



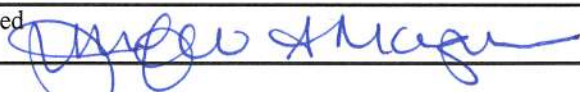
Memorandum

TO: PUBLIC SAFETY, FINANCE, AND
STRATEGIC SUPPORT COMMITTEE

FROM: Jim Shannon

SUBJECT: BI-MONTHLY FINANCIAL REPORT
FOR SEPTEMBER/OCTOBER 2020

DATE: December 3, 2020

Approved  Date 12/3/20

RECOMMENDATION

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

OVERVIEW

The Bi-Monthly Financial Report for September/October 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 four months ending October 2020.

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 was severely restricted, which has had deep impacts to many of the economically sensitive revenues in the General Fund and other City funds. Though conditions improved in the summer and early fall, year-over-year unemployment levels and consumer confidence levels have significantly worsened. The 2020-2021 Adopted Budget anticipated many of these impacts, though adjustments will likely be necessary over the course of the year to ensure that the City's budget remains in alignment.

Through the first four months of the fiscal year, revenues and expenditures were generally tracking within the budgeted estimates in the majority of City funds, with some exceptions as noted below. The Administration will continue to closely monitor economic conditions and the performance in all City funds, bringing forward budget revisions to the City Council as part of the 2020-2021 Mid-Year Budget Review and later in the fiscal year, as appropriate. Following are key highlights in this report:

OVERVIEW (CONT'D.)

- While it is early in the fiscal year, overall, many General Fund revenues are anticipated to meet or budgeted levels. After receiving a relatively strong first quarter distribution payment, Sales Tax is anticipated to exceed the budgeted estimate by \$15 - \$25 million, and Utility Taxes are currently on pace to exceed the budgeted estimate by \$5 million. However, other categories are on pace to fall short of the budget, including Fees, Rates and Charges (-\$17 million, which will be partially offset by fee-related expenditure decreases), Property Tax (-\$10 million) and Transient Occupancy Tax (-\$3.5 million) collections.
- Overall, General Fund expenditures tracked within estimated levels through October. Expenditures will continue to be controlled – including the continuation of the hiring freeze and exemption review process established back in March 2020 – to ensure appropriations stay within approved levels and generate vacancy savings to provide a cushion against future budgetary uncertainty. Actions to recognize expenditure savings associated with the redeployment of staff to assist with the COVID-19 pandemic response will be recommended at the City Council meeting scheduled for December 8, 2020.
- Due to the impact from continued poor hotel activity and the inability to host convention and cultural events related to the COVID-19 pandemic's continuance and recent surge, revenue and expenditure adjustments will be included in the 2020-2021 Mid-Year Budget Review to address issues in the Convention and Cultural Affairs Fund, the Convention Center Facility District Revenue Fund, and the Transient Occupancy Tax Fund.
- Construction and Conveyance Tax, Building and Structure Construction Tax, and Construction Excise Tax collections are currently performing at anticipated levels and are anticipated to meet or exceed budgeted levels by year-end, but also need to be carefully monitored.
- At this early point in the fiscal year, all Development Fee Programs 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.
- The Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned 1.1 million passengers through October, a decrease of 80.6% from the figures reported through October of the prior year. This year-over-year drop is due to the ongoing effect the COVID-19 pandemic is having on air travel and was anticipated as part of the 2020-2021 Adopted Budget.

OVERVIEW (CONT'D.)

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 the timing of when a vaccine will be widely distributed, a steep rise in COVID-19 cases during the fall and winter months,

and ongoing social distancing requirements, economic conditions, including employment levels, are anticipated to continue to be suppressed during 2020-2021.



The October 2020 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.09 million was 5.9% below the October 2019 level of 1.16 million. Between October 2019 and October 2020, employment in the San José MSA dropped by 69,000 jobs (5.9%). This decrease includes leisure and hospitality jobs dropping by 28,700 jobs; information industry declining by 11,700 jobs; manufacturing declining 8,000 jobs, and the trade, transportation, and utilities sectors falling by 6,400 jobs.¹ However, as shown in the chart above, employment levels have increased by 79,700 jobs, or 7.9%, from the April 2020 through October 2020.

After topping at 12.0% in April, the local unemployment rate has continuously dropped. In October 2020, the local unemployment rate was 6.0%, which is significantly higher than the August 2019 level of 2.4%, but is lower than April 2020 (12.0%) and July 2020 (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)				
	Oct. 2019	April 2020	July 2020	Oct. 2020**
San Jose Metropolitan Statistical Area*	2.4%	12.0%	9.5%	6.0%
State of California	3.7%	16.2%	13.9%	9.0%
United States	3.3%	14.4%	10.5%	6.6%
* San Benito and Santa Clara Counties Source: California Employment Development Department.				
** October 2020 estimates are preliminary and may be updated.				

¹ State of California Employment Development: Labor Market Information Division Press Release, November 20, 2020

OVERVIEW (CONT'D.)

Overall construction activity through October 2020 decreased 48.0% from 2019-2020 levels. In September and October, residential activity was moderate, industrial activity was weak with permits only for alterations, and commercial activity was strong, with high levels of new construction in October. The 2020-2021 Adopted Budget was developed with the expectation that private development activity would be significantly weaker than previous years.

Private Sector Construction Activity (Valuation in \$ Millions)			
	YTD Oct-19	YTD Oct-20	% Change
Residential	\$150.8	\$71.6	(52.5%)
Commercial	\$316.8	\$268.4	(15.3%)
Industrial	\$449.5	\$137.1	(69.5%)
TOTAL	\$917.1	\$477.1	(48.0%)

Through October, residential permit valuation has decreased 52.5% from prior year levels (\$71.6 million in 2020-2021 from \$150.8 million in 2019-2020). Residential activity through October included 85 multi-family units and 173 units of single-family construction for a total of 258 units. A notable project in October was a construction permit for a 77-unit apartment

building on North Santa Clara Street between North 11th Street and North 12th Street.

Commercial valuation through October 2020 was 15.3% lower than the 2019-2020 level (\$268.4 million in 2020-2021 from \$316.8 million in 2019-2020). Commercial activity from September through October was strong (\$198.2 million) with additions/alterations accounting for some of the commercial activity (\$33.8 million). Notable projects for September and October are permits for the finished interior work on an 8-story, 576,000 square foot office building (located on Coleman Avenue just west of the San José International Airport) and construction of a new 4-story, 59 room motel (located on North 4th Street between Burton Avenue and East Younger Avenue).

Industrial construction valuation through October was 69.5% lower than prior year levels (\$137.1 million in 2020-2021 from \$449.5 million in 2019-2020, which was an historically high figure). Industrial activity from September through October was very weak (\$18.8 million) with additions/alterations accounting for all of the industrial activity. There was no new construction during the period.

Real estate activity was 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 prior year) ranging from 10%-54% between the beginning of the shelter-in-place through June. However, September and October sales experienced year-over-year growth of 36% and 26%, respectively. Through October, there were a total of 2,731 property transfers for all residences, which represents growth of 13% from October 2019. In addition, median single family home prices remain strong. Beginning in November

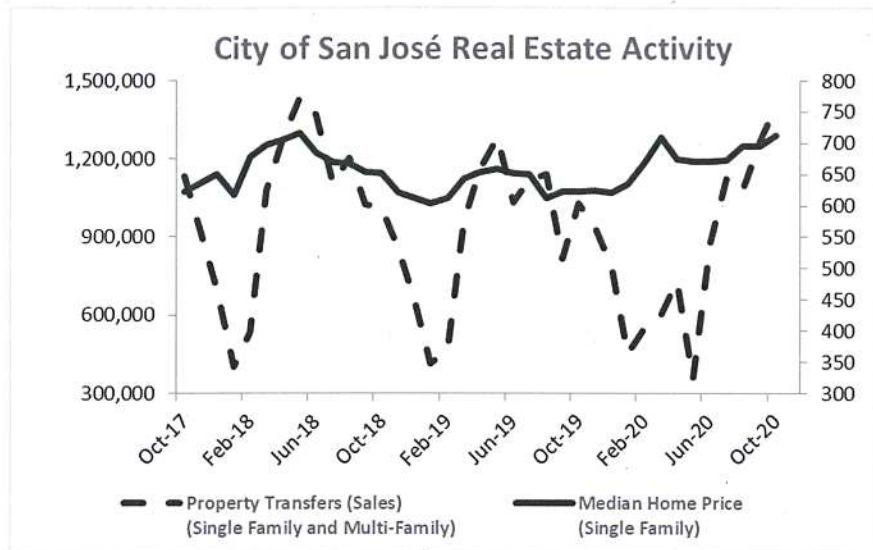
OVERVIEW (CONT'D.)

2019, single family home prices have experienced continuous year-over-year growth. As of October 2020, the median single family home price totaled \$1.29 million, which represents a 20.1% increase from the October 2019 price of \$1.07 million.

On a national level, consumer confidence declined slightly in

October, and continues to remain well below pre-pandemic levels. Lynn Franco, Senior Director of Economic Indicators at The Conference Board, stated “Consumer confidence declined slightly in October, following a sharp improvement in September. Consumers’ assessment of current conditions improved while expectations declined, driven primarily by a softening in the short-term outlook for jobs. There is little to suggest that consumers foresee the economy gaining momentum in the final months of 2020, especially with COVID-19 cases on the rise and unemployment still high.”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 October 2020 totaled \$317.2 million, which represents an increase of \$47.9 million from the October 2019 level of \$269.3 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 \$82.1 million (30.5%) from the prior year. A significant component of this decrease is largely due to Development Fee Program revenue that was previously captured in the General Fund (approximately \$22.8 million through October 2019) that is now allocated within individual Development Fee Program Funds beginning in 2020-2021.

² The Conference Board, Consumer Confidence Survey, October 27, 2020

GENERAL FUND (CONT'D.)

In addition, several other categories are experiencing declines compared to prior year levels, including Property Tax (\$18.4 million), Fees and Charges (\$17.7 million; of which \$7.1 million is due to development-related activity moving out of the General Fund), Revenue from the State of California (\$6.7 million), Business Taxes (\$4.0 million), and Transient Occupancy Tax (\$3.5 million). The lower collections in the Property Tax and Revenue from the State of California categories is primarily due to the timing of payments. The lower collections for Fees and Charges (Parks, Recreation and Neighborhood Services Fees), Business Taxes (Cardroom Business Tax), and Transient Occupancy Tax are primarily the result of impacts related to the COVID-19 pandemic and public health orders, much of which was forecasted in the 2020-2021 Adopted Budget.

While many General Fund revenues are anticipated to meet budgeted levels and the General Fund is currently forecasted to end the year in a slightly net positive position, significant variances are estimated to occur within several revenue categories. Sales Tax revenue is anticipated to exceed budgeted levels by \$15 - \$25 million, and Utility Taxes are on pace to exceed initial estimates by approximately \$5 million; however, Parks, Recreation and Neighborhood Services (PRNS) Fee revenue (-\$17 million, which will be partially offset by fee-related expenditure decreases), Property Tax collections (-\$10 million), and Transient Occupancy Tax collections (-\$3.5 million) are anticipated to fall below budgeted levels. The 2020-2021 Mid-Year Budget Review (which will be released in January 2021) will include budget actions to align General Fund Revenue budgeted estimates with updated collection levels. Additional information on these revenue categories as well as all other major General Fund revenue activity through October 2020 are highlighted on the following pages.

KEY GENERAL FUND REVENUES

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 370,500,000	\$ 0	\$ 18,356,061

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 October, no Property Tax revenue has been received, but payments have recently been submitted and will be reflected in future bi-monthly financial reports.

Based on the most recent information provided by the State of California and the County of Santa Clara, Property Tax revenue may end the year approximately \$10 million below the budgeted estimate. As the result of a State of California Appellate Court decision, the distribution formula

GENERAL FUND (CONT'D.)

related to all California residual property tax revenue from former Redevelopment Agencies has been changed, resulting in a loss of approximately \$10 million in 2020-2021 (from \$21.0 million to \$11.2 million) to the City of San José. This figure includes \$7 million of prior year receipts that must be repaid and an ongoing reduction of \$3 million to revenue collections.

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. The 2020-2021 Secured Property Tax budgeted 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 Residual Property Tax revenue, and estimated revenue of \$11.5 million for ERAF receipts. As mentioned above, as the result of a change in the distribution formula, the SARA Residual Property Tax revenue is anticipated to fall approximately \$10 million below the budgeted estimate.

The general Secured Property Tax budgeted 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 \$314.3 million which is approximately \$700,000 below the budgeted estimate. However, as it is still early in the year, this estimate will likely change as additional information is known.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution in 2017-2018. As previously discussed, in 2020-2021 receipts are anticipated to fall approximately \$10 million below the budgeted estimate (from \$21 million to \$11 million) as the result of a change in the residual property tax distribution formula. Of this amount, approximately \$7 million represents prior year receipts that must be repaid and \$3 million reflects the lower 2020-2021 collection level (which represents an ongoing reduction that will continue in future years).

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.

GENERAL FUND (CONT'D.)

As additional information is received regarding ERAF calculations and the collections from other Property Tax revenue categories, updates will be reported back as part of the 2020-2021 Mid-Year Review and future Bi-Monthly Financial Reports. The 2020-2021 Mid-Year Budget Review (which will be released in January 2021) will likely include a recommendation to decrease the SARA Property Tax estimate by \$10.0 million to reflect the revised anticipated collection level.

In the **Unsecured Property Tax** category, the largest payment is received in the second quarter 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 \$14.6 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 \$4.2 million is 30% 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 the 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	\$ 47,121,528	\$ 44,485,979

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 and subsequent public health orders 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 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). In late November, the first Sales Tax payment was received from the CDTFA, which totaled approximately \$60 million (excluding the Revenue Capture Agreement) and reflected a 5% decline from the first quarter payment received in 2019-2020. It is important to note that detailed information regarding the economic sectors for the Sales Tax payment is still not known.

While only one payment has been received this fiscal year, based on the performance for the final quarter of 2019-2020, the first payment receipts for 2020-2021, and with a full year of revenue associated with the Revenue Capture Agreement being received in 2020-2021, it is anticipated that Sales Tax will exceed the budgeted estimate by \$15 - \$25 million. The relatively wide range is due to the uncertainty of how the recent surge in COVID-19 cases and the public health restriction necessary to slow the surge will impact Sales Tax receipts. Moreover, while the City has received the first quarter payment amount, the data and activity associated with the payment is received later in December. Once detailed information is available and analyzed for the first quarter payment in January, and the impacts to the COVID-19 case surge has been evaluated, a more refined 2020-2021 estimate will be determined. It is currently anticipated that a budget adjustment will be brought forward to align the Sales Tax budget with a conservative revised estimate as part of the 2020-2021 Mid-Year Review, which will be released in January 2021.

Additional information about each of the Sales Tax sub-categories is provided on the following pages.

GENERAL FUND (CONT'D.)

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 budgeted estimate assumed 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, the first payment for Sales Tax revenue was received in late November 2020. General Sales Tax revenue totaled \$48.3 million (excluding the Revenue Capture Agreement), which represents a 5.5% decline from the first quarter payment in 2019-2020. After including the City's estimated portion of the Revenue Capture Agreement, General Sales Tax receipts total \$57.5 million, or approximately 30% of the 2020-2021 Adopted Budget estimate of \$192.0 million. Based on the performance for the final quarter of 2019-2020, the first quarter payment of 2020-2021, and with a full year of revenue associated with the Revenue Capture Agreement being received in 2020-2021, and the uncertain impacts from the recent surge of COVID-19 cases, it is anticipated that General Sales Tax will exceed the budgeted estimate by \$15 - \$25 million. A budget adjustment will be brought forward to align the General Sales Tax budgeted estimate with a conservative revised collection level as part of the 2020-2021 Mid-Year Review, which will be released in January 2021.

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, it was anticipated that the Local Sales Tax revenue may not 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. As mentioned above, the first Sales Tax payment was received from CDTFA in late November 2020. Local Sales Tax receipts totaled \$11.6 million, which represents a 1.5% drop from the prior year level. Due to strong year-over-year growth anticipated for the final two payments of 2020-2021 (as 2019-2020 collections were low), it is currently anticipated that Local Sales Tax revenue will end the year within or slightly below the budgeted estimate.

Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. 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 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	\$ 1,247,774	\$ 4,701,147

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 October, TOT receipts totaled \$1.25 million, which represents a 73.5% decline from the prior year collection level, illustrating the drastic contraction in hotel activity in response to COVID-19.

Year-to-date revenues of \$1.2 million (13.9% of budget) are significantly underperforming relative to historical average performance (26.6%) at this point in the fiscal year. The TOT forecast included in the 2020-2021 Adopted Budget assumed considerable declines attributable to COVID-19 impacts on business and leisure travel, convention activity, and other public events; collection levels would not begin to recover until the second half of 2020-2021. However, hotel activity is currently underperforming the already low expectation levels, with year-to-date hotel revenue at 85% of the budgeted forecast. Through October 2020, the average hotel occupancy rate reported for the San José market was 38.9%, a drop of 39.0 percentage points over the same period in 2019-2020 (77.8%). Average room rates also decreased by 47.2%, from \$196.24 to \$103.67, and the year-to-date average revenue-per-available room (RevPAR) decreased 73.6%, from \$152.72 to \$40.29, relative to the same period in 2019-2020. Moreover, this suppressed performance is unlikely to improve in the near-term due to the recent resurgence of COVID-19 and accompanying public health restrictions. During preparation of this Bi-Monthly Financial Report, Santa Clara County updated their health orders to only allow hotel occupancy for essential travel.

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. Based on lower than anticipated performance through this point of the year, and the updated health orders that will further negatively impact hotel occupancy, a budget adjustment will be brought forward as part of the 2020-2021 Mid-Year Budget Review to reduce the TOT budgeted estimate by \$3 - \$5 million. Corresponding budget reductions will also be recommended in the Transient Occupancy Tax Fund, the Convention and Cultural Affairs Fund, and the Convention Center Facilities Revenue District Fund.

GENERAL FUND (CONT'D.)

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 95,800,000	\$ 27,021,754	\$ 22,187,497

The Utility Tax category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through October, Utility Tax receipts of \$27.0 million are \$4.8 million, or 21.8%, higher than the prior year level. The year-over-year increase is primarily due to higher Electricity Utility Tax, Gas Utility Tax, and Water Utility Tax receipts. 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 October, it is anticipated overall Utility Taxes may exceed the budgeted levels by approximately \$5 million by year-end.

In the **Electricity Utility Tax** category, collections through October totaled \$15.5 million, which is significantly above the \$10.6 million received in the prior fiscal year. 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 historical collection trends and performance through October, receipts are anticipated to end the year approximately \$5 million above the budgeted estimate.

In the **Gas Utility Tax** category, receipts through October totaled \$1.7 million, approximately \$450,000 above the previous year collection of \$1.2 million. 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 historical collection trends and performance through October, receipts are anticipated to end the year slightly above the budgeted estimate.

Water Utility Tax collections of \$4.7 million through October are slightly above the prior year level of \$4.6 million. 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 historical collection trends and performance through October, receipts are anticipated to meet or slightly exceed budgeted levels by year-end.

Collections in the **Telephone Utility Tax** category through October totaled \$5.2 million, compared to prior year receipts of \$5.7 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 fall slightly below the budgeted estimate by year-end.

GENERAL FUND (CONT'D.)

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Business Taxes	\$ 63,900,000	\$ 19,736,739	\$ 23,761,962

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through October, overall collections of \$19.7 million are 16.9% below the prior year collection levels of \$23.8 million, primarily reflecting lower collections in the Cardroom Tax category. The Business Taxes 2020-2021 Modified Budget estimate of \$63.9 million allows for a 10% decline from the 2019-2020 actual collection level. Due to a change in Santa Clara County's public health orders, which became effective on November 30, cardrooms were ordered to once again stop operations. As a result, the Cardroom Tax will likely end the year below the budgeted estimate of \$8.5 million by approximately \$2 million; however, that figure may change based on the length of time the cardrooms are required to remain closed. Business Tax collections will continue to be closely monitored and, if necessary, a budget reduction may be brought forward for City Council consideration later in the fiscal year.

Cannabis Business Tax collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Through October, receipts of \$4.4 million are 5.3% above the prior year level of \$4.2 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. Based on collections through October, it is anticipated revenue will approximately meet the budgeted level by year end.

Through October, **Cardroom Tax** receipts of \$637,000 have been received, which is significantly below the prior year level of \$4.7 million. As a result of the shelter-in-place mandate, cardrooms suspended operations in March 2020 and remained closed through August 2020. In September, public health orders were 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 orders limit business operations, 2020-2021 revenue collections are anticipated to be significantly impacted. The 2019-2020 Annual Report, which was approved by the City Council on October 20, 2020, included actions 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. However, during the preparation of this Bi-Monthly Financial Report, Santa Clara County revised their health orders, which required cardrooms to close once again. As a result of this change, Cardroom Tax will likely fall approximately \$2 million below the modified budget estimate. This figure can change based on the length of time the health order stays in effect. Cardroom Tax revenue will continue to be closely monitored and if necessary, additional budget adjustments may be brought forward for City Council consideration later in the fiscal year.

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 October totaled \$3.0 million, which is 6.6% below the prior year level of \$3.2 million. The 2020-2021 budget was built on the assumption that the COVID-19 pandemic would impact revenue collections in 2019-2020 with receipts to end the year at \$12.3 million, with a further drop of in 2020-2021 of approximately 10% to \$11.1 million.

However, collections in 2019-2020 ended the year at \$12.52 million and have not been negatively impacted by the pandemic and have remained relatively stable. Therefore, the 2019-2020 Annual Report, which was approved by the City Council on October 20, 2020, included an action 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. Based on activity to date, DFT is expected to meet or fall slightly below budgeted levels.

Through October, **General Business Tax** receipts of \$11.7 million are 1.1% below 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 early point in the year, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Real Property Transfer Tax	\$ 30,000,000	\$ 7,682,100	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 October, Real Property Transfer Tax receipts totaling \$7.7 million, which represents 25.6% of the budgeted estimate. In addition, the City has received the November Real Property Transfer Tax receipts from Santa Clara County, which total \$7.4 million. When taking into account receipts through October and the November collections, Real Property Transfer Tax revenue in 2020-2021 totaled \$15.1 million, 50.3% of the Adopted Budget estimate. Although it is early in the fiscal year and the Administration does not have prior year collection trends to consider, receipts will meet or exceed the budgeted estimate by year-end if collections continue at this pace. 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.)

Revenue	2020-2021 Budget Estimate	YTD Actual	Prior YTD Collections
Fees, Rates, and Charges	\$ 25,575,702	\$ 1,173,805	\$ 18,900,589

The Fees, Rates, and Charges category contains various fees and charges levied to recover costs of services provided by several City departments, including Library; PRNS; Police; and Transportation. Through October, revenues totaled \$1.2 million, which is significantly below the \$18.9 million received in the prior year. The year-over-year drop is primarily attributable to the development fee programs related to Planning Fees and Public Works Fees moving from the General Fund to individual Development Fee Program Funds (for which 2019-2020 year-to-date levels totaled \$7.1 million). The drop in revenue is also attributable to PRNS Fees being significantly impacted by the public health orders, as further discussed below.

Parks, Recreation and Neighborhood Services (PRNS) Fee revenues total \$392,000 through October, reflecting a decline of 95.6% from the prior year level of \$8.9 million. This drop is primarily due to classes, camps, and after-school activities not occurring due to public health orders, as well as the closure of Happy Hollow Park and Zoo. When the 2020-2021 Adopted Budget was developed, it was assumed PRNS Fee revenue would decline significantly as a result of the COVID-19 pandemic and its associated impact on recreational activities. However, very little revenue is being received on a monthly basis; therefore, collections are not on pace to meet the budgeted estimate. A recommendation will be included in the 2020-2021 Mid-Year Budget Review (which will be released in January 2021) to decrease the PRNS Fee revenue by \$17 million (from \$18.1 million to \$1.1 million). It is important to note that a significant portion of the revenue decrease will be offset by a reduction to PRNS Fee Activities expenditure appropriation.

EXPENDITURES

Through October, General Fund expenditures (without encumbrances) of \$404.1 million were 5.8% above the prior year level of \$381.9 million. After excluding TRANS debt service payments of \$40.0 million, which was not used in 2019-2020, expenditures are 4.6% below prior year levels. Encumbrances of \$72.1 million were 3.3% below the prior year level of \$74.6 million. General Fund expenditures and encumbrances through October of \$476.3 million constitute 27.5% of the total budget including reserves, and 31.6% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year at or below budgeted levels.

Through October, departments are overall performing within estimated levels for personal services expenditures. Expenditures will continue to be controlled and monitored – including the continuation of the hiring freeze and exemption review process established back in March 2020 – to ensure appropriations stay within approved levels and generate vacancy savings to provide a cushion against future budgetary uncertainty. Following is a discussion of the performance of the Police and Fire Departments, the largest General Fund departments.

GENERAL FUND (CONT'D.)

KEY GENERAL FUND EXPENDITURES

Department	2020-2021 Budget	YTD Actual	Prior YTD Actual
Police	\$ 454,935,984	\$ 143,594,049	\$ 138,416,562

Overall, Police Department expenditures are slightly above estimated levels through October, but are anticipated to end the year within budgeted levels. Personal Services expenditures of \$127.2 million are slightly above the anticipated level for this point of the year (30.11% expended, compared to the par level of 29.88%). Overtime expenditures of \$12.8 million reflect 47.0% of the total \$27.1 million budget. Unplanned overtime due to protest activities, responses to the recent fires, preparations for the contentious presidential elections, and increases in investigative work have put additional pressure on the Department's budget; however, personal services charges related to COVID-19 pandemic response costs that currently exceed \$1 million will be reallocated to the Coronavirus Relief Fund, which would lower year-to-date costs back to the par level. A total of \$16.4 million (50.4%) of the Department's Non-Personal/Equipment budget (including carryover encumbrances) was expended or encumbered through October. Excluding the remaining balances for centrally-determined details, including electricity, gas, and vehicle operation and replacement, the Police Department has approximately \$6.1 million, or 32.9%, 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 still diligently worked 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 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, 446 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 October 2020 was 352,335 hours for sworn personnel. This represents an increase of 40,827 hours or 13.1% compared to the October 2019 balance of 311,508. As described above, 446 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, as compensatory time balances have continued to grow even though the number of street-ready sworn officers has also increased, the Police Department intends to

GENERAL FUND (CONT'D.)

implement additional overtime and compensatory time approvals to slow – and eventually reduce – compensatory time balance growth, including revisions for BFO approvals to the extent possible.

As of October 2020, the Department exceeded budgeted staffing levels by 12 positions as a result of the \$6.75 million Hire Ahead Program that helps fund the new Police Recruit Academy that started this month. The Police Department had 1,159 authorized sworn staff, of which 0 were vacant, 12 were additional hire ahead positions, and 99 were in training (8.5%), leaving 1,027 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 948 positions were street-ready sworn officers working. While the sworn positions are filled, there is still a significant gap between filled positions and working street-ready positions. Further, the Department anticipates additional retirements later in the year that will increase vacancy levels. The Hire Ahead Program is expected to mitigate these expected vacancies.

	2019-2020 (as of 10/25/19)	2020-2021 (as of 10/30/2020)
Authorized Sworn Positions	1,151	1,159
Vacancies	(0)	(0)
Additional Hire Ahead Positions	(0)	12
Filled Sworn Positions	1,151	1,171
Field Training Officer/Recruits	(146)	(99)
Street-Ready Sworn Officers Available	1,005	1027
Disability/Modified Duty/Other Leaves	(84)	(79)
Street-Ready Sworn Officers Working	921	948

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) and October 2020 (51 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 graduate in January 2021 and the October 2020 academy is anticipated to graduate in April 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 ones beginning in February 2021 and June 2021, with an estimated 45 to 55 recruits per session.

Department	2020-2021 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 244,422,822	\$ 79,808,504	\$ 74,626,583

The Fire Department's budget totals \$244.4 million, which is comprised of \$234.1 million in Personal Services and \$10.3 million in Non-Personal/Equipment expenditures. Overall, Fire

GENERAL FUND (CONT'D.)

Department expenditures are performing slightly above estimated levels through October. Personal Services expenditures of \$76.0 million, or 32.48% of the Modified Budget, are slightly above the expected level of 29.88% 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 \$10.3 million was 36.6% expended or encumbered through October 2020 and is expected to end the year within budgeted levels.

Overall, the average sworn vacancy rate of 4.24% through October 2020 is slightly higher than the vacancy rate of 3.67% experienced this time last year, and 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 October, of the 31 current authorized staffing level, the Fire Department had 26 sworn personnel on administrative assignments.

CONTINGENCY RESERVE

The General Fund Contingency Reserve remained at \$40.0 million through October, with no revisions through the first four 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.

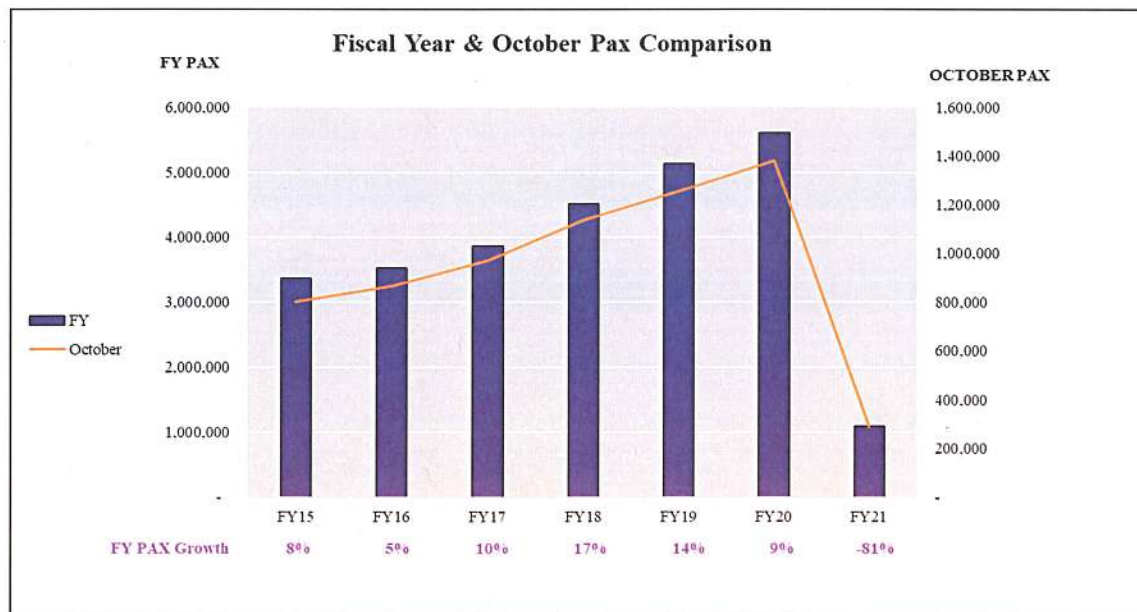
OTHER FUNDS

Airport Funds

On a fiscal year-to-date basis, the Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned 1.1 million passengers, a decrease of 80.6% from the figures reported through October of the prior year. The chart on the following page depicts the year-over-year change for the month of October and fiscal year-to-date for the last six years. Fiscal year-to-date mail, freight and cargo totaled 29.5 million pounds, which represents a 19.5% decrease over year-to-date October 2019. All revenue-generating activities posted decreases over the same period of the prior fiscal year: Traffic Operations (landings and takeoffs) by 51.2%, Landed Weights by 63.5%, Ground Transportation by 87.8%, Gallons of Aviation Fuel Sold by 74.5%, and Parking Exits by 72.8%.

OTHER FUNDS (CONT'D.)

Through October, overall revenue performance at the Airport tracked 6% above estimated levels. Revenues based on very conservative passenger forecasts through October tracked higher than benchmarks: Airfield revenues (+89%), Landing Fees (+71%), Terminal Concessions (+41%), Parking & Roadway (+23%), while Terminal Rentals (-3%) and General and Non-Aviation (-1%) revenues fell slightly below benchmark levels. The performance above budgeted levels is attributed to passenger levels exceeding very low expectations in the first four months of the fiscal year. Additionally, CARES funding of \$26.7 million has been received to-date based on reimbursement of expenditure requests submitted to the FAA. The remaining \$38.9 million of the Airport's \$65.6 million CARES allocation is anticipated to be submitted for reimbursement for the next two fiscal years. Airport revenues will continue to be closely monitored through this fiscal year.



Through October, both the Airport Customer Facility and Transportation Fee Fund and Airport Maintenance and Operation Fund expenditures tracked below budgeted levels. In the Maintenance and Operation Fund Personal Service expenditures were 30.3% of budget compared to the benchmark of 30.8%, while Non-Personal/Equipment expenditures were 12.7% compared to the benchmark of 21.9%. Non-Personal/Equipment expenditures in the Customer Facility and Transportation Fee Fund were 12.1%, compared to the straight-line benchmark of 33.3%. The activity levels, revenues, and expenditure status of the Airport Funds will continue to be closely monitored throughout the fiscal year.

OTHER FUNDS (CONT'D.)

Transient Occupancy Tax, Convention and Cultural Affairs, and Convention Center Facility District Revenue Fund

As discussed in the General Fund Revenues section, Transient Occupancy Tax (TOT) proceeds are shared among the City's General Fund (4% tax) for general use, and the TOT Fund (6% tax) to support specified art, cultural, and convention purposes. Pursuant to Chapter 4.72 of the Municipal Code, 50% of TOT proceeds credited to the TOT Fund supports expenditures related to the operation, maintenance, and development of the San José McEnery Convention Center and other City-owned cultural facilities (via transfer to the Convention and Cultural Facilities Fund), 25% supports arts programs, projects, grants and the costs of administration by the Office of Cultural Affairs (TOT Fund), and the remaining 25% supports the operation of the Convention and Visitor's Bureau (TOT Fund). An additional 4% hotel tax is credited to Convention Center Facility District Revenue Fund to finance the expansion, construction, reconstruction, rehabilitation, and upgrade of San José McEnery Convention Center facilities.

As each of these special funds – TOT Fund, Convention and Cultural Affairs Fund, and Convention Center Facility District (CCFD) Revenue Fund – is supported by hotel taxes sharing an assessment basis, year-to-date revenues are underperforming in each as described in the preceding Transient Occupancy Tax discussion (located in the General Fund Revenues section). In the Transient Occupancy Tax Fund (60% of the total TOT tax), year-to-date revenues of \$1.8 million (13.5% of budget) are significantly off-pace relative to historical average performance (26.6%) at this point in the fiscal year. Similarly, in the CCFD Fund, year-to-date revenues of \$1.1 million represent 14% of the budget estimate of \$8.0 million for 2020-2021.

While hotel occupancy and room rate performance incrementally rebounded through August from the bottom reached in April, buoyed partially by hotel bookings due to wildfire evacuations, further contraction was observed in September and October, greater than the already low levels previously assumed during the 2020-2021 Adopted Budget development. This suppressed performance is unlikely to improve in the near-term as accompanying public health restrictions seek to mitigate the recent surge of COVID-19 cases. These conditions also limit Team San Jose's ability, as the operator of the San José McEnery Convention Center and other City-owned cultural facilities, to generate operating revenues, potentially requiring additional operating assistance from the City as revenues decline. Additionally, further declines in CCFD revenue may require supplemental funding to cover debt service obligations on lease revenue bonds, special tax bonds, and commercial paper for prior capital improvements and the acquisition of South Hall.

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, revenue performance, and potential cost containment measures for the operation of convention and cultural facilities. A budget adjustment will be brought forward as part of the 2020-2021 Mid-Year Budget Review to reduce the TOT estimate and rebalance the Convention and Cultural Affairs Fund and Convention Center Facility District Revenue Fund.

OTHER FUNDS (CONT'D.)

Construction and Conveyance Tax Funds

Through October 2020, Construction and Conveyance (C&C) Tax receipts totaled \$10.3 million, which represents 34.2% of the 2020-2021 Adopted Budget estimate (\$30.0 million). This amount is 3.5% below receipts through October 2019, which totaled \$10.6 million. However, the City has received the November Conveyance receipts from Santa Clara County, which total \$4.9 million, a 61.8% increase from the November 2019 collection level. When taking into account receipts through October and the estimated November collections, C&C receipts in 2020-2021 total \$15.3 million (50.9% of the Adopted Budget estimate), an 11.2% increase from the prior year collection level of \$13.7 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. While collections were suppressed when the shelter-in-place began, October and November 2020 receipts experienced year-over-year growth. Therefore, if this collection trend continues, receipts may end the year \$5 - \$10 million above the budgeted estimate.

Over 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). As discussed in the Economic Environment section of this Bi-Monthly Financial Report, the local real estate market has been experiencing growth compared to prior year levels. 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. However, if the real estate market continues to experience high property transfers and rising median home prices, then C&C collections will continue to be positively impacted.

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 October 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.

OTHER FUNDS (CONT'D.)

Through October, the **Building and Structure Construction Tax** collection level of \$15.2 million is 26.1% above the prior year receipts of \$12.0 million and the **Construction Excise Tax** collection level of \$10.3 million is 53.2% above the prior year receipts of \$6.7 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 October are tracking to significantly exceed 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 performing a more detailed review of individual development projects and alterations activity to understand the reasons for this apparent discrepancy and expects to provide additional information as part of the 2020-2021 Mid-Year Budget Review, along with adjustments to increase budgeted estimates.

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 early point in the fiscal year, all Development Fee Programs 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 (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.

OTHER FUNDS (CONT'D.)

The **Building Development Fee Program** issues building permits and oversees construction on private property. Building Permit revenues of \$10.9 million through October are 20.5% 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 exceed the 2020-2021 budget revenue estimate of \$24.6 million by at least \$4.0 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 October, Citywide Planning Fee revenues of \$1.0 million are 21.3% below the prior year collection level of \$1.3 million. 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.

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 October of \$2.2 million are \$977,000 (30%) lower than prior year collections. The 2020-2021 Adopted Budget estimate of \$6.2 million allows for 31.1% decrease 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 October, Fire development revenues are projected to meet or exceed the budgeted revenue estimate of \$6.2 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 October, Planning Fee revenues of \$2.7 million are 3.4% above the prior year collection level of \$2.6 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 \$6.8 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.

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 October of \$3.4 million increased 17.6% from the prior year level of \$2.9 million. The Public Works Development Fee Program total revenue collections are comprised of \$2.0 million from the Development Services Fee Program and \$1.3 million from the Utility Fee Program. Based on activity through October, collections in Public Works revenues are projected to meet or exceed budgeted levels of \$10.9 million.

OTHER FUNDS (CONT'D.)

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 October, revenues totaled \$1.3 million, whereas \$250,000 had been received through October 2019. Based on current collection trends, revenues are anticipated to meet budgeted levels by year-end.

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. The 2020-2021 Adopted Budget was developed assuming that many of the 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 October, General Fund revenues are overall anticipated to meet budgeted level by year-end, with the exception of the Fees, Rates and Charges (PRNS Fees), Property Tax, and Transient Occupancy Tax and categories in the General Fund. In addition, although Sales Tax revenue is experiencing lower collections than pre-pandemic levels, the decline is not as significant as initially projected, and Utility Tax receipts are also trending higher than initially forecasted. As part of the 2020-2021 Mid-Year Budget Review, recommendations will be brought forward for City Council consideration to align the revised collection levels with the budgeted estimate for Fees, Rates and Charges (-\$17 million, partially offset by fee-related expenditure reductions), Property Tax (-\$10 million), Transient Occupancy Tax (-\$3.5 million) and Sales Tax (+ \$15 - \$25 million), with final amounts of the revision subject to further analysis. In addition, due to the COVID-19 pandemic and public health restrictions, Cardroom Business Taxes and Parking Fines have been significantly impacted. As a result, budgetary adjustments were included in the 2019-2020 Annual Report (which was approved by the City Council on October 20, 2020) to reduce these revenue estimates accordingly. However, as social distancing requirements and changes to County health orders can significantly impact both of these revenue sources, the Administration will continue to closely monitor these sensitive revenue sources.

Most other City funds are performing within expected levels, with some exceptions. Though Airport passenger activity is significantly down from prior year levels, revenues and expenditures are tracking within anticipated levels. As a result of continued Transient Occupancy Tax revenue, and convention and cultural event-related activity declines, the Convention and Cultural Affairs Fund, the Convention Center Facility District Revenue Fund, and the Transient Occupancy Tax Fund are being heavily impacted. The 2020-2021 Mid-Year Budget Review will include recommendations to rebalance these funds to address the reduced revenues. In addition, while

CONCLUSION (CONT'D.)

other economically sensitive City funds, such as the Construction and Conveyance Tax Funds, Building and Structure Construction Tax Fund, Construction Excise Tax Fund, and Development Fee Program Funds are 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.

While the General Fund is currently expected to end the fiscal year in a net positive position, the extremely volatile nature of revenues and expenditures impacted by the COVID-19 pandemic requires the Administration to closely follow and report on economic indicators and activity levels in 2020-2021 through future Bi-Monthly Financial Reports and bring recommended revisions forward to the Mayor and City Council as part of the Mid-Year Budget Review process and other future budget processes, as necessary.



JIM SHANNON
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