



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Jim Shannon

SUBJECT: BI-MONTHLY FINANCIAL REPORT
FOR JANUARY/FEBRUARY 2024

DATE: April 8, 2024

Approved

Date

4/11/2024

RECOMMENDATION

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

OVERVIEW

The Bi-Monthly Financial Report for January/February 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 eight months ending February 2024.

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

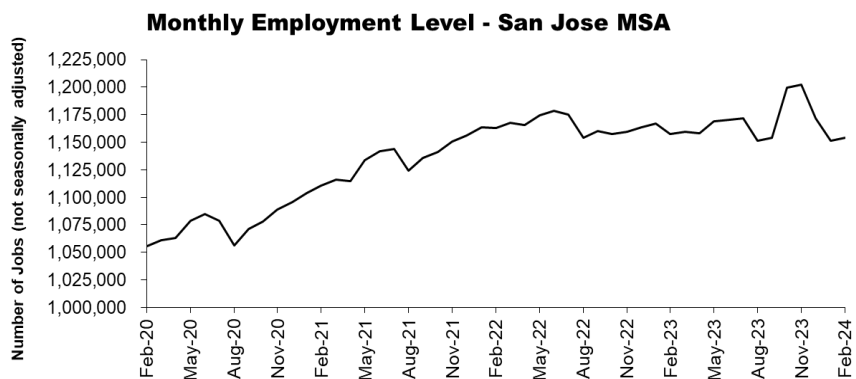
- General Fund revenues are anticipated to exceed budgeted levels by approximately \$5 million. As discussed further in this report, several revenue categories are performing stronger than anticipated, including Utility Taxes and Transfers and Reimbursements.
- Overall, General Fund expenditures are anticipated to end the year approximately \$16 million below budgeted levels, primarily due to vacancy savings. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels.
- 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, approximately \$35.0 million of unrestricted Ending Fund Balance in the General Fund will be available as a source for the 2024-2025 Proposed Budget.

OVERVIEW (CONT'D.)

- As a result of the struggling local real estate market, Construction and Conveyance Tax (C&C) revenue and Real Property Transfer Tax revenues are performing below prior year levels. The C&C Tax estimate was reduced as part of the 2023-2024 Mid-Year Budget Review and will likely meet the modified budgeted estimate by year-end. Real Property Transfer Tax collections may end the year up to \$5 million below the budgeted estimate.
- 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 comparable to 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 \$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 fall below budgeted levels by year-end.
- The San José Mineta International Airport (SJC) has enplaned and deplaned 7.9 million passengers through February, a slight decrease of 0.6% from the figures reported through February 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 2%, and Cost of Energy expenditures anticipated to end the year approximately 7% 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 February 2024 employment level of 1.15 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) decreased by 6,300 jobs, or 0.5%, from the February 2023 level of 1.16 million. This net drop includes private education and health services increasing by 11,600 jobs and government jobs expanding by 2,600 positions. Notable employment reductions include information jobs cutting back 7,700 positions, professional and business services decreasing by 5,000 jobs, manufacturing dropping by 3,700 positions, and construction decreasing by 2,900 jobs.¹

Unemployment Rate (Unadjusted)			
	Feb. 2023	Jan. 2024	Feb. 2024**
San Jose Metropolitan Statistical Area*	3.2%	4.4%	4.4%
State of California	4.8%	5.7%	5.6%
United States	3.9%	4.1%	4.2%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** February 2024 estimates are preliminary and may be updated.			

As can be seen on the table to the left, the local unemployment rate has been steadily increasing over the past year with the February 2023 unemployment rate totaling 3.2%, and the February 2024 rate growing to 4.4%. While the February 2024 unemployment rate is lower than the unadjusted employment rate for the State (5.6%), it is slightly higher than the national rate (4.2%).

Overall construction activity through February 2024 increased 8.1% 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 24.4% 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 may 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)			
	Feb. 2023 (YTD)	Feb. 2024 (YTD)	% Change
Residential	\$231.3	\$288.0	24.6%
Commercial	\$410.3	\$310.4	(24.4%)
Industrial	\$271.6	\$388.5	43.0%
TOTAL	\$913.1	\$986.9	8.1%

Through February, residential permit valuation increased 24.6% from prior-year levels (\$288.0 million in 2023-2024 compared to \$231.3 million in 2022-2023). Residential activity through February includes 915 multi-family units and 327 units of single-family construction for a total of 1,242 units. Notable projects for January and February include permits a six-story, 173-unit apartment building (located on Stevens Creek Boulevard between Palace Drive and Lopina Way).

¹ State of California Employment Development: Labor Market Information Division Press Release, March 22, 2024

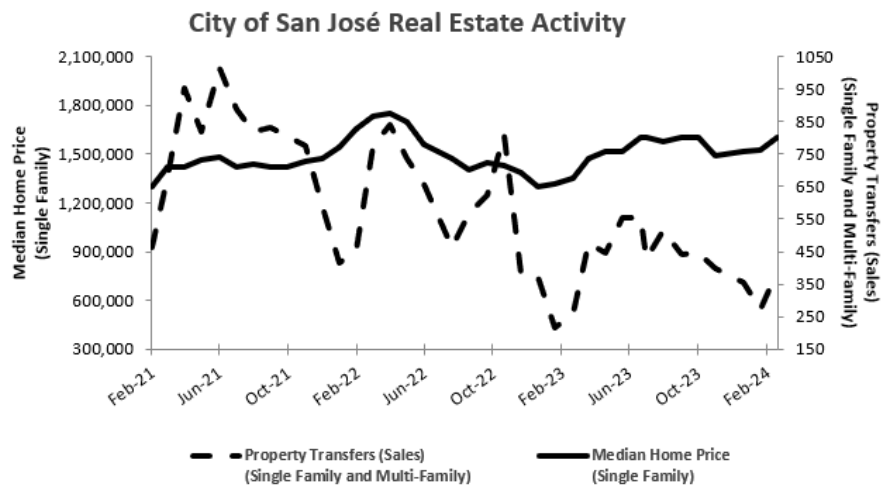
OVERVIEW (CONT'D.)

Commercial valuation through February 2024 is 24.4% lower than the 2022-2023 level (\$310.4 million in 2023-2024 compared to \$410.3 million in 2022-2023). Commercial valuation for January and February accounted for \$89.3 million. New construction accounted for 62% (\$55.6 million) and alterations accounted for 38% (\$33.7 million) of the commercial activity. Notable projects for January and February include permits issued for a 45,000 square foot academic school building (located on West Hedding Street) and a 13,000 square foot church consisting of a temple building and community building (located on Ruby Avenue between Klein Road and Flint Avenue).

Industrial construction valuation through February 2024 is 43.0% higher than prior-year levels, with receipts totaling \$388.5 million in 2023-2024 compared to \$271.6 million in 2022-2023. Industrial valuation for January and February accounted for \$229.4 million. New construction accounted for 87% (\$200.1 million) and alterations accounted for 13% (\$29.3 million) of the commercial activity. Notable projects for January and February include permits issued for a 220,000 square foot data center, a four-story, 136,000 square foot manufacturing building, and a 174,000 square foot parking garage located on Trade Zone Boulevard.

According to data from the Santa Clara County Association of Realtors, in February 2024, the median single-family home price totaled \$1.6 million, which is 18.5% above the February 2023 price of \$1.35 million. In addition, these more expensive homes are selling at a quicker rate. The average days-on-market through February 2024 totaled 20 days,

while the average days through February 2023 totaled 27 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 in January and February 2024 totaled 662 transactions, which is 40% 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, Americans felt more pessimistic about the economy in February, after three straight months of growing confidence. Dana Peterson, Chief Economist at The Conference Board, stated “The decline in consumer confidence in February interrupted a three-month rise, reflecting persistent uncertainty about the US economy. This drop in confidence was broad-based,

OVERVIEW (CONT'D.)

affecting all income groups except households earning less than \$15,000 and those earning more than \$125,000...while overall inflation remained the main preoccupation of consumers, they are now a bit less concerned about food and gas prices, which have eased in recent months. But they are more concerned about the labor market situation and the US political environment.”² Economic conditions will continue to be closely monitored and will be factored into the assessment of the City’s performance in 2023-2024 as well as the development of the 2024-2025 Proposed Budget that will be released in May 2024.

GENERAL FUND

REVENUES

General Fund revenues through February 2024 totaled \$768.2 million, which represents a decrease of \$301.3 million from the February 2023 level of \$1.07 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 (\$13.7 million) due to a more constrained real estate market resulting in fewer high-value property transfers occurring. Franchise Fees revenue have declined by \$11.5 million which is due to a change in the timing of payments that is received from Pacific Gas and Electric (PG&E). Other categories that have experienced year-over-year declines due to lower activity levels include Sales Tax (\$8.6 million), Business Tax (\$2.2 million), and Fines, Forfeitures and Penalties (\$1.7 million). Offsetting the revenues performing below prior year levels, there are several categories experiencing increases, including, Utility Tax (\$3.4 million), Transfers and Reimbursements (\$2.9 million), Licenses and Permits (\$2.7 million), and Use of Money and Property (\$2.5 million). These higher collections are due to increased utility tax rates, higher interest rates, and higher activity levels.

Through February, a total of \$35 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; \$16 million from expenditure savings; and \$500,000 from the liquidation of prior year carryover encumbrances. This fund balance was assumed as part of the 2025-2029 General Fund Forecast that was released in February 2024.

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

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

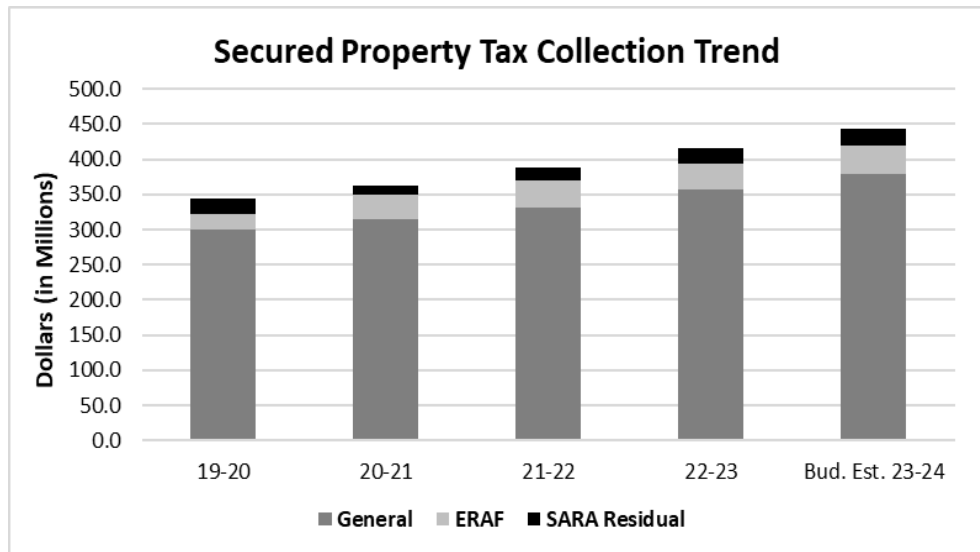
GENERAL FUND (CONT'D.)

KEY GENERAL FUND REVENUES

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 473,900,000	\$ 220,781,596	\$ 221,528,041

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. This figure does not include any change to ERAF related to a possible legislation change that is included in the State of California's Budget that would revise the ERAF calculation (\$3 million), as the change, if passed, would not occur until 2024-2025. It is also 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 \$1.0 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.

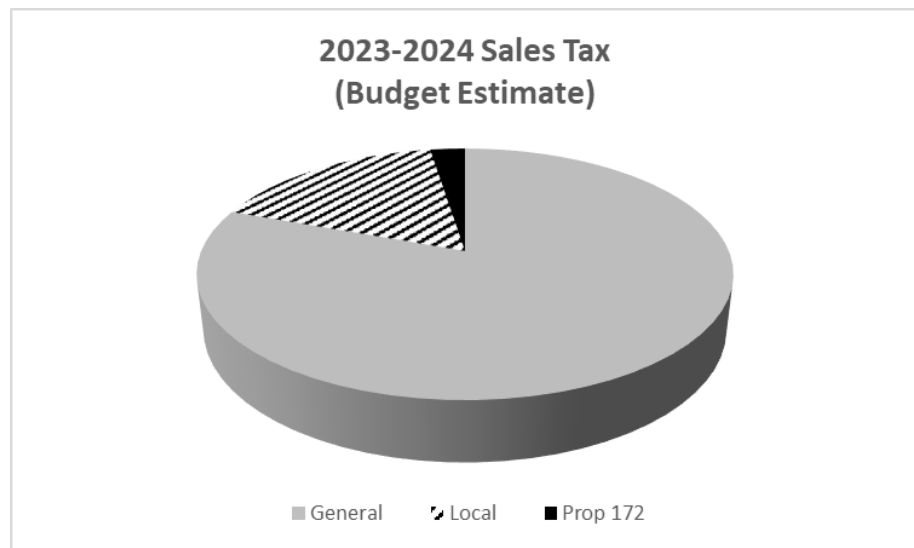
In the **Homeowners Property Tax Relief** category, revenues in 2023-2024 are expected to be at the budgeted estimate of \$900,000, which is consistent with the 2023-2024 Adopted Budget estimate and the 2022-2023 collection level.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 336,400,000	\$ 173,343,349	\$ 181,922,394

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. Information related to Sales Tax payments are 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 February 2024 (which reflects two quarters of Sales Tax activity; from July 2023 through December 2023), it is anticipated that 2023-2024 Sales Tax revenue will total \$333.0 million, which is approximately \$3 million below the budgeted estimate. The 2023-2024 Sales Tax estimate is 3% below the prior year receipts of \$343.5 million, which is reflective of the slowdown in the economy. Additional information about each of the Sales Tax sub-categories is provided below.

General Sales Tax is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November



2023 and February 2024; both quarters declined from the prior year (-0.7% and -10%, respectively), reflecting a slowdown of the economy. Receipts are anticipated to be suppressed for the remainder of the year, therefore third quarter receipts (which will be received in May 2024) are estimated to decline 4%, and the final quarter of 2023-2024 is anticipated to decline 2% from the same time period in 2022-2023. Based on these assumptions, General Sales Tax collections are anticipated to total \$267.0 million in 2023-2024, which reflects an overall decrease of 3.8% from the 2022-2023 collection level.

The City's Sales Tax consultant, Avenu Insights & Analytics, has provided performance data for General Sales Tax revenue, as displayed on the table below. This analysis measures the first and second quarter General Sales Tax receipts for 2022-2023 and 2023-2024, excluding Sales Tax associated with the Revenue Capture Agreement.

GENERAL FUND (CONT'D.)

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

Category	2023-2024 % of Total Revenue	2022-2023 % of Total Revenue	% Change by Category
General Retail	28.9%	28.4%	(3.5%)
Business-to-Business	17.8%	16.7%	1.2%
Transportation	15.0%	15.8%	(9.9%)
Food Products	12.5%	11.5%	3.0%
Construction	7.9%	7.9%	(4.6%)
Miscellaneous	1.7%	0.6%	151.7%
County Pool	16.1%	19.1%	(20.0%)
Total	100.0%	100.0%	

As can be seen in the table above, many of the Sales Tax categories experienced year-over-year declines. Categories experiencing drops include Transportation (-9.9%), Construction (-4.6%), and General Retail (-3.5%; includes apparel stores, department stores, furniture/appliance stores, drug stores, recreation products, and florists/nurseries). Partially offsetting these declines was growth in Food Products (3.0%) and Business-to-Business (1.2%). In addition, the County Pool, which is where the majority of online transactions are captured, declined through the first half of the fiscal year compared to the prior year (-20.0%). The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 45% - 50% of the total County Pool.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 45% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts. Similar to General Sales Tax, Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and for the second quarter (sales tax activity from October-December) were received in November 2023 and February 2024; both quarters declined from the prior year (-1.1% and -3.2%, respectively), reflecting a slowdown of the economy. For the remainder of the year, third quarter receipts (which will be received in May 2024) are estimated to grow by 1% and the final quarter of 2023-2024 is anticipated to grow by 3% from the same time period in 2022-2023. Based on these assumptions, Local Sales Tax collections are anticipated to total \$58.0 million in 2023-2024, which is consistent with the prior year collection level.

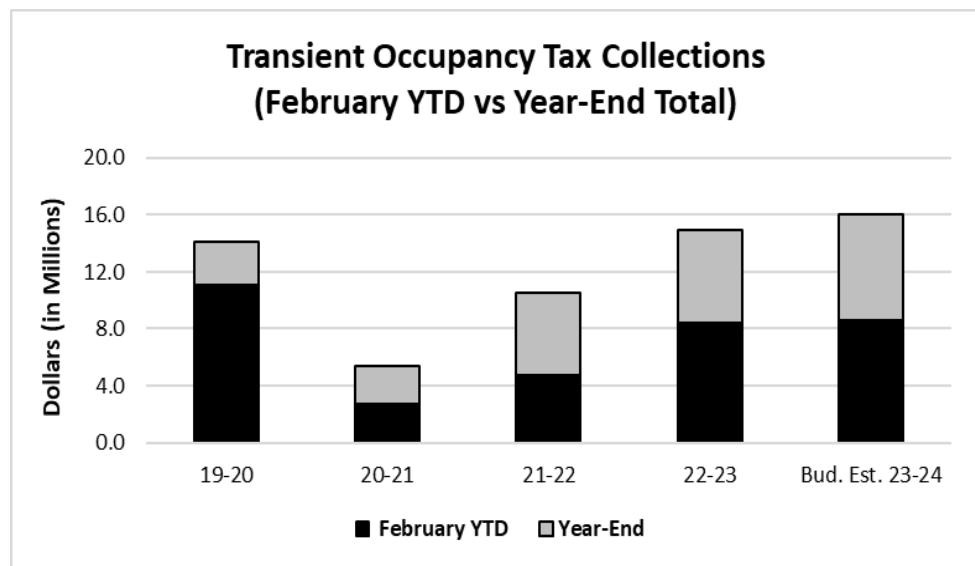
Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Revenue in 2023-2024 are estimated at \$8.0 million, which is consistent with the budgeted estimate.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 16,000,000	\$ 8,569,313	\$ 8,412,543

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 February 2024, TOT receipts total \$8.6 million, which is 1.9% above the prior year collection level of \$8.4 million. Based on the activity through February, receipts are anticipated to end the year approximately \$1 million below the budgeted estimate.

Based on February 2024 data, the average hotel occupancy rate reported for the San José market was 63.8%, a slight increase (1.43%) from the average of 62.4% through the same period in 2022-2023. The average daily room rate increased by 1.9%, from \$158.25 as of



February 2023 to \$161.20 as of February 2024; and the year-to-date average revenue-per-available room (RevPAR) increased by 4.2%, from \$98.74 to \$102.89, relative to the same period in 2022-2023.

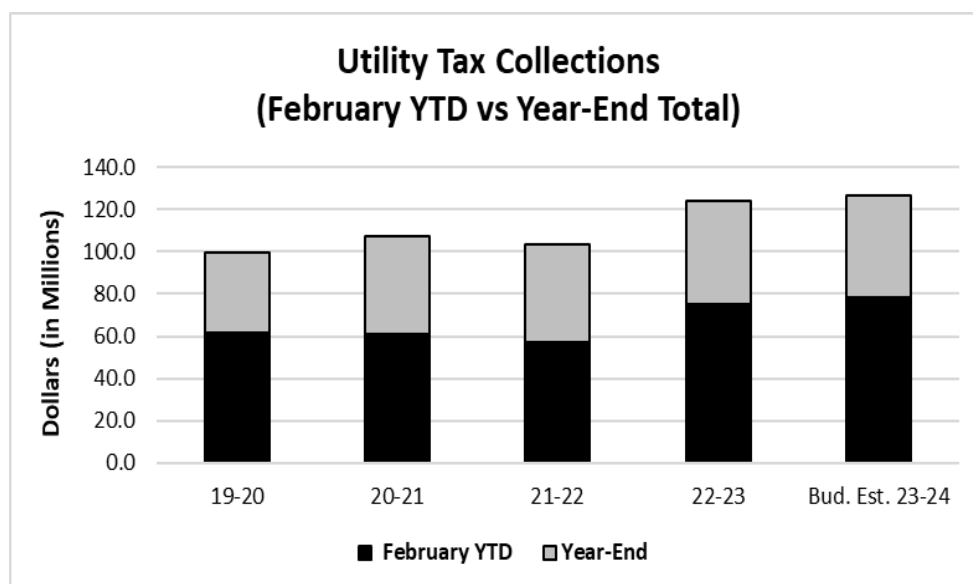
In partnership with Team San Jose (the City's operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in future Bi-Monthly Financial Reports.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 126,550,000	\$ 78,262,348	\$ 74,878,076

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through February, Utility Tax receipts totaled \$78.3 million, which is 4.5% higher than the prior-year level of \$74.9 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 February, Utility Tax receipts are estimated to end year \$3 - \$4 million above the budgeted estimate. Additional information about each of the Utility Tax sub-categories is provided below.

In the **Electricity Utility Tax** category, collections through February totaled \$45.0 million, which is 6.2% higher than the \$42.4 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 February and historical collection patterns, receipts are anticipated to end the year approximately \$2 - \$3 million above the budgeted estimate.

GENERAL FUND (CONT'D.)

In the **Gas Utility Tax** category, collections through February 2024 totaled \$8.2 million, which is 20.5% lower than the prior year level of \$10.3 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 February and historical collection patterns, receipts are anticipated to end the year approximately \$2.5 – 3.5 million below the budgeted estimate.

In the **Water Utility Tax** category, collections through February 2024 totaled \$13.7 million, which is 22.3% higher than prior year receipts of \$11.2 million. This increase is due to increased water rates. The 2023-2024 Adopted Budget estimate totals \$19.0 million, which is consistent with prior year receipts. Based on collections through February and historical collection patterns, receipts are anticipated to end the year approximately \$3 - \$4 million above the budgeted estimate.

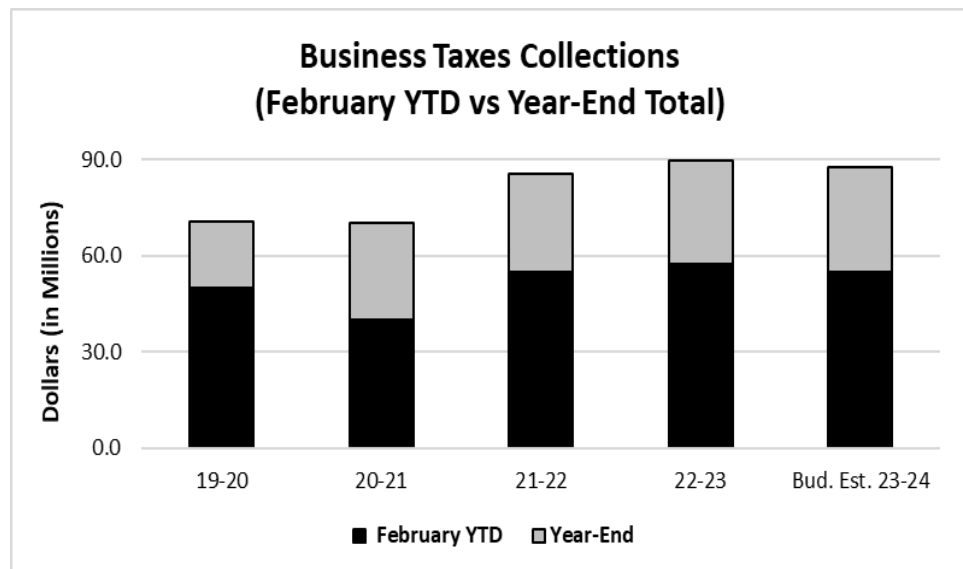
Collections in the **Telephone Utility Tax** category of \$11.4 million through February are 3.3% above the prior-year collections of \$11.0 million. The 2023-2024 Adopted Budget estimate totals \$18.6 million, which is consistent with prior year receipts. Based on collections through February and historical collection patterns, receipts are anticipated to end the year approximately \$500,000 above the budgeted estimate.

GENERAL FUND (CONT'D.)

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Business Taxes	\$ 87,500,000	\$ 55,061,647	\$ 57,230,302

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through February, overall collections of \$55.1 million are 3.8% below the prior-year collection levels of \$57.2 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 February, receipts are anticipated to end the year slightly 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 February, receipts of \$8.9 million are slightly below the prior-year level of \$9.0 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 February and historical collection patterns, receipts are anticipated to end the year approximately \$500,000 - \$1.0 million above the budgeted estimate.

GENERAL FUND (CONT'D.)

Through February, **Cardroom Tax** receipts, which are inclusive of the ballot measure approved by voters in November 2020 (Measure H) that increased taxes on cardroom operators beginning in January 2021, totaled \$16.7 million. This collection level is 3.2% lower than the prior year receipts of \$17.3 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 February, 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 February totaled \$7.6 million, which is 2.4% below the prior-year collection level of \$7.8 million, which is due to lower activity levels. The 2023-2024 Adopted Budget estimate of \$13.0 million is slightly below the 2022-2023 collection level of \$13.3 million. Based on performance through February and historical collection patterns, receipts in this category are anticipated to meet or fall slightly below the budgeted estimate by year-end.

Through February, **General Business Tax** receipts of \$21.8 million are 5.4% below the prior-year collection level of \$23.1 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 February, receipts in this category are anticipated to end the year \$1 - \$2 million below the budgeted estimate.

Revenue	2023-2024 Budget Estimate	YTD Actual	Prior YTD Collections
Real Property Transfer Tax	\$ 50,000,000	\$ 26,970,772	\$ 40,674,050

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

Through February 2024, Real Property Transfer Tax collections totaled \$27.0 million, which is significantly below the prior-year level of \$40.7 million. In addition, the City has received the March tax receipts from Santa Clara County, which totaled \$4.0 million. When taking into account total receipts through February and the March remittance, total Real Property Transfer Tax receipts in 2023-2024 totaled \$30.9 million, compared to the prior year level of \$41.4 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. It is currently estimated Real Property Transfer Tax receipts will total \$45-\$50 million at year-end.

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

Through February, General Fund expenditures (without encumbrances) of \$894.4 million were 9.1% below the prior-year level of \$983.4 million. Encumbrances of \$143.3 million were 55.3% above the prior-year level of \$92.2 million. Combined, General Fund expenditures and encumbrances through February of \$1.0 billion constitute 47.5% of the total budget including reserves and 57.6% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year approximately \$16 million below budgeted levels, primarily as the result of position vacancy savings throughout the organization.

Through February, departments are overall performing within estimated levels for personal services expenditures, with the exception of the City Attorney's Office, Fire Department, Police Department, and Public Works Department. The City Attorney's Office Personal Services expenditures are slightly above anticipated levels (64.2% expended versus par level of 63.4%) due to higher than anticipated staff workloads supporting activities funded by the General Fund. Expenditures for all Departments will continue to be controlled and monitored to ensure, to the extent possible, appropriations stay within approved levels. However, several departments, including the Fire Department, Police Department, and Public Works Department will likely need 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 the Police and Fire Departments, the largest General Fund departments, as well as the Public Works Department.

KEY GENERAL FUND EXPENDITURES

Department	2023-2024 Budget	YTD Actual	Prior YTD Actual
Police	\$ 525,086,871	\$ 330,684,542	\$ 318,239,288

Overall, Police Department expenditures are tracking to be within estimated levels through February 2024, primarily driven by savings in the non-personal/equipment expenditures, though continued active monitoring and management will be needed to ensure that the Department remains within budgeted levels by year-end. Cost control measures implemented by the Department, discussed in more detail below, will be instrumental in meeting this target and maintaining required service levels.

Personal services expenditures of \$305.8 million are above the anticipated level for this point of the year (64.3% expended, compared to the par level of 63.4%), with overtime expenditures of \$39.6 million (83.4% of the total \$47.4 million 2023-2024 Modified Budget). With City Council's approval of the 2023-2024 Mid-Year Budget Review, actions were taken to liquidate the \$5.0 million Police Department Sworn Backfill Reserve and to reallocate \$17.0 million in vacancy

GENERAL FUND (CONT'D.)

savings to the overtime budget, increasing it from \$25.4 million to \$47.4 million. Year-to-date overtime expenditures are 15.7% above 2022-2023 levels and overtime hours through February (416,922) increased by approximately 7.4% over the same period in the prior fiscal year (388,215). The Department is currently on pace to exceed its personal services budget by approximately \$6.5 million or 1% of the Personal Services Modified Budget. The year-over-year increase is primarily attributable to two main reasons: given the high number of sworn vacancies in the Bureau of Field Operations, increasing levels of overtime are required to maintain minimum staffing levels to effectively respond to calls for service; and because of vacancies within the Bureau of Investigations, patrol officers are required to perform preliminary investigative activities while closing out certain calls for service. Further overtime discussion follows below.

A total of \$24.9 million (50.6%) of the Department's non-personal/equipment budget (\$49.2 million, including carry-over encumbrances) has been expended through February 2024. Excluding the remaining balances for centrally-determined details (\$17.3 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance, and replacement, the Department has approximately \$7.0 million, or 14.2% of its non-personal/equipment budget available for the remainder of the fiscal year. Non-personal/equipment expenditures are slightly below estimated levels (50.6% expended, compared to the par level of 63.4%) and are anticipated to end the year within budgeted levels.

The Police Department is committed to maintain both its personal services and non-personal/equipment expenditures within the current overall budgeted levels. The Police Department and Budget Office are continuing to monitor the impacts of overtime. The following is a discussion on the Department's steps to reduce overtime expenditures while also maintaining minimum staffing and service levels.

The Police Department continues to diligently work to fill vacancies in both sworn and civilian positions. Through the use of available vacancy savings and the \$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 22.1% as of March 1, 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 the Bureau of Field Operations (BFO), to reduce compensatory time balances by the end of each calendar year, or to submit a request for an extension and to prioritize compensatory time as requested time off (outside of sick leave purposes). As ordered by the Chief, sworn staff are required to submit a plan to their immediate supervisor each year, consistent with MOA section 13.6.5.1, by December 1, excluding sworn staff assigned to Patrol. Each plan must outline how a sworn staff member will reduce their compensatory time by March 31, with the intent to reduce the number of officers reaching the 480-hour limit. While the plans have been implemented, due to the needs of the Department (staffing, workload, and specific assignments), there has been limited flexibility in allowing staff to take time off; however, the Department has seen a large majority of individuals taking at least a portion of their excess time off, which has contributed to a reduction in compensatory time hours across the Department (see the table below).

The Police Chief's Office and City Manager's Budget Office met in November and December to discuss alternative approaches around workload and overtime that account for the need to ensure appropriate levels of public safety response while also managing within existing budgetary levels, especially given the growing number of vacant sworn positions and smaller than desired recruit academies. From those meetings, 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. The tool 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.

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.

	October 2022	October 2023	% Change from 2022 to 2023	% Change from 2021 to 2022
# of Sworn Personnel at 480-hour limit	464	384	(17.24%)	3.34%
# of Sworn Personnel between 240 and 480 hours	262	320	22.14%	(4.73%)
Sworn Compensatory Time Balance Liability (hours)	354,179	342,450	(3.31%)	(0.74%)
Sworn Compensatory Time Balance Liability (\$)	\$27.1 M	\$28.7 M	6.07%	(0.48%)
YTD Overtime Expenses for Staff at 480-hour Limit (\$)	\$7.5 M	\$8.7 M	16.30%	18.08%

GENERAL FUND (CONT'D.)

The table below provides a summary of sworn staffing vacancies and street-ready officers. The June 2023 Academy graduated 19 recruits that have now begun the next phase in their career as Field Training Officers. There are currently two active academies, October 2023 (24 recruits) and February 2024 (37 recruits). The Department is anticipating that the June 2024 academies will have 33 recruits. In addition, there are currently 6 lateral candidates in the background process. As of March 1, 2024, of the 1,173 authorized sworn staff, 87 or 7.4% of the positions were in training, while 72 or 6.1% of the positions were on disability/modified duty/other leaves.

	2022-2023 (as of 3/3/2023)	2023-2024 (as of 3/1/2024)
Authorized Sworn Positions	1,173	1,173
(Vacancies)/Overstaff	(94)	(100)
Filled Sworn Positions³	1,078	1,073
Field Training Officer/Recruits	(72)	(87)
Street-Ready Sworn Officers Available	1,007	986
Disability/Modified Duty/Other Leaves	(63)	(72)
Street-Ready Sworn Officers Working	944	914

Department	2023-2024 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 286,167,173	\$ 184,162,601	\$ 180,587,131

The Fire Department's budget totals \$286.2 million, which is comprised of \$270.3 million in personal services and \$15.9 million in non-personal/equipment expenditures. Overall, Fire Department expenditures are performing slightly above estimated levels through February 2024. Personal services expenditures of \$174.0 million, or 64.4% of the budgeted levels, are slightly higher than the expected level of 63.4% at this point in the year, and are currently on pace to end the year \$1 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 69,000 incidents (Priority 1 and Priority 2 type calls) through February 2024, similar to emergency response services activity through the same period in 2022-2023. Personal services expenditures will continue to be closely monitored through the end of the fiscal year, and any necessary budgetary adjustments will be brought forward for City Council consideration as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum.

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.)

The Fire Department's non-personal/equipment budget of \$15.9 million is 64.2% expended or encumbered through February 2024, which is above the expected level of 63.4% primarily due to encumbrances (\$2.7 million) that are still expected to be released throughout the fiscal year as balances are expended. It is anticipated that non-personal/equipment expenditures will end the year within budgeted levels.

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 is continuing efforts to address paramedic recruitment challenges and will recruit, hire, and train personnel to keep pace with staffing attrition and address key vacancies.

In accordance with the City Council's approval of a March 2010 report on annual vacancy and absence rates, the Fire Department has committed to limiting administrative assignments for sworn administrative personnel for overtime control purposes. As of the end of February, of the 33 current authorized staffing levels, the Fire Department had 31 sworn personnel on administrative assignments.

Department	2023-2024 Budget	YTD Actual	Prior YTD Actual
Public Works	\$ 56,690,847	\$ 39,370,730	\$ 35,657,197

The Public Works Department expenditures are above estimated levels through February, which is due to both higher personal services and non-personal/equipment costs. Personal services expenditures of \$19.4 million are above the anticipated level for this point of the year (66.2% expended, compared to the par level of 63.4%). Non-personal/equipment expenditures of \$19.8 million (includes \$7.0 million in encumbrances) are also above anticipated levels with 72.3% of the 2023-2024 Modified Budget expended through February. In total, departmental expenditures are currently on pace to exceed budgeted levels by approximately \$1.0 million to \$1.3 million. The Public Works Department has implemented expenditure control measures and future expenditures will continue to be actively monitored. It is expected that lower levels of spending activity will be anticipated in the second half of the fiscal year thus leading to a reduction in the final estimated overage amount.

GENERAL FUND (CONT'D.)

Through February, 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 \$1.1 million compared to the budgeted amount of \$874,000 (130.6%, compared to the par level of 63.4%) and temporary staffing expenditures totaled \$1.9 million compared to the budgeted amount of \$1.2 million (161.4%, compared to the par level of 63.4%) through February.

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 that is not expected to continue at the same pace in winter and spring. Personal services expenditures are on pace to exceed budgeted estimates by approximately \$400,000 to \$750,000. The Department will continue to actively monitor expenditures to remain within budgeted levels, though budget adjustment actions may be brought forward as part of a future budget action.

Non-personal/equipment expenditures, including encumbrances, are also well above budgeted levels at 72.5% expended through February. This is primarily due to higher than anticipated costs for janitorial services due to the payment in 2023-2024 of invoices for work performed in April and May 2023 (\$1.4 million) and contract increases effective October 2023 (\$1.3 million). The Public Works Department will continue to actively monitor and control expenditures and is working with the City Manager's Budget Office to develop new methodologies to better track and forecast the wide range of contractual services provided across multiple City facilities. If necessary, additional budget adjustments may be brought forward for City Council consideration 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.

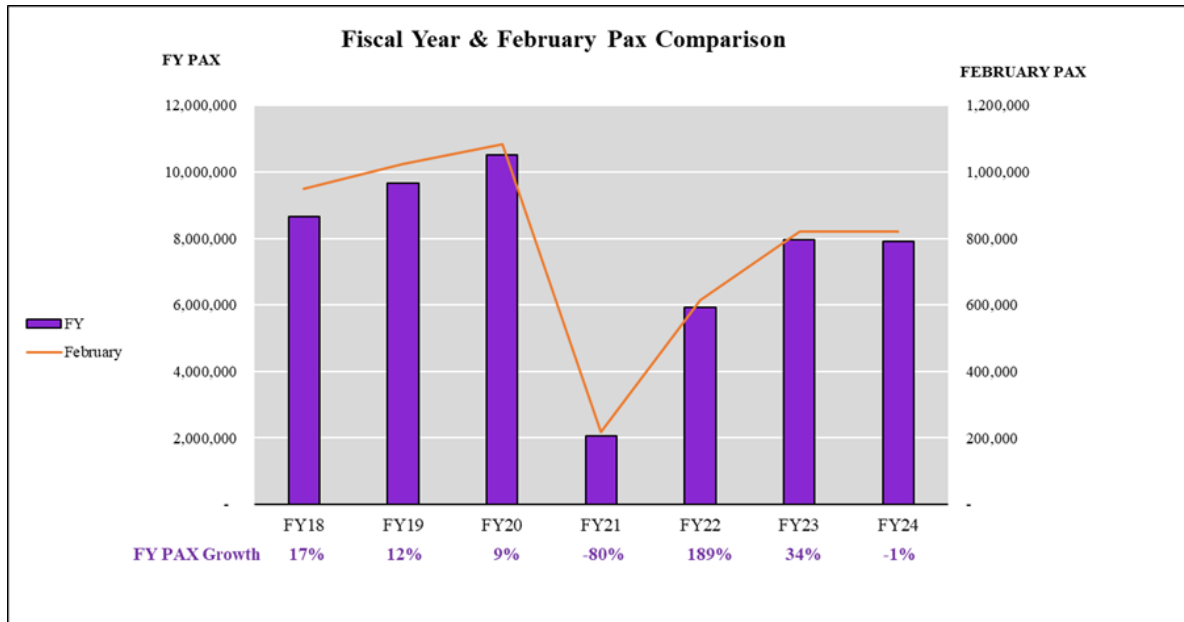
CONTINGENCY RESERVE

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 7.9 million passengers, a decrease of 0.6% from the figures reported through February of the prior year. The chart below depicts the year-over-year change for the month of February and fiscal year-to-date for the last six years.



Fiscal year-to-date mail, freight and cargo totaled 43.4 million pounds, which represents a 12.4% decrease over year-to-date February 2023. Revenue-generating activities posted mixed results from prior year-to-date levels, with decreases in Gallons of Aviation Fuel sold by 5.8%, Traffic Operations (landings and takeoffs) by 4.6%, and Landed Weights by 4.0%. offset by increases in Ground Transportation by 11.2% and Parking Exits by 0.5%.

Through February, overall revenue performance at the Airport were 1.4% above estimated levels. Airport Terminal Concessions (+29.6%) and General and Non-Aviation (+9.7%) were above benchmark levels, while Landing Fees (-8.5%), Terminal Rentals (-3.2%), and Airfield (-1.2%) revenues fell below budgeted levels. Parking and Roadway revenues remain in line with projections. 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 passenger levels remaining slightly below projections, as airlines continue to fluctuate their service levels after the holiday travel season. The continual strong performance of Terminal Concessions revenue is a result of the Airport's ongoing efforts in opening new concession locations and promoting options to passengers.

OTHER FUNDS (CONT'D.)

Through February, both the Airport Customer Facility and Transportation Fee Fund and Airport Maintenance and Operation Fund expenditures were below budgeted levels. In the Maintenance and Operation Fund personal service expenditures were 61.0% of the budget compared to the Airport benchmark of 65.4%, while non-personal/equipment expenditures were 43.4% compared to the benchmark of 55.1%. Non-personal/Equipment expenditures in the Customer Facility and Transportation Fee Fund were 47.0% compared to the straight-line benchmark of 66.7%.

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 CY 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 CY 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 of 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 has 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 combined and has repaid the entire \$60.0 million back as of November 2023.

Through February, Energy Sales totaled \$346.2 million, nearly 1.0% above prior year levels of \$343.2 million and 66.9% of the 2023-2024 Adopted Budget estimate of \$517.5 million. Cost of Energy expenditures including encumbrances totaled \$316.2 million, 6.1% above prior year levels of \$298.0 million and 71.7% of the Modified Budget. The Energy Department monitors energy procurement activities closely and estimates that Energy Sales will end the year at approximately \$525.0 million, or just 2.0% 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 \$393.3 million, or 6.6% below the current budget.

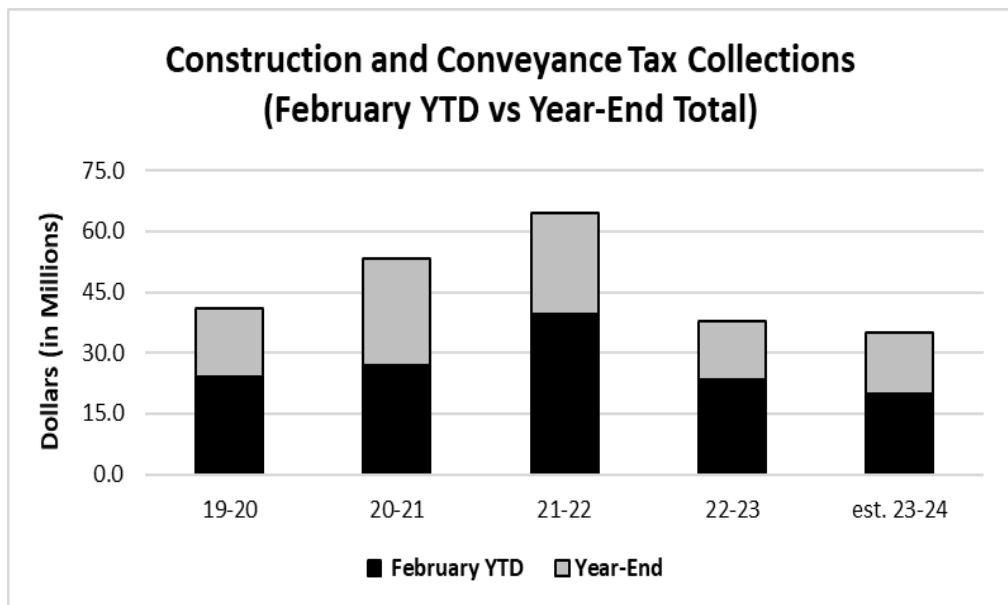
OTHER FUNDS (CONT'D.)

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 to increasing energy costs, this threshold is expected to rise in 2024-2025. Any necessary budget actions to adjust Energy Sales and Cost of Energy allocations will be brought forward for City Council consideration in a future budget process.

Construction and Conveyance Tax Funds

Through February 2024, Construction and Conveyance (C&C) Tax receipts totaled \$19.8 million, which represents 64.4% of the 2023-2024 Modified Budget estimate of \$35.0 million. This amount is 15.9% below collections received through February 2023, which totaled \$23.5 million. In addition, the City has received the March Conveyance receipts from Santa Clara County, which total \$2.7 million. When taking into account total receipts through February and the estimated March collections, C&C receipts in 2023-2024 total \$22.5 million, which represents a 9.9% decline from the 2022-2023 collection level of \$25.0 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 March, receipts have fallen by 9.9%; however, collections were extremely strong in January and February 2024.



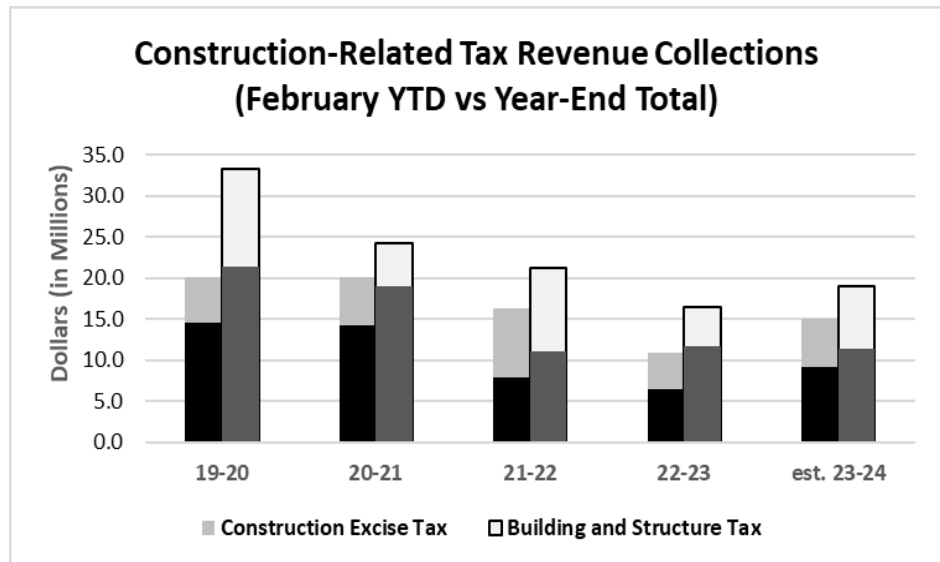
If C&C collections continue to perform positively for the remainder of the year, it is anticipated receipts will meet or slightly exceed the modified budgeted estimate by year-end.

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, 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 future Bi-Monthly Financial Reports.

Other Construction-Related Revenues

Construction activities drive revenue collection in several categories, including the Building and Structure Construction Tax and the Construction Excise Tax (which are described in further detail below) that help fund the City's Traffic Capital Program, and are an indicator of future activity for several other



categories, such as storm and sanitary sewer system fees. Based on activity through February, 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 February, the Building and Structure Construction Tax collection level of \$11.4 million represents 59.9% of the budgeted estimate of \$19.0 million, and is 2.2% below receipts through February 2023 of \$11.6 million. Overall permit valuation through February is higher than the permit valuation for the same period last fiscal year as a result of higher residential and industrial permit activity. However, the year-over-year decrease in tax collections is primarily attributable to lower construction permit valuation for the commercial category. 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 February, the Building and Structure Construction Tax Revenue is anticipated to end the year approximately \$2 million below the budgeted estimate.

OTHER FUNDS (CONT'D.)

Through February, the Construction Excise Tax collection level of \$9.1 million represents 60.7% of the budgeted estimate of \$15.0 million, and is 40.5% above receipts through February 2023 of \$6.5 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 February, the Construction Excise Tax Revenue is anticipated to meet the budgeted estimate by year-end.

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 February 2024, Building Permit revenues of \$23.5 million are 3.9% below the prior-year collection level of \$24.5 million. The 2023-2024 Adopted Budget estimate of \$38.4 million allows for a 3.2% drop from the 2022-2023 collection level of \$37.2 million. Based on current collection trends, Building Fee revenues are anticipated to end the year approximately \$1.0 - \$1.5 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 February 2024, Citywide Planning Fee revenues of \$2.2 million are 4.7% below the prior-year collection level of \$2.3 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 \$300,000 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 February 2024 totaled \$5.7 million, which is 2.4% 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

OTHER FUNDS (CONT'D.)

collection trends through February, Fire Development Fee revenues are anticipated to end the year at approximately \$250,000 - \$300,000 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 February 2024, Planning Fee revenues of \$4.6 million are 9.7% below the prior-year collection level of \$5.1 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 \$800,000 below the budgeted estimate.

The **Public Works Development Fee Program** ensures that developments comply with regulations and provide appropriate public infrastructure, such as sidewalks, traffic signals, and streetlights. Revenues through February of \$10.4 million increased 11.4% from the prior-year level of \$9.4 million. The Public Works Development Fee Program total revenue collections are comprised of \$5.1 million from the Development Services Fee Program, \$5.2 million from the Utility Fee Program, and approximately \$104,000 of interest. The 2023-2024 Adopted Budget estimate of \$15.4 million allows for an 9.0% decrease from the 2022-2023 actual collection level of \$17.0 million. Based on activity through February, revenue collections in the Public Works Development Fee Program are projected to exceed the budgeted levels by \$1.0 million.

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. In particular, high interest rates have contributed to a significantly softened real estate market and lower than anticipated development activity. As a result, 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, with several of these revenue categories also underperforming current year budget estimates.

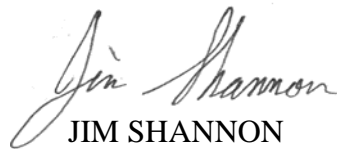
Based on collections and information known at this point, a total of \$35 million in the General Fund is currently anticipated to be available at the end of 2023-2024 for use in 2024-2025 from a combination of excess revenues and expenditure savings, including: \$13.5 million from the 2023-2024 Ending Fund Balance Reserve established with City Council's approval of the 2023-2024 Mid-Year Budget Review; \$5 million from excess revenue; \$16 million from expenditure savings; and \$500,000 from the liquidation of prior year carryover encumbrances. This fund balance was assumed as part of the 2025-2029 General Fund Forecast that was released in February 2024.

Due to a slowing economy, several other City funds are performing below anticipated levels and are anticipated to end the year below budgeted levels, including both the Building and Structure

CONCLUSION (CONT'D.)

Construction Tax and Transient Occupancy Tax collections. In addition, all Development Fee Program revenues, with the exception of the Public Works Fee Program are anticipated end the year below budgeted estimates. C&C Tax collections are performing below prior year levels; however, due to a budget action approved by the City Council as part of the 2023-2024 Mid-Year Review to reduce C&C Tax collections by \$5 million, revenue anticipated to end the year slightly above the modified budget estimate. Conversely, although Airport passenger activity is slightly lower than prior year levels, revenues and expenditures are tracking within estimated levels. Building and Structure Construction Tax collections are experiencing year-over-year declines and are anticipated to fall below the budgeted estimate. 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. The Administration will follow and report on economic indicators and revenues in 2023-2024 through future Bi-Monthly Financial Reports and return to the Mayor and City Council with recommendations for any revisions, if necessary, as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council in June 2024.

As always, staff will continue to report to the City Council significant developments through this and other budget reporting processes. The most recent information will be included in the 2024-2025 Proposed Operating Budget, scheduled for release on May 1, 2024.



JIM SHANNON
Budget Director

Attachment: Finance Department Monthly Financial Report

PUBLIC SAFETY, FINANCE, AND STRATEGIC SUPPORT COMMITTEE

April 8, 2024

Subject: Bi-Monthly Financial Report for January/February 2024

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