



Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Jim Shannon

SUBJECT: BI-MONTHLY FINANCIAL REPORT
FOR JULY/AUGUST 2020

DATE: October 7, 2020

Approved

Date

10-7-20

RECOMMENDATION

Accept the Bi-Monthly Financial Report on actual revenues and expenditures as compared to the 2020-2021 Budget for the two months ending August 2020.

OVERVIEW

The Bi-Monthly Financial Report for July/August 2020 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 2020-2021 Modified Budget and the Finance Department has prepared a report that reflects the financial results for the two months ending August 2020.

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

- While it is very early in the fiscal year and there is minimal data, overall, General Fund revenues appear to be tracking within estimated levels in the General Fund.
- Overall, General Fund expenditures tracked within estimated levels through August. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels.
- Construction and Conveyance Tax, Building and Structure Construction Tax, and Construction Excise Tax collections are performing at anticipated levels and are anticipated to meet or exceed budgeted levels by year-end. These revenues will be closely monitored due to the unknown long-term impacts the COVID-19 pandemic may cause on these economically sensitive revenue sources.

OVERVIEW (CONT'D.)

- At this early point in the fiscal year, all Development Fee Programs, with the exception of the Small Cell Permitting Fee Program, are anticipated to end the year within budgeted levels. However, the ongoing impacts from the COVID-19 pandemic can abruptly affect these revenue collections, therefore, activity levels will continue to be closely monitored, and if necessary, budgetary actions may be brought forward later in the year to align the budget with anticipated levels.
- The Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned close to 533,224 passengers through August, a decrease of 81.4% from the figures reported through August of the prior year. This year-over-year drop is due to the ongoing effect the COVID-19 pandemic is having on air travel.
- In Silicon Valley, economic conditions drastically changed due to the shelter-in-place order that was issued in Santa Clara County on March 17th. To comply with the order, a significant portion of economic activity immediately halted, which has had deep impacts to many of the economically sensitive revenues in the General Fund and other City funds. In addition, unemployment levels have significantly worsened and consumer confidence levels have plummeted. The Administration will continue to monitor the effects the COVID-19 pandemic is having on the local economy and its associated impact on the General Fund and other funds as well.
- The Administration will continue to report to the City Council all significant developments through future Bi-Monthly Financial Reports and the 2020-2021 Mid-Year Budget Review.

Economic Environment

Economic conditions in the Silicon Valley significantly changed in Spring 2020 as a result of the COVID-19 pandemic. Due to uncertainty regarding a vaccine, a possible second wave, and ongoing social distancing requirements, economic conditions, including employment levels, are

anticipated to continue to be suppressed during 2020-2021. The August 2020 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.05 million was 3.2% below the August 2019 level of 1.09 million.



OVERVIEW (CONT'D.)

Between August 2019 and August 2020, employment in the San José MSA dropped by 97,200 jobs (8.4%). This decrease includes leisure and hospitality jobs plummeting by 41,600 jobs, primarily in the food services and drinking places; information industry declining by 11,300 jobs; and the trade, transportation, and utilities sectors falling by 10,300 jobs.¹

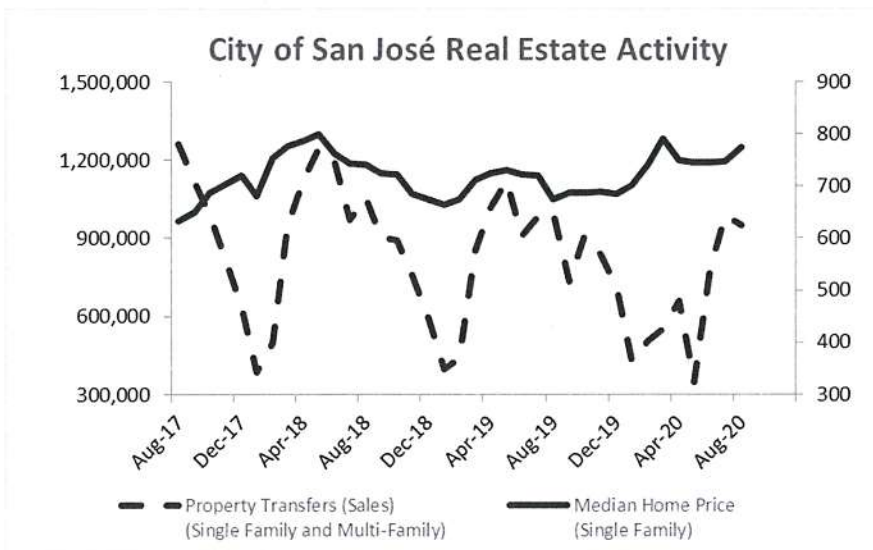
After topping at 12.0% in April, the local unemployment rate has continuously dropped. In August 2020, the local unemployment rate was 7.6%, which is significantly higher than the August 2019 level of 2.7%, but is lower than the July 2020 rate of 9.5%. Additionally, while local unemployment figures have significantly risen since the shelter-in-place mandate began, the unadjusted rates continue to be much lower than the State and the national levels.

Unemployment Rate (Unadjusted)				
	Aug. 2019	April 2020	July 2020	Aug. 2020**
San Jose Metropolitan Statistical Area*	2.7%	12.0%	9.5%	7.6%
State of California	4.2%	16.2%	13.9%	11.6%
United States	3.8%	14.4%	10.5%	8.5%

* San Benito and Santa Clara Counties Source: California Employment Development Department.
 ** August 2020 estimates are preliminary and may be updated.

From spring 2012 through fall 2018, the median sale price for homes had consistently experienced year-over-year growth. Beginning in October 2018, however, Santa Clara County experienced a slow down in the local real estate market, with median sale prices dropping, the average days on market increasing, and the number of sales decreasing. This slowdown lasted for about 12 months, until the real estate market began stabilizing, with median home prices and property sales once again growing compared to prior year levels.

Real estate activity is anticipated to be sluggish over the next year due to higher unemployment rates coupled with lower consumer confidence. 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



¹ State of California Employment Development: Labor Market Information Division Press Release, September 18, 2020

OVERVIEW (CONT'D.)

prior year) ranging from 10%-54% between the beginning of the shelter-in-place through June. In August 2020 there were a total of 624 property transfers for all residences, which represents a 4.0% decline from August 2020. Although property transfers have primarily declined since the pandemic began, the median single family home price has continued to grow. From March 2020 through June 2020 year-over-year price increases have ranged from 3%-14% when compared to the same time period in the prior year. As of August 2020, the median single family home price totaled \$1.25 million, which represents a 19.0% increase from the August 2019 price of \$1.05 million.

On a national level, consumer confidence continued to decline in August, falling to the lowest levels since May 2014. Lynn Franco, Senior Director of Economic Indicators at The Conference Board, stated "Consumer Confidence declined in August for the second consecutive month. Consumers' optimism about the short-term outlook, and their financial prospects, also declined and continues on a downward path. Consumer spending has rebounded in recent months but increasing concerns among consumers about the economic outlook and their financial well-being will likely cause spending to cool in the months ahead."²

Economic conditions will continue to be closely monitored and will be factored into the assessment of the City's performance in 2020-2021 as well as the development of the 2022-2026 General Fund Forecast that will be released in February 2021.

GENERAL FUND

REVENUES

General Fund revenues through August 2020 totaled \$211.3 million, which represents an increase of \$111.9 million from the August 2019 level of \$99.5 million. This increase is primarily attributable to the City receiving Tax and Revenue Anticipation Notes (TRANs) in the current year to facilitate the pre-payment of a portion of the City's 2020-2021 retirement contributions; retirement pre-payment did not occur in 2019-2020. Excluding the TRANs revenue in 2020-2021 (\$130.0 million), revenue in 2020-2021 has dropped approximately \$18.1 million (18.2%) from the prior year. This decrease is primarily due Development Fee Program revenue that was previously captured in the General Fund (approximately \$10.5 million through August 2019) being allocated to specific Development Fee Program Funds beginning in 2020-2021. In addition, several other categories are experiencing declines compared to prior year levels, including Utility Tax (\$2.9 million), Fines, Forfeitures, and Penalties (\$1.05 million), and Transient Occupancy Tax (\$735,000). The lower collections in the Utility Tax category is primarily due to timing of payments. The lower collections for Fines, Forfeitures, and Penalties (Parking Fines) and Transient Occupancy Tax revenues are primarily the result of impacts related to the COVID-19 pandemic and shelter-in-place orders. It is important to note that only very preliminary information is currently known for all revenue categories.

² The Conference Board, Consumer Confidence Survey, August 25, 2020

GENERAL FUND (CONT'D.)

At this early point in the year the revenues are overall anticipated to meet the budgeted level by year-end, with the exception of the Fines, Forfeitures, and Penalties and Business Taxes categories. Due to the COVID-19 pandemic and the shelter-in-place orders, Cardroom Business Taxes and Parking Fines are not anticipated to meet the budgeted estimates. As a result, budgetary adjustments are included in the 2019-2020 Annual Report (which will be considered by the City Council on October 20, 2020) to reduce these revenue estimates accordingly. The discussion on the following pages highlights General Fund revenue activities through August 2020.

KEY GENERAL FUND REVENUES

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 370,500,000	\$ 0	\$ 566,352

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. In 2020-2021, Property Tax receipts are estimated at \$370.5 million, which reflects less than 1% growth from the 2019-2020 collection level of \$369.5 million. Through August, no Property Tax revenue has been received, as a majority of the revenue in this category does not begin to be received until October of each year. At this early point in the year, Property Tax revenue is overall anticipated to meet budgeted levels. 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. The 2020-2021 Secured Property Tax estimate of \$347.5 million was built on assumed growth of 5.5% for general Secured Property Tax receipts (\$315.0 million), \$21.0 million for SARA revenue, and estimated revenue of \$11.5 million for ERAF receipts. As anticipated, no Secured Property Tax receipts have been received through August due to the scheduled timing of these payments.

As mentioned above, the general Secured Property Tax estimate totals \$315.0 million in 2020-2021, which assumes growth of 5.5% from the 2019-2020 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. 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. The preliminary general Secured Property Tax estimate provided by the County totals \$314.0 million, which is approximately \$1.0 million below the budgeted estimate. However, as it is still very early in the year, this estimate will likely change as additional information is known.

GENERAL FUND (CONT'D.)

The 2020-2021 estimated collection level will continue to be monitored and information will be included in future Bi-Monthly Financial Status Reports, the 2020-2021 Mid-Year Status Report, and the 2021-2022 budget process.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. In 2020-2021, receipts are estimated at \$21.0 million, which is consistent with the 2019-2020 collection level. The preliminary estimate from the County of Santa Clara for 2020-2021 totals \$21.5 million, which is slightly higher than the budgeted estimate.

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. However, 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. Due to changes that may be implemented by the State regarding the calculation of ERAF, the 2020-2021 budget of \$11.5 million includes a 50% decline from the 2019-2020 collection level. As additional information is received regarding ERAF calculations and its impact on Property Tax revenue, updates will be reported back as part of the 2020-2021 Mid-Year Review and future Bi-Monthly Financial Reports.

In the **Unsecured Property Tax** category, the largest payment is received in October of each year. The 2020-2021 Adopted Budget revenue estimate of \$13.1 million allows for 15.5% drop from the unusually high 2019-2020 collection level of \$15.5 million. The preliminary estimate from the County of Santa Clara for 2020-2021 totals \$14.8 million, which is higher than the budgeted estimate.

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. The 2020-2021 Adopted Budget estimate of \$6.0 million is consistent with the 2019-2020 actual collection level. However, the preliminary 2020-2021 estimate from the County for this category of \$3.0 million is 50% below the budgeted estimate.

Aircraft Property Tax receipts are typically received in October of each year. The 2020-2021 Adopted Budget estimate of \$3.0 million is consistent with the 2019-2020 receipts, and is slightly above the \$2.7 million preliminary estimate from the County of Santa Clara.

In the **Homeowners Property Tax Relief** category, revenues in 2020-2021 are expected to be at the budgeted estimate of \$900,000, which is consistent with the 2019-2020 collection level.

GENERAL FUND (CONT'D.)

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 242,500,000	\$ 7,303,824	\$ 0

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. The 2020-2021 Adopted Budget for Sales Tax totals \$242.5 million, which allows for a 7% drop from the 2019-2020 collection level of \$260.6 million. It is important to note that 2019-2020 receipts only reflect three quarters of revenue associated with the Revenue Capture Agreement with eBay, Inc., as marketplace facilitators were not required to collect and remit sales tax until October 2020.

In March 2020, as the COVID-19 pandemic rapidly accelerated, the County of Santa Clara instituted a shelter-in-place order, which severely restricted economic activity. The shelter-in-place mandate has impacted almost all sectors of Sales Tax revenue, including retail sales, construction, transportation, and business-to-business. The 2020-2021 Adopted Budget estimate of \$242.5 million assumes that Sales Tax revenue will continue to be suppressed through 2020-2021. Information related to Sales Tax payments are distributed from the CDTFA four times throughout the year: November (representing July-August activity), February (representing September-December activity), May (representing January-March activity), and August (representing April-June activity). There have not been any Sales Tax receipts through August as the first payment for this fiscal year will not be received until November 2020 (the year-to-date revenue reflected is due to the timing of accruals). However, based on the performance for the final quarter of 2019-2020 and with a full year of revenue associated with the Revenue Capture Agreement being received in 2020-2021, it is preliminarily anticipated that Sales Tax will meet or slightly exceed the budgeted estimate by year-end. Given the volatile nature of this category during the COVID-19 pandemic, Sales Tax will continue to be closely monitored, with any necessary budget adjustments brought forward for City Council consideration later in the fiscal year. Additional information about each of the Sales Tax sub-categories is provided on the following pages.

General Sales Tax is the largest driver of the Sales Tax category and accounts for almost 80% of all Sales Tax receipts. The 2020-2021 General Sales Tax estimate was built on the assumption that 2019-2020 receipts would total \$201.0 million (including the Revenue Capture Agreement) and drop 4.5% to \$192.0 million in 2020-2021. However, since 2019-2020 receipts ended the year at \$211.0 million, receipts can drop by 9.0% and meet the budgeted estimate.

The 2020-2021 General Sales Tax estimate assumes suppressed economic conditions with social distancing restrictions remaining through at least the first half of the year, which would limit sales activity. As previously mentioned, there have not been any General Sales Tax receipts through August as the first payment for this fiscal year will not be received until November 2020. However, based on the performance for the final quarter of 2019-2020 and with a full year of

GENERAL FUND (CONT'D.)

revenue associated with the Revenue Capture Agreement being received in 2020-2021, it is anticipated that General Sales Tax will meet or slightly exceed the budgeted estimate by year-end.

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% of the proceeds. Due to this distinction, the Local Sales Tax revenue is not anticipated to be impacted as negatively in 2020-2021. The 2020-2021 Local Sales Tax estimate was built on the assumption that 2019-2020 receipts would total \$45.0 million and drop slightly to \$44.5 million in 2020-2021. However, since 2019-2020 receipts ended the year under budget at \$43.2 million, growth of 3.1% is needed in 2020-2021 to meet the budgeted estimate. Although no Local Sales Tax receipts have been received at this point in the year, based on the performance during the final quarter of 2019-2020, it is anticipated Local Sales Tax will fall slightly below the budgeted estimate by year-end.

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. The 2020-2021 budgeted estimate of \$6.0 million allows for a 5.7% drop from the 2019-2020 collection level of \$6.4 million. At this very early point in the fiscal year, it is anticipated that collections will meet the budgeted estimate by year-end.

GENERAL FUND (CONT'D.)

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 9,000,000	\$ 338,516	\$ 1,073,665

The 2020-2021 Adopted Budget estimate for the General Fund **Transient Occupancy Tax (TOT)** allocation (40% of the total tax) totals \$9.0 million. The 2020-2021 TOT estimate was built on the assumption that 2019-2020 receipts would total \$13.5 million and drop 33% to \$9.0 million in 2020-2021. However, since 2019-2020 receipts ended the year at \$14.1 million, receipts can drop by 36% and meet the budgeted estimate. Through August, TOT receipts totaled \$339,000, which represents a 68.5% decline from the prior year collection level, illustrating the drastic contraction in hotel activity in response to COVID-19.

Average hotel occupancy and revenue levels bottomed in April 2020, the first full month following the shelter-in-place order issued in mid-March, with occupancy dropping to 15.1% and revenue-per-available room (RevPAR) dropping to \$15.73. Following these unprecedented lows, hotel activity has shown a sustained, but incremental rebound. As of August, average occupancy had reached 42.5%, with RevPAR of \$44.67. Although this incremental improvement aligns with monthly estimates for TOT performance in 2020-2021, cumulative year-over-year average occupancy (July – August) reflects a 39.5% decline. Cumulative average RevPAR through August (\$39.89) is \$107.39 lower than comparable levels through August 2019 (\$147.28), a 72.9% decline.

Overall, hotel performance for the first two months of 2020-2021 is consistent with the forecast approved as part of 2020-2021 City Manager's Budget Addendum #4, General Fund Revenue Assumptions and Transient Occupancy Tax Amendments. However, the continued impacts of COVID-19 inject even more uncertainty into an already volatile revenue source. In partnership with Team San Jose (the City's operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in the 2020-2021 Mid-Year Review (released in January 2021) and future Bi-Monthly Financial Reports.

GENERAL FUND (CONT'D.)

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 95,800,000	\$ 6,530,640	\$ 9,394,398

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through August, Utility Tax receipts of \$6.5 million are \$2.9 million lower than the prior year level. The year-over-year decrease is primarily due to lower Electricity Utility Tax receipts, which totaled \$1.9 million in August 2020 compared to \$5.6 million in August 2019, due to the timing of payments. The 2020-2021 Adopted Budget was built on the assumption that 2019-2020 Utility Tax revenue would end the year at \$96.1 million and then stay relatively flat at \$95.8 million in 2020-2021. However, since 2019-2020 ended the year at \$99.5 million, receipts can drop by 3.7% in 2020-2021 to meet the budgeted estimate. Based on historical collection trends and performance through August, it is anticipated overall Utility Taxes will meet or exceed the budgeted levels by year-end.

In the **Electricity Utility Tax** category, collections through August totaled \$1.9 million, which is significantly below the \$5.6 million received in the prior fiscal year, due to the timing of payments. The 2020-2021 Adopted Budget assumed that 2019-2020 receipts would total \$46.5 million, and remain relatively flat at \$46.6 million in 2020-2021. However, since 2019-2020 ended the year above estimated levels (\$48.7 million), receipts can decline by 4.3% in 2020-2021 and meet the budgeted estimate. Based on the preliminary information known at this very early point in the year, receipts are anticipated to meet the budgeted estimate by year-end.

In the **Gas Utility Tax** category, receipts through August totaled \$74,000, a significant decrease from the previous year collection of \$594,000, due to the timing of payments. The 2020-2021 Adopted Budget estimate of \$11.3 million is fairly consistent with the 2019-2020 actual collection level of \$11.23 million. Based on the preliminary information known at this very early point in the year, receipts are anticipated to meet the budgeted estimate by year-end.

Water Utility Tax collections of \$2.7 million through August are \$1.4 million above the prior year level due to the timing of payments. The 2020-2021 Adopted Budget was built on the assumption that 2019-2020 collections would total \$16.5 million and remain flat in 2020-2021. However, since 2019-2020 receipts totaled \$16.9 million, receipts in 2020-2021 can decline by 2.4% and meet the budgeted estimate. Based on the preliminary information known at this early point in the year, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

Collections in the **Telephone Utility Tax** category of \$1.8 million through August are slightly below the prior year collections of \$1.9 million. The 2020-2021 Adopted Budget estimate of \$21.4 million allows for a 5.7% drop from the 2019-2020 actual collection level of \$22.7 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 current collection trends, receipts in this category are anticipated to meet the budgeted estimate by year-end.

GENERAL FUND (CONT'D.)

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Business Taxes	\$ 70,900,000	\$ 10,347,264	\$ 9,895,996

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through August, overall collections of \$10.3 million are 4.6% above the prior year collection levels of \$9.9 million, primarily reflecting higher Cannabis Business Tax and Disposal Facility Tax collections, partially offset by lower collections in the Cardroom Business Tax category. The 2020-2021 Adopted Budget estimate of \$70.9 million is consistent with the 2019-2020 actual collection level. Due to the social distancing requirements related to cardroom operations, it is currently anticipated that collections will fall below the budgeted level by approximately \$8.5 million. However, partially offsetting this loss is higher Disposal Facility Tax revenue, which is anticipated to exceed the budgeted estimate by approximately \$1.5 million. The 2019-2020 Annual Report, which will be considered by the City Council on October 20, 2020 includes a recommendation to decrease the Business Taxes category by a net of \$7.0 million (from \$70.9 million to \$63.9 million) to align the 2020-2021 budget with estimated collection levels.

Cannabis Business Tax collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Through August, receipts of \$2.1 million are significantly above prior year levels of \$1.0 million. This increase is due to the timing of payments and higher activity levels. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational marijuana use in the State of California. As a result, the sale of recreational cannabis at the 16 licenses dispensaries in San José began in January 2018. The 2020-2021 Adopted Budget estimate of \$17.0 million requires growth of 6.8% from 2019-2020 actual collection levels. Although it is very early in the fiscal year, based on collections through August, it is anticipated revenue will meet or exceed the budgeted level by year end.

Through August, no **Cardroom Tax** receipts have been received due to the cardrooms not being operational. As a result of the shelter-in-place mandate, cardrooms suspended operations in March 2020 and remained closed through August 2020. In September, the shelter-in-place order was modified to allow cardrooms to begin outdoor operations with social distance requirements. However, as cardrooms were not operational from July through September and the modified shelter-in-place limits business operations, 2020-2021 revenue collections are anticipated to be significantly impacted. The 2019-2020 Annual Report, which will be considered by the City Council on October 20, 2020 includes a recommendation to decrease the Cardroom Tax revenue by \$8.5 million (from \$17.1 million to \$8.5 million), to align the 2020-2021 budget with estimated collection levels.

GENERAL FUND (CONT'D.)

Disposal Facility Tax (DFT) are business taxes received based on the tons of solid waste disposed at landfills within the City. DFT revenue through August totaled \$1.0 million, which is \$604,000 above the prior year level. The 2020-2021 budget was built on the assumption that the COVID-19 pandemic would impact revenue collections, resulting in 2019-2020 receipts totaling total \$12.3 million and dropping by approximately 10% to \$11.1 million in 2020-2021. However, collections have not been negatively impacted by the pandemic and 2019-2020 collections ended the year at \$12.52 million. Based on recent collection levels, it is anticipated that 2020-2021 receipts will exceed the budgeted estimate of \$11.1 million and end the year close to prior year receipts. Therefore, the 2019-2020 Annual Report, which will be considered by the City Council on October 20, 2020 includes a recommendation to increase the DFT revenue by \$1.5 million (from \$11.1 million to \$12.6 million), to align the 2020-2021 budget with estimated collection levels.

Through August, **General Business Tax** receipts of \$7.2 million are 5.0% above the prior year collection levels. The 2020-2021 Adopted Budget assumed that 2019-2020 receipts would total \$28.0 million, and drop by approximately 8% to \$25.7 million in 2020-2021. This decrease reflected a net increase of the 2% CPI adjustment that will be assessed in 2020-2021, offset by a 10% reduction to General Business Tax proceeds as a result of the COVID-19 pandemic's impact on local businesses. Based on the preliminary information known at this very early point in the year, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

Revenue	2019-2020 Budget Estimate	YTD Actual	Prior YTD Collections
Real Property Transfer Tax	\$ 30,000,000	\$ 1,703,374	N/A

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 2020-2021, revenue of \$30.0 million is anticipated to be received, which will be expended on homeless prevention and affordable housing projects and programs. Through August, Real Property Transfer Tax receipts totaling \$1.7 million, which represents 5.7% of the budgeted has been received. Although it is very early in the fiscal year, if collections continue at this pace, it is anticipated receipts will fall short of the budgeted estimate by year-end. Real Property Transfer Tax collections will continue to be closely monitored, and if necessary, budget adjustments may be brought forward for City Council consideration later in the fiscal year.

GENERAL FUND (CONT'D.)

EXPENDITURES

Through August, General Fund expenditures (without encumbrances) of \$152.2 million were 25.2% below the prior year level of \$203.4 million. Encumbrances of \$67.2 million were 5.4% below the prior year level of \$71.0 million. General Fund expenditures and encumbrances through August of \$219.4 million constitute 13.1% of the total budget including reserves, and 15.0% of the budget excluding reserves. The significant decrease in year-over-year expenditures is due to development-fee program expenditures being included in the General Fund in 2019-2020 (\$8.7 million), but moved to separate Development Fee Program Funds in 2020-2021, and transfers in 2020-2021 not yet being processed (totaled \$37.7 million through August 2019). After accounting for the Development Fee Program expenditures and transfers, the August 2020 General Fund expenses reflect a \$8.6 million decrease, or 3.1%, from the prior year. Overall, General Fund expenditures are anticipated to end the year within budgeted levels.

Through August, departments are overall performing within estimated levels for personal services expenditures. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels. Following is a discussion of the performance of the Police and Fire Departments, the largest General Fund departments.

KEY GENERAL FUND EXPENDITURES

Department	2020-2021 Budget	YTD Actual	Prior YTD Actual
Police	\$ 458,052,984	\$ 69,853,640	\$ 71,327,005

Overall, Police Department expenditures are slightly above estimated levels through August, but, at this early point in the fiscal year, are still anticipated to end the year within budgeted levels. Personal Services expenditures of \$61.7 million are slightly above the anticipated level for this point of the year (14.6% expended, compared to the par level of 14.5%). Overtime expenditures of \$2.6 million reflect 9.6% of the total \$27.1 million budget. A total of \$8.1 million (22.6%) of the Department's Non-Personal/Equipment budget (including carryover encumbrances) was expended or encumbered through August, which is 7.4% below the prior year. Excluding the remaining balances for centrally-determined details, including electricity, gas, and vehicle operation and replacement, the Police Department has approximately \$14.5 million, or 42.3%, of the non-centrally-determined appropriation available for the remainder of the fiscal year and is expected to end the year within budgeted levels.

Apart from the continued challenges posed by COVID-19, the Police Department continued to work diligently to fill vacancies in both sworn and civilian positions, using vacancy savings and \$7.0 million in one-time funding from the Sworn Hire Ahead Program to support Police Academy Recruits and backfill sworn positions with overtime during 2019-2020. These efforts continue into 2020-2021, supported by the extended Sworn Hire Ahead Program and three planned Police

GENERAL FUND (CONT'D.)

Academies. These efforts are intended to reduce vacancy levels that have contributed to the build-up of compensatory time balances for sworn personnel. There is a limit of 480 hours of compensatory time balances after which sworn personnel are paid in overtime for any additional hours worked. Currently, 333 sworn personnel have reached the 480-hour limit.

Overtime consists of 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 compensatory time balance at the end of August 2020 was 344,203 hours for sworn personnel. This represents an increase of 39,189 hours or 12.9% compared to the August 2019 balance of 305,014. As described above, 333 sworn personnel have reached the compensatory balance limit of 480 hours and all overtime worked by these employees are paid overtime. 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 submit a request for an extension, per the MOA. However, due to staffing levels needed to respond to calls for service, BFO is currently exempted until such time the Department reaches full street-ready sworn staffing (sworn personnel who are fully trained and able to work as solo beat officers, but not including those on disability/modified duty/other leave).

As of September 2020, the Police Department had 1,159 authorized sworn staff, of which 28 were vacant (2.4%) and 96 were in training (8.3%), leaving 1,035 street ready sworn positions available (this includes sworn employees on disability/modified duty/other leaves) as shown in the chart below. When sworn employees on disability/modified duty/other leaves are excluded, the total of 957 positions were street-ready sworn officers working.

	2019-2020 (as of 9/6/2019)	2020-2021 (as of 9/11/2020)
Authorized Sworn Positions	1,151	1,159
Vacancies	(36)	(28)
Filled Sworn Positions	1,115	1,131
Field Training Officer/Recruits	(134)	(96)
Street-Ready Sworn Officers Available	981	1,035
Disability/Modified Duty/Other Leaves	(78)	(78)
Street-Ready Sworn Officers Working	903	957

The Police Department has completed or began several academies over the past year, including June 2019 (53 recruits), October 2019 (49 recruits), February/June 2020 (55 recruits). Due to the COVID-19 pandemic, the February 2020 Academy was temporarily suspended in March but resumed in late June. This academy is anticipated to complete in January 2021. In order to fill the vacant sworn positions and put more Police Officers back on patrol, the Department will continue to conduct two additional Police Recruit Academies in 2020-2021, with the next one beginning in October 2020 with an estimated 45 to 55 recruits.

GENERAL FUND (CONT'D.)

Department	2020-2021 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 244,178,014	\$ 19,643,720	\$ 37,999,197

The Fire Department's budget totals \$244.2 million, which is comprised of \$234.1 million in personal services and \$10.1 million in non-personal/equipment expenditures. Overall, Fire Department expenditures are performing slightly above estimated levels through August. Personal services expenditures of \$36.1 million, or 15.44% of the Modified Budget, are slightly above the expected level of 14.54% at this point of the year. The higher than estimated expenditures are due to costs incurred from mutual aid, Strike Team, and Task Force 3 deployments, which will receive reimbursement funding from the State of California and Federal Emergency Management Agency that will be brought forward at a later point in the year. The Fire Department's Personal Services appropriation will continue to be carefully monitored to ensure overall expenditures remain within approved levels. In addition, the Fire Department's non-personal/equipment budget of \$10.1 million was 21.8% expended or encumbered through August 2020 and is expected to end the year within budgeted levels.

Overall, the average sworn vacancy rate of 3.68% through August 2020 is slightly higher than the vacancy rate of 3.11% experienced this time last year, though vacancies have been above the budgeted rate of 2.5%. The second full Firefighter Recruit Academy for 2019-2020 began in March 2020 and concluded on August 7, 2020, with 22 graduates. The next fire fighter academy is anticipated to begin in spring 2021.

In accordance with the City Council's approval of a March 2010 report on annual vacancy and absence rates, the Fire Department has committed to limiting administrative assignments for sworn administrative personnel for overtime control purposes. As of the end of August, of the 31 current authorized staffing level, the Fire Department had 30 sworn personnel on administrative assignments.

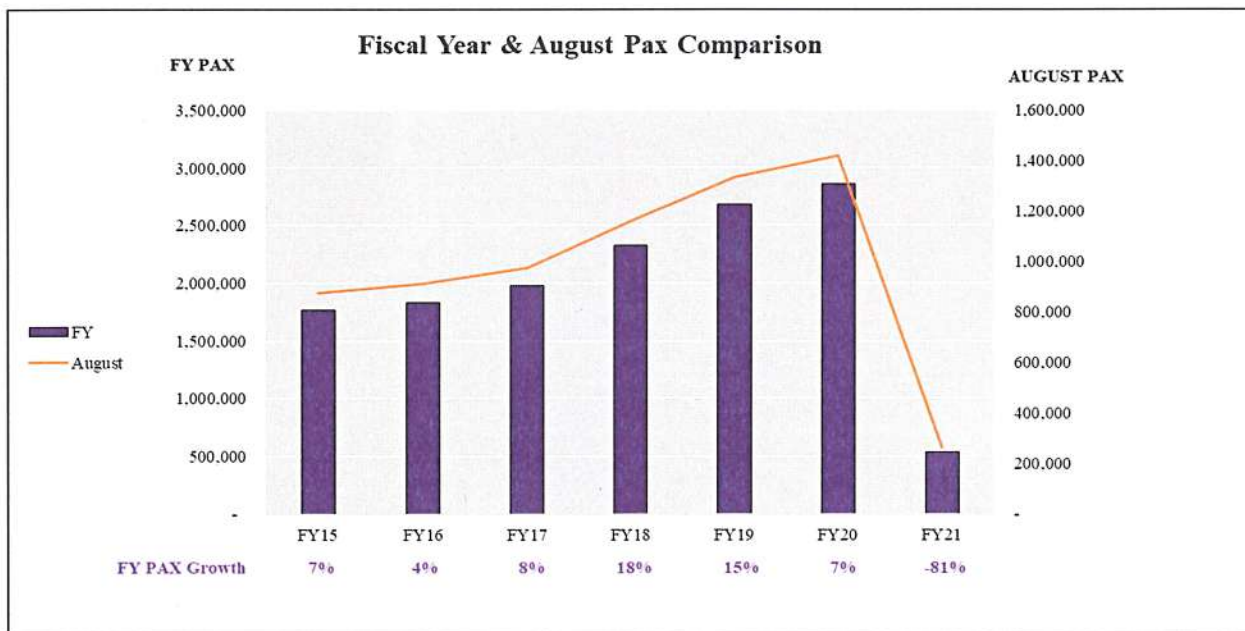
CONTINGENCY RESERVE

The General Fund Contingency Reserve remained at \$40.0 million through August, with no revisions through the first two months of the fiscal year. This reserve level complies with Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, that 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 533,224 passengers, a decrease of 81.4% from the figures reported through August of the prior year. Year-to-date International passengers have declined 77.4% and Domestic passengers have declined 81.6% due to the ongoing effect the COVID-19 pandemic is having on air-travel. The chart below depicts the year-over-year change for the month of August and fiscal year-to-date for the last seven years.



Fiscal year-to-date mail, freight and cargo totaled 14.4 million pounds, a 20.8% decrease through August compared to the prior year. Revenue-generating activities all posted decreases over the same period of the prior fiscal year: Traffic Operations (landings and takeoffs) by 48.3%, Landed Weights by 58.8%, Ground Transportation trips (taxicabs & TNC's) by 88.1%, Parking exits by 75.9% and lastly, Gallons of aviation fuel sold decreased by 73.0%.

Year-to-date Airport revenue through August primarily reflects just one month of receipts. Due to the unpredictable air travel environment, revenues, as well as expenses, will be closely monitored. The Airport has \$40.0 million, of the total \$65.6 million, of Federal CARES Act funding programmed to pay operating expenses and partially offset the reduced revenue outlook. Internal capital and operating expenditure savings targets are established until passenger and revenue levels recover above currently forecasted levels. The Airport Department will continue to intently monitor passenger traffic and the overall financial condition.

OTHER FUNDS (CONT'D.)

Through August, both the Airport Customer Facility and Transportation Fee Fund and Airport Maintenance and Operation Fund expenditures tracked well below budgeted levels. In the Maintenance and Operation Fund, personal service expenditures were 14.6% of the budget compared to the benchmark of 15.4%, while non-personal/equipment expenditures were 3.9% compared to the benchmark of 7.1%. Non-personal/Equipment expenditures in the Customer Facility and Transportation Fee Fund were 4.8% compared to the straight-line benchmark of 16.7%. The activity levels, revenues, and expenditure status of the Airport Funds will continue to be closely monitored throughout the fiscal year. In addition, the status of these funds will continue to be reported in each future Bi-Monthly Financial Report.

Construction and Conveyance Tax Funds

Through August 2020, Construction and Conveyance (C&C) Tax receipts totaled \$3.1 million, which represents 10.3% of the 2020-2021 Adopted Budget estimate (\$30.0 million). This amount is 16.2% below receipts through August 2019, which totaled \$3.7 million. In addition, the City has received the September Conveyance receipts from Santa Clara County, which total \$3.0 million, a 20.8% decrease from the September 2019 collection level. When taking into account total receipts through August and the estimated September collections, total C&C receipts in 2020-2021 total \$6.1 million, an 18.5% decline from the prior year collection level of \$7.5 million.

The 2020-2021 Adopted Capital Budget was built on the assumption that C&C Tax receipts would drop significantly in 2020-2021 due to the COVID-19 pandemic and uncertainty regarding its long-term effect on the local real estate market, which is the primary driver of this revenue source. C&C Tax receipts in 2020-2021 have been budgeted at \$30.0 million, which allows for a 27% drop from 2019-2020 actual collection level of \$40.9 million. As mentioned above, through September C&C receipts have declined almost 19% compared to the prior year. If this collection trend continues, receipts would end the year above the budgeted level of \$30 million. These economically sensitive taxes will continue to be closely monitored and updates will be provided in future Bi-Monthly Financial Reports.

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, portions of the local real estate market continue to be impacted due to the COVID-19 pandemic. 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. As mentioned, a slowdown in the market was anticipated and current year C&C receipts were budgeted accordingly. The local market will continue to be closely monitored, with updates provided in the 2020-2021 Mid-Year Review (released in January 2021) and future Bi-Monthly Financial Reports.

OTHER FUNDS (CONT'D.)

Other Construction-Related Revenues

Capital Fund revenues associated with construction activity are currently anticipated to exceed their budgeted estimates by year-end. As discussed below, the Construction Excise Tax and Building and Structure Construction Tax receipts through August are higher than prior year levels. Construction activities drive revenue collection in several categories, including the Construction Excise Tax and the Building and Structure Construction Tax 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 August, the **Building and Structure Construction Tax** collection level of \$10.4 million is 38.6% above the prior year receipts of \$7.5 million and the **Construction Excise Tax** collection level of \$7.1 million is 43.3% above the prior year receipts of \$4.0 million.

When the 2020-2021 Adopted Capital Budget was developed it was anticipated that 2019-2020 Building and Structure Construction Tax receipts would total \$24.0 million, then decrease by approximately 20% to \$19.0 million in 2020-2021. However, since 2019-2020 receipts ended the year at \$33.3 million, the 2020-2021 budget allows for a 42.9% decline from the prior year collection level. Similarly, the 2020-2021 Adopted Capital Budget anticipated 2019-2020 Construction Excise Tax receipts would total \$19.0 million, then decrease by approximately 26% to \$14.0 million in 2020-2021. However, since 2019-2020 receipts ended the year at \$20.1 million, the 2020-2021 budget allows for a 30.2% decline of Construction Excise Tax receipts from the prior year collection level.

Revenues recorded through August are well above budgeted estimates and appear to be significantly higher than the activity levels experienced in the Development Fee Programs discussed below, which are also driven by pending construction activity. The Administration is working to better understand the discrepancy and will provide an update during the September/October Bi-Monthly MFR.

Development Fee Program Funds

Development Fee Programs were previously captured in the General Fund; however, beginning in 2020-2021 all revenue and expenditures related to the Development Fee Programs have been allocated to specific 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, Public Works Development Fee Program Fund, and the Small Cell Permitting Fee Program Fund. At this very early point in the fiscal year, all Development Fee Programs, with the exception of the Small Cell Permitting Fee Program, are anticipated to meet or exceed the budgeted estimate by year-end. However, the long-term effects of the COVID-19 pandemic on these programs are not fully known, therefore activity levels will continue to be closely monitored with updates provided in the 2020-2021 Mid-Year Review

OTHER FUNDS (CONT'D.)

(released in January 2021) and future Bi-Monthly Financial Reports. Additional information about each of the Development Fee Program Funds is provided on the following pages.

The **Building Development Fee Program** issues building permits and oversees construction on private property. Building Permit revenues of \$5.2 million through August are 23.5% lower than the 2019-2020 collection level for the same period. The 2020-2021 Adopted Budget estimate of \$24.6 million allows for a 32.1% drop from the 2019-2020 actual collection level of \$36.2 million due to the ongoing COVID-19 pandemic. Based on current collection trends, Building Fee revenues are anticipated to meet or exceed the 2020-2021 budget revenue estimate of \$24.6 million.

During development of the 2020-2021 Adopted Operating Budget, the Building Development Fee Program Reserve in the General Fund was liquidated with funds transferred to the new Building Development Fee Program Fund. Prior to the final reconciliation of 2019-2020 activity in the General Fund, the Building Development Fee Program had an Ending Fund Balance of \$9.5 million. However, due to excess revenue and expenditure savings in 2019-2020, an additional \$9.2 million is recommended to be allocated to the Ending Fund Balance as part of the 2019-2020 Annual Report (to be considered by the City Council on October 20, 2020), bringing the fund balance to \$18.7 million.

The **Citywide Planning Fee Program** provides funding for the City's long-range planning projects, such as developing and updating the City's General Plan, to match the City's planning goals. The Citywide Planning Fee is an 11.97% fee applied to Entitlement, Building Permit Fees, and Building Plan Check Fee Categories. Through August, Citywide Planning Fee revenues of \$505,000 are 20.7% below the prior year collection level of \$636,000. The 2020-2021 Adopted Budget estimate of \$2.4 million allows for a 32.9% drop from the 2019-2020 actual collection level of \$3.6 million due to the ongoing COVID-19 pandemic. Based on current collection trends, Citywide Planning Fee revenues are anticipated to meet or exceed the 2020-2021 budget revenue estimate of \$2.4 million.

During development of the 2020-2021 Adopted Operating Budget, the Citywide Planning Fee Reserve in the General Fund was liquidated with funds transferred to the new Citywide Planning Fee Fund. Prior to the final reconciliation of 2019-2020 activity in the General Fund, the Citywide Planning Fee Program had an Ending Fund Balance of \$235,000. However, due to excess revenue and expenditure savings in 2019-2020, an additional \$1.3 million is recommended to be allocated to the Ending Fund Balance as part of the 2019-2020 Annual Report (to be considered by the City Council on October 20, 2020), bringing the fund balance to \$1.5 million.

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 August of \$1.1 million are \$447,000 (28.3%) lower than prior year collections. The 2020-2021 Adopted Budget estimate of \$6.2 million allows for 31.1% decrease

OTHER FUNDS (CONT'D.)

from the 2019-2020 actual collection level of \$9.0 million due to anticipated decrease in fee activity as a result of the COVID-19 pandemic. Based on activity through August, Fire development revenues are projected to meet or exceed the budgeted revenue estimate of \$9.0 million.

During development of the 2020-2021 Adopted Operating Budget, the Fire Development Fee Program Reserve in the General Fund was liquidated with funds transferred to the new Fire Development Fee Program Fund. Prior to the final reconciliation of 2019-2020 activity in the General Fund, the Fire Development Fee Program had an Ending Fund Balance of \$2.0 million. However, due to excess revenue and expenditure savings in 2019-2020, an additional \$2.0 million is recommended to be allocated to the Ending Fund Balance as part of the 2019-2020 Annual Report (to be considered by the City Council on October 20, 2020), bringing the fund balance to \$4.0 million.

The **Planning Development Fee Program** processes land development applications for planning permits and services, such as zoning review, to match the City's planning goals. Through August, Planning Fee revenues of \$1.2 million are 8.6% above the prior year collection level of \$1.1 million. The 2020-2021 Adopted Budget estimate of \$5.9 million allows for a 13.8% drop from the 2019-2020 actual collection level of \$6.9 million due to the ongoing COVID-19 pandemic. Based on current collection trends, Planning Fee revenues are anticipated to meet or exceed the 2020-2021 budget revenue estimate of \$5.9 million.

During development of the 2020-2021 Adopted Operating Budget, the Planning Development Fee Program Reserve in the General Fund was liquidated with funds transferred to the new Planning Development Fee Program Fund. Prior to the final reconciliation of 2019-2020 activity in the General Fund, the Planning Development Fee Program had an Ending Fund Balance of \$800,000. However, due to excess revenue and expenditure savings in 2019-2020, an additional \$1.0 million is recommended to be allocated to the Ending Fund Balance as part of the 2019-2020 Annual Report (to be considered by the City Council on October 20, 2020), bringing the fund balance to \$1.8 million.

The **Public Works Development Fee Program** ensures that developments comply with regulations and provide appropriate public infrastructure, such as sidewalks, traffic signals, and streetlights. Revenues through August of \$1.7 million increased 77.5% from the prior year level of \$967,000. The Public Works Development Fee Program total revenue collections are comprised of \$996,000 from the Development Services Fee Program and \$721,000 from the Utility Fee Program. Based on activity through August, collections in Public Works revenues are projected to meet or exceed budgeted levels of \$11.1 million.

During development of the 2020-2021 Adopted Operating Budget, the Public Works Development Fee Program Reserve in the General Fund was liquidated with funds transferred to the new Public Works Development Fee Program Fund. Prior to the final reconciliation of 2019-2020 activity in

OTHER FUNDS (CONT'D.)

the General Fund, the Public Works Development Fee Program had an Ending Fund Balance of \$1.6 million. However, due to excess revenue and expenditure savings in 2019-2020, an additional \$3.6 million is recommended to be allocated to the Ending Fund Balance as part of the 2019-2020 Annual Report (to be considered by the City Council on October 20, 2020), bringing the fund balance to \$5.2 million.

The **Small Cell Permitting Fee Program** consists of review and approval of the installation of small cell and fiber optic telecommunication facilities on property owned by the City, including without limitation to, streetlights, traffic lights and rooftops. Revenues in this fund are generated primarily through Fees, Rates, and Charges paid to the City by telecommunication companies in connection with the Department of Public Works' review and approval process. Through August, revenues totaled \$437,000, whereas no revenues had been received through August 2019. Due to the lower than anticipated collections towards the end of 2019-2020 that may continue into 2020-2021, at this very early point of the fiscal year, revenue is anticipated to meet or fall below budgeted levels by year-end..

During development of the 2020-2021 Adopted Operating Budget, the Small Cell Permitting Fee Program Reserve in the General Fund was liquidated with funds transferred to the new Small Cell Permitting Fee Program Fund. Prior to the final reconciliation of 2019-2020 activity in the General Fund, the Small Cell Permitting Fee Program had an Ending Fund Balance of \$721,000. However, after the final revenue and expenditure reconciliation, the 2019-2020 Annual Report (to be considered by the City Council on October 20, 2020) includes a recommendation to decrease the Ending Fund Balance to \$548,000. Revenue and expenditures in the Small Cell Permitting Fee Program Fund will continue to be closely monitored, and if necessary, adjustments to this fund may be brought forward for City Council consideration at a later point in the fiscal year.

CONCLUSION

As a result of the COVID-19 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. In the General Fund, several categories experienced sudden declines, including in the Sales Tax, Transient Occupancy Tax, Business Taxes, and Fines, Forfeitures and Penalties categories. In addition, Airport Funds experienced reduced revenues due to a sharp drop-off in customer activity. The 2020-2021 Adopted Budget was developed assuming a majority of General Fund and other economically sensitive City fund revenues would continue to be suppressed as public health orders and social distancing protocols are anticipated through much of the fiscal year.

Based on the available data through August, General Fund and other City Fund revenues are overall anticipated to meet budgeted level by year-end, with the exception of the Fines, Forfeitures, and Penalties and Business Taxes categories in the General Fund. Due to the COVID-19 pandemic and the shelter-in-place orders, Cardroom Business Taxes and Parking Fines are not anticipated to

CONCLUSION (CONT'D.)

meet the budgeted estimates. As a result, budgetary adjustments are included in the 2019-2020 Annual Report (which will be considered by the City Council on October 20, 2020) to reduce these revenue estimates accordingly. While other economically sensitive City funds, such as Transient Occupancy Tax Fund, Construction and Conveyance Tax Fund, Building and Structure Construction Tax Fund, and Construction Excise Tax Fund are also on pace to meet budgeted levels, these revenue streams will need to be closely monitored as the volatile nature of the COVID-19 pandemic can continue to significantly affect their performance levels.

The Administration will closely follow and report on economic indicators and revenues in 2020-2021 through future Bi-Monthly Financial Reports and the Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions, if necessary.

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

/s/

JIM SHANNON
Budget Director