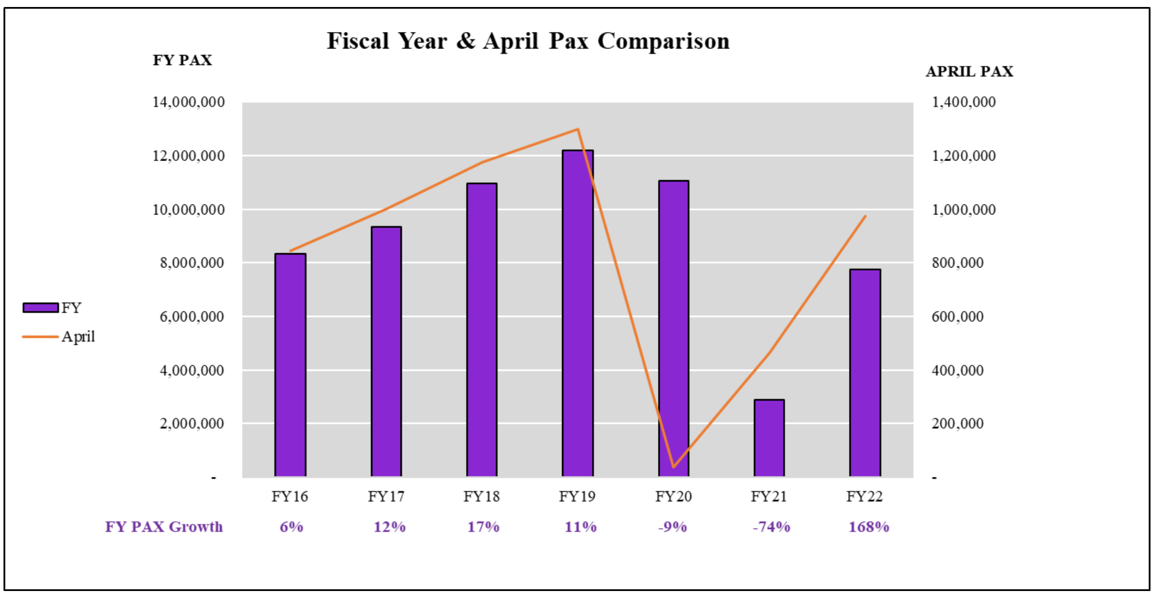
CONTINGENCY RESERVE

The General Fund Contingency Reserve was amended as part of the 2020-2021 Annual Report, increasing the reserve by $500,000, from $40.0 million to $40.5 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 Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned 7.7 million passengers, an increase of 168.4% 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 59.6 million pounds, which represents a 14.0% decrease over year-to-date April of 2021. All revenue-generating activities posted increases over the same period of the prior fiscal year: Ground Transportation by 203.3%; Parking Exits by 103.4%; Gallons of Aviation Fuel sold by 102.5%; Landed Weights by 60.4%; and Traffic Operations (landings and takeoffs) increased by 37.8%.

OTHER FUNDS (CONT'D.)

Through April, overall revenue performance at the Airport tracked 15% above budgeted levels. The different Airport revenue categories had a mixed performance through this period: Terminal Concessions (+279%) and Parking & Roadway (+40%) revenues were above the estimated revenue benchmark while Landing Fees (-10%), Terminal Rentals (-7%), and General and Non-Aviation (-6%) and Airfield Revenues (-1%) tracked at or slightly below budgeted levels. Non-Airline Revenue categories such as public parking, transportation network company trip fees, rental car fees, and concession revenue demonstrate strong performance and are driving overall revenue performance above budgeted levels. Airport revenues will continue to be closely monitored through this fiscal year.

Additionally, the Airport has $59.6 million of Federal funding programmed in 2021-2022 to reimburse operating expenses and partially offset a reduced revenue outlook. To date, the Airport received $12.1 million in Coronavirus Aid, Relief, and Economic Security Act funding and $13.4 million in Coronavirus Response and Relief Supplemental Appropriations Act funding based on reimbursement of expenditure requests submitted to the FAA. In addition, a reduction to the Terminal Concessions budget by $6.6 million was approved as part of the 2020-2021 Annual Report to reflect anticipated American Rescue Plan Act funding that will offset concessionaires' revenue paid to the Airport.

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 services expenditures were 76.3% of the budget compared to the benchmark of 80.8%, while non-personal/equipment expenditures were 47.3% compared to the benchmark of 74.5%. Non-personal/equipment expenditures in the Customer Facility and Transportation Fee Fund were 50.5% 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 Community Energy Department operates San José Clean Energy (SJCE), supplying residents and businesses of San José with cleaner energy options than PG&E and access to energy efficiency community programs. SJCE's City Council approved rate package for 2022 set rates for its GreenSource standard service at 8% above PG&E's rates – inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge – based on a PG&E rate increase of 33% that was approved by the California Public Utilities Commission in February 2022. SJCE also increased the renewable energy content of its products, to 60% for the GreenSource standard service and 40% for its GreenValue service (TotalGreen continued at 100%).

PG&E generation rates and rising PCIA fees are the primary drivers when setting SJCE rates. Combined with high energy market prices, the delayed PG&E rate increase, and pandemic-related bad debt for unpaid customer invoices, SJCE's revenues and cash flow projections for 2021 were negatively impacted, and as a result, the City Council approved a total Commercial Paper Notes

OTHER FUNDS (CONT'D.)

authorization of up to $95.0 million in June 2021 to cover SJCE's projected cash flow shortage. A total of $15.0 million was allocated in 2020-2021 and $53.0 million was allocated in 2021-2022 as part of the City Council-approved 2020-2021 Annual Report. From June 2021 through April 2022, SJCE has so far drawn $60.0 million of Commercial Paper proceeds.

Through April, Energy Sales totaled $267.2 million, or 80.0% of the modified budget estimate of $335.4 million. SJCE's financial outlook has improved since June 2021, primarily the result of the previously mentioned rate increase that went into effect January 2022. Cost of Energy expenditures including encumbrances totaled $298.4 million, or 97.8% of the total modified budget. SJCE encumbers a significant amount of funds for contracted energy early in the fiscal year. A decrease in the Cost of Energy appropriation (by $11.7 million, from $307.2 million to $295.5 million) was approved in February 2022 to reflect lower forecasted expenditures through the remainder of the fiscal year. The Community Energy Department has executed long-term agreements with developers of new renewable energy facilities and two of the projects covered under those agreements began delivering energy to SJCE in December 2021. These new long-term agreements provide SJCE with cost-effective renewable energy that help reduce greenhouse gas emissions, advance statewide energy reliability goals, and enhance financial stability. The Community Energy Department monitors energy procurement activities closely. Based on the Department's most recent set of analyses of forecasted energy demand and costs, budget actions to increase the Energy Sales revenue estimate (by $12.3 million, from $335.4 million to $347.7 million) and Cost of Energy appropriation (by $15.0 million, from $295.5 million to $310.5 million) are recommended and being brought forward as part of the Approval of Variance Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022 to bring budget estimates in line with current year-end projections.

Vehicle Maintenance and Operations Fund

The Fleet Management Division of the Public Works Department oversees the Vehicle Maintenance and Operations Fund, which accounts for the operation, maintenance, and replacement of City vehicles and equipment. The fund operates as an internal service fund and charges departments directly for operation and maintenance costs related to their specific vehicles and equipment. Overall, the fund is tracking to exceed budgeted levels, even after factoring for recent funding adjustments ($895,000) approved by City Council on May 24, 2022. This overage is attributable to higher sustained fuel and parts prices than were anticipated for 2021-2022.

The Inventory Purchases appropriation that accounts for fuel and parts purchases has been tracking to exceed since the second quarter of 2021-2022 due to unforeseen changes in the commodity market for fuel and petroleum products, and the rising cost of automotive parts due to global supply chain disruptions and surging demand. As these conditions have persisted, multiple actions were brought to City Council to manage the impacts for the fund, while deferring adjustments to departments' budgets until actual usage could be re-assessed. Actions approved by City Council in the 2021-2022 Mid-Year Budget Review, which as approved by the City Council on February

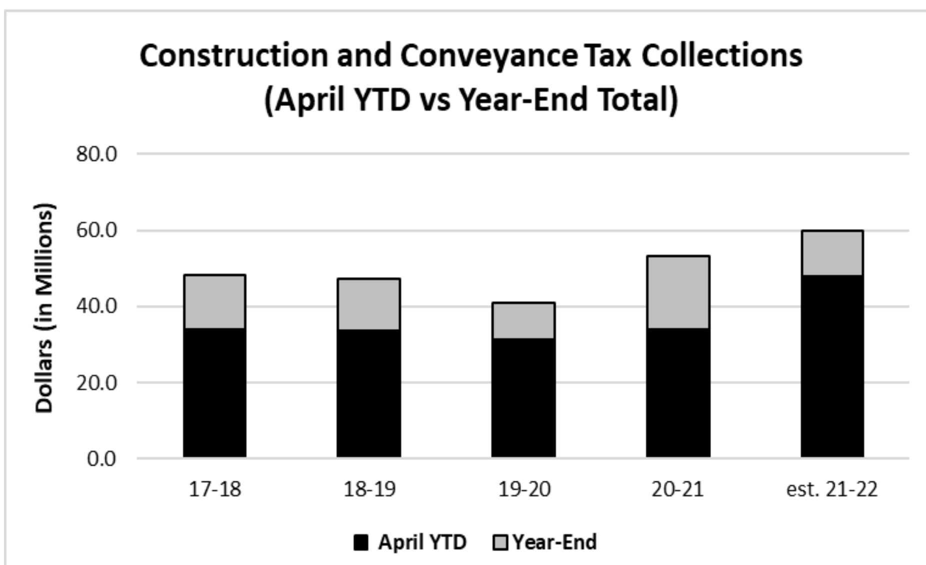
OTHER FUNDS (CONT'D.)

15, 2022, increased funding for Inventory Purchases ($600,000) by reallocating anticipated Personal Services vacancy savings ($300,000) and liquidating the Fuel Usage Reserve ($300,000). However, costs continued to rapidly accelerate over the recent months, requiring additional funding and adjustments to respective departments' budgets to account for usage.

Through April, a total of $7.4 million has been expended out of the $8.0 million budgeted in the Inventory Purchases appropriation. Accordingly, actions were brought forward for City Council approval on May 24, 2022 to increase Inventory Purchases funding by $895,000, which assumed additional departmental charges ($647,000) and partial use of the fund's Ending Fund Balance ($248,000). The Public Works Department and Administration are continuing to monitor market conditions given recent volatility, impacts on the fund's position, and implications for the departments' budgets in consideration of other resources, and will bring forward the necessary adjustments as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum to make final budgetary adjustments to close the fiscal year.

Construction and Conveyance Tax Funds

Through April 2022, Construction and Conveyance (C&C) Tax receipts totaled $47.9 million, which represents almost 80% of the 2021-2022 Modified Budget estimate ($60.0 million). This amount is above the collections through April 2021, which totaled $34.0 million. However, the City has received the May Conveyance receipts from Santa Clara County, which total $5.8 million, which is 7.4% below the May 2021 Conveyance collection level of $6.2 million. When taking into account total receipts through April and the estimated May collections, C&C receipts in 2021-2022 total $53.7 million, 89.6% of the 2021-2022 budgeted estimate, and 33.5% above the prior-year collection level of $40.3 million. It is anticipated that C&C receipts will exceed the budgeted estimate ($60.0 million) by approximately $3 million - $5 million. A full reconciliation of the C&C Tax receipts will be completed as part of the 2021-2022 Annual Report that will be released on September 30, 2022, with the excess revenue being allocated to the individual C&C Tax Funds Ending Fund Balances.

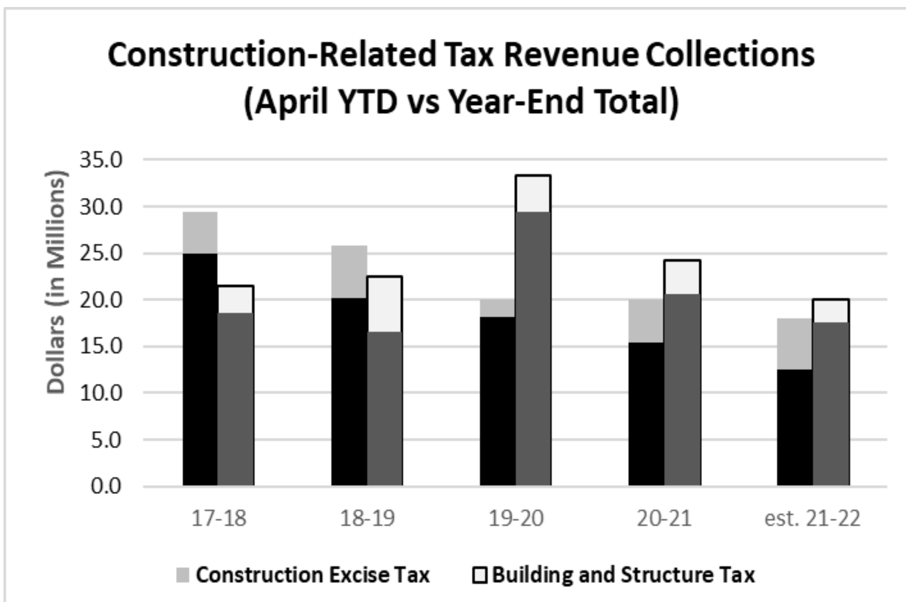


OTHER FUNDS (CONT'D.)

Over 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). As discussed in the Economic Environment section of this Bi-Monthly Financial Report, the local real estate market has continued to be extremely strong. 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 during 2022-2023 in future Bi-Monthly Financial Reports.

Other Construction-Related Revenues

Capital Fund revenues associated with construction activity are anticipated to fall slightly below budgeted levels by year-end. 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.



Through April, the Building and Structure Construction Tax collection level of $17.6 million is 87.9% of the budgeted estimate of $20.0 million and 14.7% below the prior-year receipts of $20.6 million. The decline in revenue is primarily attributable to lower construction permit valuation for commercial and industrial categories compared to the prior year, especially for commercial activity. In 2020-2021, several large projects contributed to the high collection level at the beginning of the fiscal year. When the 2021-2022 Adopted Capital Budget was developed it was anticipated that 2020-2021 Building and Structure Construction Tax receipts would total $22.0 million, then decrease by approximately 9.1% to $20.0 million in 2021-2022. However, since 2020-2021 receipts ended the year at $24.2 million, the 2021-2022 budget allows for a 17.4% decline from the prior-year collection level. Based on collections through April, it is anticipated that Building and Structure Construction Tax Revenue will reach the budgeted estimate of $20.0 million.

OTHER FUNDS (CONT'D.)

Through April, the Construction Excise Tax collection level of $12.5 million is 19.1% below the prior-year receipts of $15.5 million, and 69.5% of the budget estimate of $18.0 million. The decline in revenue is primarily attributable to lower construction permit valuation for commercial and industrial categories compared to the prior year, especially for commercial activity. Last year, several large projects contributed to the high collection level at the beginning of the fiscal year. When the 2021-2022 Adopted Capital Budget was developed it was anticipated 2020-2021 Construction Excise Tax receipts would total $17.0 million, then increase by approximately 5.6% to $18.0 million in 2021-2022. However, since 2020-2021 receipts ended the year at $20.1 million, the 2021-2022 budget allows for an 11.7% decline from the prior-year collection level. Based on collections through April, it is anticipated that Construction Excise Tax Revenue will fall below the budgeted estimate by $2.0 million, and total $16.0 million.

Development Fee Program Funds

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

The **Building Development Fee Program** issues building permits and oversees construction on private property. Building Permit revenues of $30.4 million through April are 11.9% higher than the 2020-2021 collection level for the same period. The 2021-2022 Adopted Budget estimate of $32.2 million allows for a 7.5% drop from the 2020-2021 collection level of $34.8 million. Based on current collection trends, Building Fee revenues are anticipated to exceed the 2021-2022 budget revenue estimate by approximately $3.0 million. As part of the Approval of Variance Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022, a recommendation is included to increase the Building Development Fee revenue estimate by $2.0 million with an offsetting adjustment to the Ending Fund Balance.

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, Citywide Planning Fee revenues of $2.9 million are 6.7% above the prior-year collection level of $2.7 million. The 2021-2022 Adopted Budget estimate of $3.3 million anticipates a 3.0% decrease from the 2020-2021 actual collection level of $3.4 million. Citywide Planning Fee revenue is anticipated to meet or slightly exceed the 2021-2022 budgeted revenue estimate.

OTHER FUNDS (CONT'D.)

The **Fire Development Fee Program** provides operational and construction permits and inspections to ensure that development within San José meets the City's fire codes. Development-related receipts through April of $5.8 million are $209,315 (3.7%) higher than prior year collections. The 2021-2022 Adopted Budget estimate of $7.5 million, requires growth of 10.5% from the 2020-2021 collection level of $6.8 million. Based on current collection trends, Fire Development Fee revenue is projected to fall below the 2021-2022 budgeted revenue estimate by approximately $500,000. The lower activity level within the Fire Development Fee Program, in comparison to the other programs, is in large part attributable to the increase of Accessory Dwelling Unit (ADU) permits; ADU permits typically do not require a significant level of fire-related inspections.

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, Planning Fee revenues of $7.7 million are 18.5% above the prior-year collection level of $6.5 million. The 2021-2022 Adopted Budget estimate of $6.7 million allows for an 11.8% drop from the 2020-2021 actual collection level of $7.6 million. Planning Fee revenue is anticipated to exceed the 2021-2022 budgeted revenue estimate by approximately $2.0 million. As part of the Approval of Variance Budget Actions for Fiscal Year 2021-2022 memorandum that will be reviewed by the City Council in June 2022, a recommendation is included to conservatively increase the Planning Development Fee revenue estimate by $1.0 million with an offsetting adjustment to the Ending Fund Balance.

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 $10.5 million increased 10.9% from the prior-year level of $9.4 million. The Public Works Development Fee Program total revenue collections are comprised of $6.1 million from the Development Services Fee Program, $4.4 million from the Utility Fee Program, and approximately $31,000 of interest. Based on activity through April, revenue collections in the Public Works Development Fee Program are projected to meet budgeted levels of $13.1 million by year-end.

CONCLUSION

Due to the pandemic and the necessary response to protect community health and safety, economic activity was severely restricted beginning in March 2020. As anticipated, revenue sources across the City were significantly impacted, with many of the economically sensitive categories beginning to recover in 2020-2021, some strongly toward the end of the fiscal year. The 2021-2022 Adopted Budget was developed assuming that many of the General Fund and other economically sensitive City fund revenues would continue to recover as public health orders loosen and the vaccine rates continue to increase. The pace of recovery thus far has outpaced expectations.

CONCLUSION (CONT'D.)

The 2022-2023 Proposed Budget assumed at least $50 million of unrestricted 2021-2022 ending fund balance in the General Fund would be available as a source for the 2022-2023 Beginning Fund Balance. This included the 2021-2022 Ending Fund Balance Reserve ($12.0 million), the assumed liquidation of prior year carryover encumbrances ($500,000), and excess revenue/expenditure savings ($37.5 million). Of this amount, $25.0 million was assumed as part of the 2023-2027 General Fund Forecast. Additional revenue, expenditure savings, and the liquidation of carryover encumbrances are projected to be realized by year-end to fully meet the $50.0 million assumed in the 2022-2023 budget.

Most other City funds are performing within expected levels, with some exceptions. Airport passenger activity is significantly higher than prior-year levels, and revenues and expenditures are tracking within anticipated levels. Additionally, Construction and Conveyance Tax revenue is continuing to perform strongly and is on par to end the year at a historically high level of $60 million. With the exception of the Fire Development Fee Fund, all other Development Fee Program revenues are anticipated to end at or above budgeted levels. However, the Building and Structure Construction Tax Fund and Construction Excise Tax Fund, are under-performing expectations and will likely end the year below budgeted levels.

The Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum also 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 2021-2022 budget performance will be reported through the 2021-2022 Annual Report, scheduled to be released on September 30, 2022 and reviewed by the City Council in mid-October 2022.

JIM SHANNON
Budget Director

Attachment: Finance Department Monthly Financial Report