



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE, AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Jim Shannon

**SUBJECT:** BI-MONTHLY FINANCIAL REPORT  
FOR JANUARY/FEBRUARY 2021

**DATE:** March 30, 2021

Approved

Date

4-1-21

## RECOMMENDATION

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

## OVERVIEW

The Bi-Monthly Financial Report for January/February 2021 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 eight months ending February 2021.

In Silicon Valley, economic conditions drastically changed due to the shelter-in-place order that was issued in Santa Clara County on March 17, 2020. 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. Conditions improved in the summer and early fall; however, due to second wave of coronavirus, conditions worsened again in the winter months, as severe shelter-in-place mandates were once again implemented. Fortunately, as caseloads continue to drop due to continued vaccine distribution, health restrictions are anticipated to continue easing, which should have positive impacts on economic conditions.

Through the first eight months of the fiscal year, revenues and expenditures were generally tracking within the revised 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 Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum, which will be released in June 2021. Following are key highlights in this report:

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| <b>OVERVIEW (CONT'D.)</b> |
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- Overall, General Fund revenues and expenditures are currently anticipated to exceed budgeted levels by a net of approximately \$10 million. As further discussed in this report, this variance is due to several revenue categories performing stronger than anticipated and anticipated expenditure savings that will be achieved by year-end.
- Overall, General Fund revenues are anticipated to slightly exceed budgeted levels by year-end. Several revenue categories are performing stronger than anticipated, including Property Tax, Sales Tax, and Utility Taxes. However, other categories are on pace to fall short of the budget, including Fines, Forfeitures, and Penalties, Use of Money and Property, Fees, Rates and Charges, Other Revenue, and Transfers and Reimbursements collections. This updated revenue estimate will be factored into the development of the 2021-2022 Proposed Operating Budget.
- Overall, General Fund expenditures tracked within or slightly below estimated levels through February. 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.
- Downward budgetary adjustments were brought forward as part of the 2020-2021 Mid-Year Budget review for Convention and Cultural Affairs Fund, the Convention Center Facility District Revenue Fund, and the Transient Occupancy Tax Fund, to align the budget with estimate collection levels. As, collections continue to be impacted by the pandemic, these revenues will be closely monitored.
- 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 closely watched.
- All Development Fee Programs are anticipated to end the year within budgeted levels. However, the ongoing impacts to development from the pandemic can abruptly affect these revenue collections; therefore, activity levels will continue to be closely monitored.
- The Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned 2.1 million passengers through February, a decrease of 80.4% from the figures reported through February of the prior year. This year-over-year drop is due to the ongoing effect the pandemic is having on air travel and was anticipated as part of the 2020-2021 Adopted Budget.

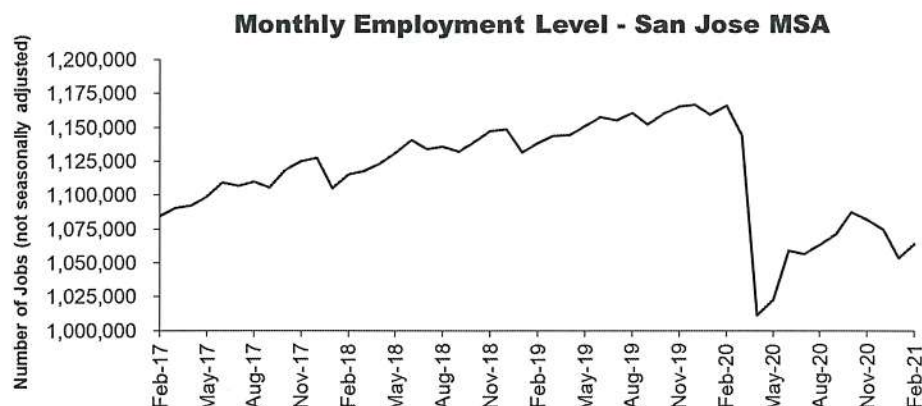


## OVERVIEW (CONT'D.)

### Economic Environment

Economic conditions in the Silicon Valley significantly changed in Spring 2020 as a result of the COVID-19 pandemic. Due to the steep rise in COVID-19 cases during the fall and winter months, the initially slow rollout of the vaccine, and

ongoing social distancing requirements that are expected for at least the next several months, economic conditions, including employment levels, are anticipated to continue to be suppressed during 2020-2021.



The February 2021 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.05 million was 3.6% below the February 2020 level of 1.09 million. Between February 2020 and February 2021, employment in the San José MSA dropped by 102,300 jobs (8.8%). This decrease includes leisure and hospitality jobs dropping by 45,700 jobs; private educational and health services declining by 16,400 jobs; the trade, transportation, and utilities sectors falling by 9,600 jobs, and government jobs dropping by 8,400 jobs.<sup>1</sup> However, as shown in the chart above, since the initial sharp employment decline at the beginning of the shelter-in-place, employment levels have increased by 52,200 jobs, or 7.9%, from the April 2020 through February 2021.

After topping at 12.0% in April 2020, the local unemployment rate has significantly dropped. In February 2021, the local unemployment rate was 5.4%, which is significantly lower than April 2020 (12.0%) and July 2020 (9.5%). Additionally, while local unemployment figures have risen since the shelter-in-place began, the unadjusted rates continue to be lower than the State and the national levels.

| Unemployment Rate (Unadjusted)  |           |            |           |             |
|---|-----------|------------|-----------|-------------|
|   | Feb. 2020 | April 2020 | July 2020 | Feb. 2021** |
| San Jose Metropolitan Statistical Area*   | 2.6%      | 12.0%      | 9.5%      | 5.4%        |
| State of California   | T         | 16.2%      | 13.9%     | 8.4%        |
| United States   | 3.8%      | 14.4%      | 10.5%     | 6.6%        |
| * San Benito and Santa Clara Counties Source: California Employment Development Department. |           |            |           |             |
| ** February 2021 estimates are preliminary and may be updated.                              |           |            |           |             |

<sup>1</sup> State of California Employment Development: Labor Market Information Division Press Release, March 26, 2021

**OVERVIEW (CONT'D.)**

Overall construction activity through February 2021 decreased 5.3% from 2019-2020 levels. The decrease is primarily due to declines in residential and industrial activity over the first eight months of the fiscal year. Extremely strong commercial activity in the first quarter of this fiscal year is propping up the levels for this year and mitigating the year-over-year decrease. The 2020-2021 Adopted Budget was developed with the expectation that private development activity would be significantly weaker than previous years.

| <b>Private Sector Construction Activity<br/>(Valuation in \$ Million)</b> |                     |                      |                     |
|---|---------------------|----------------------|---------------------|
|   | <b>Feb<br/>2020</b> | <b>Feb.<br/>2021</b> | <b>%<br/>Change</b> |
| Residential   | \$303.1             | \$232.6              | (23.3%)             |
| Commercial  | \$691.1             | \$957.0              | 38.5%               |
| Industrial  | \$626.8             | \$346.1              | (44.8%)             |
| <b>TOTAL</b>  | <b>\$1,621.0</b>    | <b>\$1,535.7</b>     | <b>(5.3%)</b>       |

Through February, residential permit valuation has decreased 23.3% from prior year levels (\$232.6 million in 2020-2021 from \$303.1 million in 2019-2020). Residential activity through February included 593 multi-family units and 362 units of single-family construction for a total of 955 units. Major residential projects in January and February included were permits issued for a 14,000 square foot six-unit multi-family residence and a 2,600 square foot two-unit condominium.

Commercial valuation through February 2021 was 38.5% higher than the 2019-2020 level (\$957.0 million in 2020-2021 from \$691.1 million in 2019-2020). Commercial activity from January through February was modest (\$35.8 million) with additions/alterations accounting for most of the commercial activity (\$32.4 million). Notable projects for January and February included finished interior permits issued for a 2,400 square foot retail space, a 30,100 square foot medical/dental clinic, and two restaurant spaces totaling 4,600 square feet.

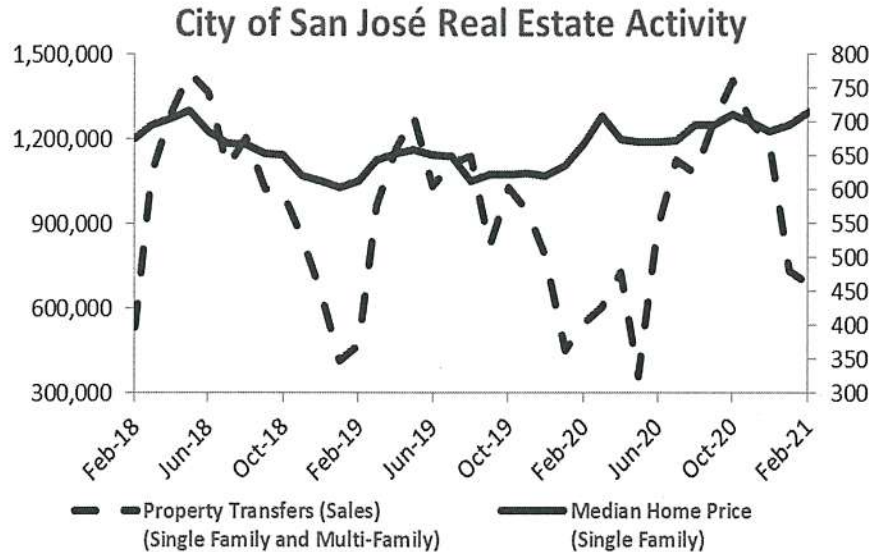
Industrial construction valuation through February was 44.8% lower than prior year levels, with receipts totaling \$346.1 million in 2020-2021 and \$626.8 million in 2019-2020, which was an historically high figure. The current fiscal year, however, is 24.0% higher than the 2018-2019 valuation level thru February (\$279.0 million). Similar to the same period for last year, a spike in permit valuations in July drove the moderately strong valuation level thru February of this fiscal year. A notable project for February was a finished interior permit issued for a 150,000 square foot data center. There was no new industrial construction activity for January.

Real estate activity was anticipated to be sluggish in 2020-2021 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% to -54% between the beginning of the shelter-in-place through June. However, beginning in September, the local real estate market once again began to experience year-over-year gains. Through February, there were



## OVERVIEW (CONT'D.)

a total of 5,040 property transfer transfers for all residences, which represents growth of approximately 19% from February 2020 levels. In addition, median single family home prices remain strong. As of February 2021, the median single family home price totaled \$1.29 million, which represents a 9.4% increase from the February 2020 price of \$1.18 million.



On a national level, consumer confidence improved in January and February. Lynn Franco, Senior Director of Economic Indicators at The Conference Board, stated “After three months of consecutive declines in the Present Situation Index (consumers’ assessment of current business and labor market conditions), consumers’ assessment of current conditions improved in February. This course reversal suggests economic growth has not slowed further. While the Expectations Index (consumers’ short-term outlook for income, business, and labor market conditions) fell marginally in February, consumers remain cautiously optimistic, on the whole, about the outlook for the coming months. Notably, vacation intentions – particularly plans to travel outside the U.S. and via air – saw an uptick this month, and are poised to improve further as vaccination efforts expand.”<sup>2</sup>

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 2021-2022 Proposed Budget, which will be released in May 2021.

<sup>2</sup> The Conference Board, Consumer Confidence Survey, February 23, 2021

## GENERAL FUND

### REVENUES

General Fund revenues through February 2021 totaled \$789.7 million, which represents an increase of \$71.5 million from the February 2020 level of \$718.2 million. This year-over-year increase is primarily attributable to the City receiving Tax and Revenue Anticipation Notes (TRANS) in the current year (\$130.0 million) 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. Additionally, the Real Property Transfer Tax did not begin until July 2020, therefore no revenue was received in 2019-2020, compared to \$29.4 million being received through February 2021. Partially offsetting these higher revenue collections is a significant year-over-year decrease related to the Development Fee Program. Revenue totaling \$54.9 million was received through February 2020; however, no revenue is captured in the General Fund in 2020-2021 as these revenues (and associated expenditures) have been moved out of the General Fund and into specific Development Fee Program funds. After adjusting for these significant variances, revenue in 2020-2021 has dropped approximately \$33.0 million (5.0%) from the prior year.

Several revenue categories are experiencing declines compared to prior year levels, including Fees and Charges (excludes Development Fee Program revenue; -\$12.7 million); Business Taxes (-\$10.1 million), Transient Occupancy Tax (-\$8.4 million), Revenue from the State (-\$8.1 million), and Fines, Forfeitures and Penalties (primarily Parking Fines; -\$6.4 million). The lower collections in the Revenue from the State of California category is primarily due to the timing of payments. The lower collections for Fees and Charges (Parks, Recreation and Neighborhood Services Department fee revenue), Business Taxes (Cardroom Business Tax), Transient Occupancy Tax, and Fines Forfeitures and Penalties (Parking Fines) are primarily the result of impacts related to the COVID-19 pandemic and public health orders, much of which was anticipated and built into the revenue assumptions as part of the 2020-2021 Adopted Budget or modified as part of the 2019-2020 Annual Report or the 2020-2021 Mid-Year Budget Review.

General Fund revenues are anticipated to slightly exceed budgeted levels by approximately \$10 million, which is due to variances in several revenue categories. Revenues that are anticipated to exceed their budgeted estimate include Property Tax (\$14 million), Sales Tax (\$6.5 million), and Utility Taxes (\$4 million). However, partially offsetting these increased revenues, are several categories that are anticipated to end the year below the budgeted estimate, including Fines, Forfeitures, and Penalties (-\$4 million), Use of Money and Property (-\$2 million), Fees, Rates, and Charges (-\$2 million), Other Revenue (-\$3 million), and Transfers and Reimbursements (-\$3 million). These revenues will continue to be closely monitored and recommendations may be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum (which will be reviewed by the City Council in June 2021) 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 February 2021 are highlighted on the following pages.



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| <b>GENERAL FUND</b> |
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**KEY GENERAL FUND REVENUES**

| Revenue             | 2020-2021<br>Budget Estimate | YTD<br>Actual         | Prior YTD<br>Collections |
|---------------------|------------------------------|-----------------------|--------------------------|
| <b>Property Tax</b> | <b>\$ 361,500,000</b>        | <b>\$ 189,217,667</b> | <b>\$ 189,662,701</b>    |

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 \$375.8 million, which reflects slightly more than 1% growth from the 2019-2020 collection level of \$369.5 million. 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 \$14 million above the 2020-2021 Modified Budget estimate of \$361.5 million. This growth is primarily due to higher Educational Revenue Augmentation Fund (ERAF) revenues of approximately \$12 million, which are further discussed below. A recommendation may be brought to align the budget with the anticipated collection level as part of the Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum that will be reviewed by the City Council in June 2021.

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, ERAF revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax.

The general Secured Property Tax budgeted estimate of \$315.0 million in 2020-2021 assumes growth of approximately 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. General Secured Property Tax receipts are anticipated to meet the budgeted estimate by year-end.

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. In 2019-2020, the State of California notified counties (who oversee ERAF distribution) that changes were being considered to the calculation formula for ERAF distribution. As a result, the 2020-2021 budget was built on the assumption that 2020-2021 ERAF revenue would drop by approximately 50% from 2019-2020 actual collections, totaling \$11.5 million. However, the State recently released the updated calculation instructions and 2020-2021 ERAF receipts are estimated at \$23.6 million, which is consistent with 2019-2020 collections

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| <b>GENERAL FUND (CONT'D.)</b> |
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of \$23.1 million. As a result, ERAF revenue is anticipated to exceed the budgeted estimate by approximately \$12 million.

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. The 2020-2021 Adopted Budget estimate totaled \$21.0 million for SARA Property Tax revenue; however, as the result of a change in the residual property tax distribution formula due to a recent State Appellate Court decision, only \$11.3 million is anticipated to be received. Therefore, as part of the 2020-2021 Mid-Year Budget Review, which was approved by the City Council in February 2021, the budget was reduced by \$10.0 million (from \$21.0 million to \$11.0 million) to more closely align the budget with the revised revenue estimate.

**Unsecured Property Taxes** are the second largest revenue source in the Property Tax category. Growth or declines in this category is driven by increases or decreases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). Based on the most recent information provided by Santa Clara County, 2020-2021 receipts of \$15.8 million are anticipated, which is consistent with the prior year collections, and is \$1.7 million above 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. Based on the most recent information provided by Santa Clara County, 2020-2021 receipts of \$6.0 million are anticipated, which is consistent with the prior year collections and the budgeted estimate.

**Aircraft Property Tax** receipts are typically received in October of each year. Based on the most recent information provided by Santa Clara County, 2020-2021 receipts of \$3.1 million are anticipated, which is consistent with the prior year collections and the budgeted estimate.

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.



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| <b>GENERAL FUND (CONT'D.)</b> |
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| Revenue          | 2020-2021<br>Budget Estimate | YTD<br>Actual         | Prior YTD<br>Collections |
|------------------|------------------------------|-----------------------|--------------------------|
| <b>Sales Tax</b> | <b>\$ 262,500,000</b>        | <b>\$ 146,347,263</b> | <b>\$ 143,356,804</b>    |

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. 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 have impacted almost all sectors of Sales Tax revenue, including retail sales, transportation, and business-to-business. Information related to Sales Tax payments are distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity), February (representing October-December activity), May (representing January-March activity), and August (representing April-June activity). Based on information received through February 2021 (which reflects two quarters of Sales Tax activity; from July 2020 through December 2020), it is anticipated that 2020-2021 Sales Tax revenue will total \$269.0 million, which is \$6.5 million above the budgeted estimate of \$262.5 million. Additionally, this collection level is approximately 3% above the 2019-2020 receipts; however, 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. When excluding collections associated with the Revenue Capture Agreement for both 2019-2020 and 2020-2021, collections are anticipated to drop approximately 2% from the prior year.

Additional information about each of the Sales Tax sub-categories is provided below.

**General Sales Tax** is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first quarter (sales tax activity for July-September) and second quarter (sales tax activity for October-December) were received in November 2020 and February 2021, respectively. When excluding revenue associated with the Revenue Capture agreement with eBay, Inc. (which was not received in the first quarter of 2019-2020), receipts in 2020-2021 have declined approximately 9% from the 2019-2020 collection level. However, 3<sup>rd</sup> and 4<sup>th</sup> quarter receipts (January through June activity) are anticipated to experience growth of 5%-6% compared to 2019-2020 levels, which had significant declines due to the strict shelter-in-place mandates that began in March 2020. Based on these assumptions, General Sales Tax collections are anticipated to total \$219.0 million in 2020-2021, which is \$7.0 million above the budgeted estimate of \$212.0 million. This collection level reflects a decrease of 3% from the 2019-2020 receipts (excluding the Revenue Capture Agreement, which was only received in three quarters of 2019-2020).

Most General Sales Tax categories have experienced significant declines from the prior year, with the exception of Construction and the County Pool. The first quarter General Sales Tax payment reflected growth of 3.7% in Construction and 42.0% growth for the County Pool, while reflecting

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

negative growth within the transportation, general retail, business-to-business, and food products sectors ranging of -17.5% to -26.2%. The County Pool's significant growth is attributable to the surge in online purchases during the pandemic, and facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 40% - 50% of the total County Pool.

In June 2016, San José voters approved a  $\frac{1}{4}$  cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 40% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

Similar to General Sales Tax, Local Sales Tax receipts for the first quarter (sales tax activity for July-September) and for the second quarter (sales tax activity from October-December) were received in November 2020 and February 2021, respectively. Receipts through the first two quarters reflect a decline of approximately 5% from the prior year. However, 3<sup>rd</sup> and 4<sup>th</sup> quarter receipts (January through June activity) are anticipated to have growth of 10% compared to 2019-2020 levels, which had significant declines due to the strict shelter-in-place mandates that began in March 2020. Based on these assumptions, Local Sales Tax collections are anticipated to total \$44.0 million in 2020-2021, which is approximately \$500,000 below the budgeted estimate and the prior year collection level.

**Proposition 172 Sales Tax** collections represents the  $\frac{1}{2}$  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. It is currently anticipated that Proposition 172 Sales Tax will end the year at budgeted levels.



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

| Revenue                        | 2020-2021<br>Budget Estimate | YTD<br>Actual       | Prior YTD<br>Collections |
|--------------------------------|------------------------------|---------------------|--------------------------|
| <b>Transient Occupancy Tax</b> | <b>\$ 5,500,000</b>          | <b>\$ 2,736,671</b> | <b>\$ 11,114,286</b>     |

The 2020-2021 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$5.5 million, which was reduced from the Adopted Budget level of \$9.0 million as part of the 2020-2021 Mid-Year Budget Review. This revised budget estimate represents a 39% decline from the Adopted Budget estimate, which already assumed a significant revenue decline of approximately 33% from the 2019-2020 estimated collection level of \$13.5 million, attributable to the prolonged impact of the COVID-19 pandemic on the hospitality industry. Relative to actual 2019-2020 receipts, which exceeded the revised estimated level (\$13.5 million) at \$14.1 million, the current budget estimate represents an overall decrease of 61%.

Year-to-date revenues of \$2.7 million (49.8% of budget) are significantly underperforming relative to historical average performance (53.6% of budget) at this point in the fiscal year, due to the resurgence of COVID-19 during fall 2020 and winter 2020/2021, and corresponding impacts on business and leisure travel, convention activity and other public events. The adjusted TOT forecast already assumed low performance levels through the first three quarters of the fiscal year, with higher collection levels backloaded into 4<sup>th</sup> quarter of 2020-2021 based on the assumption of a slow recovery coinciding with vaccination progress. Overall, reported gross hotel revenues are performing at, or even exceeding the revised forecast expectation; however, non-remittances from hotels are resulting in lower than projected revenues to date. Of these non-remitting hotels, two have filed for bankruptcy, for which collection of past due tax remittances is uncertain.

Through February 2021, the average hotel occupancy rate reported for the San José market was 35.7%, a decrease of 36.7% over the same period in 2019-2020. Average room rates also decreased by 47.4%, from \$191.51 to \$100.64, and the year-to-date average revenue-per-available room (RevPAR) decreased 74.1%, from \$138.56 to \$35.94, relative to the same period in 2019-2020. However, as incremental progress is made to vaccinate eligible adults, for which universal eligibility for California residents is expected by mid-April, hotel activity is projected to moderately increase. Although the pace of this rebound and success of current collection efforts remain uncertain, shifting conditions suggest that revenues may still approach budgeted levels by year-end. This outlook extends to all impacted funds receiving hotel-generated taxes – General Fund, Transient Occupancy Tax Fund, and the Convention Center Facilities District Revenue Fund).

Given the considerable uncertainty with prior forecast development in response to COVID-19, the Administration continues to closely collaborate with Team San Jose and external consultants to monitor key performance indicators for hotel activity, and to revisit forecast assumptions for the 2020-2021 and 2021-2022 fiscal years. If necessary, budget adjustments reflecting the latest available data and forecast conditions will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum that will be reviewed by the City Council in June 2021.



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| <b>GENERAL FUND (CONT'D.)</b> |
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| Revenue            | 2020-2021<br>Budget Estimate | YTD<br>Actual        | Prior YTD<br>Collections |
|--------------------|------------------------------|----------------------|--------------------------|
| <b>Utility Tax</b> | <b>\$ 95,800,000</b>         | <b>\$ 61,182,831</b> | <b>\$ 61,601,923</b>     |

The Utility Tax category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through February, Utility Tax receipts of \$61.2 million are fairly consistent with the prior year level. 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, performance through February, and estimated receipts that have not yet been booked, it is anticipated overall Utility Taxes may exceed the budgeted level by approximately \$5 million by year-end. Revenue will continue to be monitored, and an adjustment may be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum that will be reviewed by the City Council in June 2021.

In the **Electricity Utility Tax** category, collections through February totaled \$32.5 million, which is \$1.2 million above the prior year receipts. 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, performance through February, and estimated receipts that have not yet been booked, collections are anticipated to end the year approximately \$4.5 million above the budgeted estimate.

In the **Gas Utility Tax** category, receipts through February totaled \$6.8 million, approximately \$500,000 above the previous year collection level. 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 February, receipts are anticipated to end the year slightly above the budgeted estimate.

**Water Utility Tax** collections of \$10.7 million through February are consistent with the prior year level. 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 February, receipts are anticipated to meet or slightly exceed budgeted levels by year-end.

Collections in the **Telephone Utility Tax** category through February totaled \$11.2 million, compared to prior year receipts of \$13.3 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.



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| <b>GENERAL FUND (CONT'D.)</b> |
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| Revenue               | 2020-2021<br>Budget Estimate | YTD<br>Actual        | Prior YTD<br>Collections |
|-----------------------|------------------------------|----------------------|--------------------------|
| <b>Business Taxes</b> | <b>\$ 63,900,000</b>         | <b>\$ 39,988,481</b> | <b>\$ 50,113,186</b>     |

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through February, overall collections of \$40.0 million are 20.2% below the prior year collection levels of \$50.1 million, primarily reflecting lower collections in the Cardroom Tax and General Business Tax categories. The Business Taxes 2020-2021 Modified Budget estimate of \$63.9 million allows for a 10% decline from the 2019-2020 actual collection level. Based on current collection trends, and an anticipated uptick in revenue over the spring months as health restrictions continue to ease, Business Taxes are anticipated to end the year at budgeted levels.

**Cannabis Business Tax** collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Through February, receipts of \$10.2 million are 6.7% above the prior year level of \$9.5 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 meet the budgeted level by year end.

Through February, **Cardroom Tax** receipts of \$2.8 million have been received, which is significantly below the prior year level of \$11.3 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 distancing requirements. However, cardrooms were only open for a limited period of time, before further health orders by Santa Clara County and then subsequently the State of California resulted in the closure of cardrooms from November 30 through January 27. As of the writing of this report, cardrooms are once again operational, under modified restrictions. Due to the anticipated continued easing of health restrictions, and the increased taxes on cardroom operators that began in January 2021, it is estimated that Cardroom Tax revenue will end the year approximately \$500,000 - \$1.0 million above the budgeted estimate of \$8.6 million.

**Disposal Facility Tax (DFT)** are business taxes received based on the tons of solid waste disposed at landfills within the City. DFT revenue through February totaled \$6.7 million, which is 3.7% below the prior year level of \$6.9 million. The 2020-2021 budget was built on the assumption that the 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 through the first few months of the fiscal year receipts were remaining stable compared to the prior year. Therefore, the 2019-2020 Annual Report, which was approved by the City Council on October 20, 2020, included an action



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

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. However, beginning in October, revenues have been experiencing slight year-over-year declines; and therefore, based on activity through February, DFT is expected to end the year slightly below budgeted levels.

Through February, **General Business Tax** receipts of \$20.4 million are 8.9% 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 pandemic's impact on local businesses. It is currently anticipated General Business Tax receipts will meet the budgeted estimate by year-end.

| Revenue                           | 2020-2021<br>Budget Estimate | YTD<br>Actual        | Prior YTD<br>Collections |
|-----------------------------------|------------------------------|----------------------|--------------------------|
| <b>Real Property Transfer Tax</b> | <b>\$ 40,000,000</b>         | <b>\$ 29,427,977</b> | <b>N/A</b>               |

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 \$40.0 million is anticipated to be received, which will be expended on homeless prevention and affordable housing projects and programs, per City Council direction. Through February, Real Property Transfer Tax receipts totaled \$29.4 million, which represents 73.6% of the budgeted estimate. In addition, the City has received the March Real Property Transfer Tax receipts from Santa Clara County, which totals \$1.2 million. When taking into account receipts through February and the March collections, Real Property Transfer Tax revenue in 2020-2021 total \$30.7 million, 76.7% of the 2020-2021 Modified Budget estimate. It is currently anticipated Real Property Transfer Tax revenue will meet or exceed the modified estimate by year-end.

| Revenue                              | 2020-2021<br>Budget Estimate | YTD<br>Actual       | Prior YTD<br>Collections |
|--------------------------------------|------------------------------|---------------------|--------------------------|
| <b>Fines, Forfeitures, Penalties</b> | <b>\$ 9,730,100</b>          | <b>\$ 3,744,508</b> | <b>\$ 10,180,287</b>     |

The primary sources of revenue in the Fines, Forfeitures, and Penalties revenue category are Parking Fines, Vehicle Code Fines, Business License Penalties, and Administrative Citation Fines. Through February, Fines, Forfeitures, and Penalties collections of \$3.7 million are 63.2% below the prior year collection level. This drop is primarily attributable to lower Parking Fine revenue, which is further described below. It is currently anticipated revenue will end the year approximately \$4 million below the budgeted estimate.



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| <b>GENERAL FUND (CONT'D.)</b> |
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Through February, **Parking Fine** receipts of \$1.7 million are significantly below the prior year collection of \$6.2 million and the budgeted level of \$6.0 million. The Transportation Department ceased issuing parking citations in March 2020 and resumed issuing limited parking citations in mid-August 2020. The majority of pre-COVID-19 citation issuance was related to violations pertaining to the support of street sweeping operations, parking meters, and Residential Permit Parking areas. At this time, citations are only being issued for meter violations in the Downtown core area, safety-related, and street sweeping violations citywide. Citations are not currently being issued for parking meter violations in the Japantown, Old Civic Center, or East Santa Clara areas where meters are not currently active. Enforcement of posted street sweeping restrictions began in January 2021. Historically, street sweeping violations account for approximately 25% of overall annual citations issuance. At this time, there is no set timeline to re-activate parking meters outside the downtown area or to resume enforcement of other types of violations, such as Residential Permit Parking (about 6% of annual issuance). Parking Compliance activities will continue to be phased in thoughtfully, addressing and prioritizing potential health and safety concerns while remaining sensitive to the community's economic concerns, as well as public health order protocols. It is currently anticipated that Parking Fines will end the year at \$3.5 million, which is \$2.5 million below the 2020-2021 Modified Budget estimate and \$6.6 million below 2019-2020 collections.

## **EXPENDITURES**

Through February, General Fund expenditures (without encumbrances) of \$902.3 million were 16.3% above the prior year level of \$775.8 million. However, after excluding TRANS debt service payments of \$105.5 million (which was not used in 2019-2020) and factoring out costs related to the Development Fee Program that were expended through February 2020, but are not reflected in the General Fund in 2020-2021 as the Development Fee Program has been moved to individual special funds (\$37.8 million), expenditures are approximately 8% above prior year levels. The 2020-2021 General Fund Budget assumes growth of 12% in expenditures from the prior year. Encumbrances of \$70.6 million were 6.9% below the prior year level. General Fund expenditures and encumbrances through February of \$972.9 million constitute 55.3% of the total budget including reserves, and 61.6% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year at or below budgeted levels.

Through February, 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.



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| <b>GENERAL FUND (CONT'D.)</b> |
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**KEY GENERAL FUND EXPENDITURES**

| Department    | 2020-2021<br>Budget   | YTD<br>Actual         | Prior YTD<br>Actual   |
|---------------|-----------------------|-----------------------|-----------------------|
| <b>Police</b> | <b>\$ 458,182,548</b> | <b>\$ 296,629,859</b> | <b>\$ 288,312,744</b> |

Police Department expenditures are tracking slightly above estimated levels through February and are anticipated to end the year close to, or exceed, current budgeted levels. Personal Services expenditures of \$274.4 million are tracking slightly higher than anticipated at this point of the year (65.0% expended, compared to the par level of 64.40%) due to lower than anticipated vacancy levels and relatively strong recruit academies, leading to higher regular salary, benefit, and retirement expenses in comparison to prior year levels (4.1%). A portion of the elevated levels is also attributable to higher retirement contribution rates in the payroll system that account for actuarial-assumed wage increases that remain within the Salaries and Benefits Reserve until a new Memorandum of Agreement is reached with the Police Officers Association. Year-to-date overtime expenditures of \$28.6 million account for 104.82% of the Police Department's \$27.3 million budget, reflecting continued elevated levels of overtime usage. However, overtime expenditures are tracking 5.4% below 2019-2020 levels, suggesting incremental progress with efforts to moderate the use of overtime.

Overall, Personal Services expenditures are on pace to exceed budgeted levels by approximately 1%. Actions will be brought forward prior to year-end to recommend adjustments that account for the final reconciliation of personal services costs incurred to support the City's pandemic response attributable to the Coronavirus Relief Fund, and true-up actuarial required retirement contributions from the Salaries and Benefits Reserve. In concert with these actions, the Police Department is committed to remaining within the modified budgeted levels through management of overtime use and costs associated with the February 2021 and June 2021 academies.

A total of \$22.2 million (62.2%) of the Department's Non-Personal/Equipment budget (including encumbrances) has been expended or encumbered through February. Excluding the remaining balances for centrally-determined details (\$6.8 million), including electricity, gas, and vehicle operation and replacement, the Police Department has approximately \$6.7 million, or 18.8%, of its Non-Personal/Equipment appropriation available for the remainder of the fiscal year. Expenditures are still expected to end the year within budgeted levels, as encumbrances of \$6.7 million also account for 18.8% of the year-to-date activity through February.

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 Police Department continues to diligently work to fill vacancies in both sworn and civilian positions, using vacancy savings and the \$6.75 million in one-time funding from the Sworn Hire Ahead Program to pay for Police Academy Recruits as well as to backfill patrol and investigative positions on overtime. While the goal is to fill vacancies and



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| <b>GENERAL FUND (CONT'D.)</b> |
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eliminate the need to backfill positions, academy and field training of new recruits takes 10-12 months, necessitating overtime to backfill until the new recruits are ready to serve as solo beat officers. Vacancy levels have also contributed to the build-up of compensatory time balances for sworn personnel, for which there is a limit of 480 hours after which sworn personnel are paid in overtime for any additional hours worked.

As recommended in the City Auditor's March 2021 *Police Staffing, Expenditures, and Workload* audit report, this and future Bi-Monthly Financial Reports, Mid-Year Budget Reviews, and Annual Reports are to now include: 1) the number of individuals who have reached the 480-hour limit (previously reported) and the 240-hour limit (newly reported; per the San José Police Officers' Association Memorandum of Agreement, a sworn employee who reaches 240 hours of compensatory time is responsible for bringing the balance below 240 hours prior to the end of the calendar year), 2) the total compensatory time liability (total hours were previously reported, total cost liability is newly reported), and 3) the amount of overtime expenses attributable to staff that have reached the 480-hour accrual limit (newly reported).

As of February 2021, 430 sworn personnel had reached the 480-hour limit, an increase of 20.8% compared to 356 sworn personnel as of February 2020. An additional 276 sworn personnel were between 240 hours and 480 hours, a minimal change compared to the 277 sworn personnel as of February 2020.

The compensatory time balance at the end of February 2021 was 343,923 hours for sworn personnel (\$24.2 million). This represents an increase of 29,263 hours or 9.3% compared to the February 2020 balance of 314,660 (\$22.2 million). As described above, 430 sworn personnel have reached the compensatory balance limit of 480 hours and all overtime worked by these employees are paid overtime.

Year-to-date overtime expenses attributable to staff that have reached the 480-hour compensatory accrual limit through February 2021 was \$13.8 million (186,807 hours), compared to \$10.6 million in February 2020 (141,137 hours), a 31% increase in expense. The increase is driven by back filling recruits as previously stated, unplanned overtime in response to protests, response to wildfires in the summer of 2020, preparations for demonstrations surrounding the contentious presidential election, increase in investigations, and side show enforcement.

The Police Department is enforcing compensatory time controls by requiring all sworn staff, outside of the Bureau of Field Operations (BFO), to reduce compensatory time balances by the end of the calendar year, or to submit a request for an extension, per the MOA. The Police Department has implemented additional overtime and compensatory time approvals to slow, and eventually reduce, compensatory time balance growth, including revisions for BFO approvals to the extent possible. Finally, an internal working group will be established – comprised of varying ranks of sworn personnel, fiscal personnel, and other civilian staff – tasked with identifying approaches to further increase the controls surrounding compensatory time liability. These

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

actions, as well as the other recommendations included in the *Police Staffing, Expenditures, and Workload* audit report are intended to address, slow, and reverse the growth of overtime and compensatory time use.

The table on the following page provides a summary of sworn staffing vacancies and street-ready officers. While the sworn positions are filled, there is still a significant gap between filled positions and street-ready officers, with the Sworn Hire Ahead program squarely aimed at closing this gap and mitigating expected vacancies due to retirements and other separations. Of the 1,159 authorized sworn staff, 134 were in training (11.56%) as of February 2021, leaving 1,025 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, a total of 969 street-ready sworn officers were deployed.

|  | 2019-2020<br>(as of 03/06/2020) | 2020-2021<br>(as of 03/12/2021) |
|--|---------------------------------|---------------------------------|
| <b>Authorized Sworn Positions</b>            | <b>1,151</b>                    | <b>1,159</b>                    |
| Vacancies                                    | (3)                             | (0)                             |
| <b>Filled Sworn Positions</b>                | <b>1,148</b>                    | <b>1,159</b>                    |
| Field Training Officer/Recruits              | (139)                           | (134)                           |
| <b>Street-Ready Sworn Officers Available</b> | <b>1,009</b>                    | <b>1,025</b>                    |
| Disability/Modified Duty/Other Leaves        | (66)                            | (56)                            |
| <b>Street-Ready Sworn Officers Working</b>   | <b>943</b>                      | <b>969</b>                      |

The Police Department has completed or began several academies over the past year, including February/June 2020 (55 recruits), October 2020 (51 recruits) and February 2021 (42 recruits). Due to the pandemic, the February 2020 Academy was temporarily suspended in March 2020, but resumed in late June. This academy graduated in February 2021 and the October 2020 academy is anticipated to graduate in May 2021. To fill the vacant sworn positions and put more Police Officers back on patrol, the Department will continue with an additional Police Recruit Academy in 2020-2021, with the next beginning in June 2021 with an estimated 30 recruits.

| Department  | 2020-2021<br>Budget   | YTD<br>Actual         | Prior YTD<br>Actual   |
|-------------|-----------------------|-----------------------|-----------------------|
| <b>Fire</b> | <b>\$ 236,288,697</b> | <b>\$ 152,983,391</b> | <b>\$ 155,014,001</b> |

The Fire Department's budget totals \$236.3 million, which is comprised of \$225.9 million in Personal Services and \$10.4 million in Non-Personal/Equipment expenditures. Overall, Fire Department expenditures are performing slightly above estimated levels through February.



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| <b>GENERAL FUND (CONT'D.)</b> |
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Personal Services expenditures of \$146.8 million, or 65.0% of the Modified Budget, are slightly above the expected level of 64.4% 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 be reimbursed by the State of California and Federal Emergency Management Agency (approximately \$5.4 million). As appropriate, actions will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum that will be reviewed by the City Council in June 2021, to recognize the revenue and allocate funding to the Personal Services allocation. 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 \$10.4 million was 59.10% expended or encumbered through February 2021 and is expected to end the year within budgeted levels.

Overall, the average sworn vacancy rate of 5.66% through February 2021 is slightly higher than the vacancy rate of 5.08% experienced this time last year, and above the budgeted rate of 2.5%. The next fire fighter academy for 2020-2021 will begin in April 2021 and will conclude in August 2021 with potentially 25 graduates.

In accordance with the City Council's approval of a March 2010 report on annual vacancy and absence rates, the Fire Department has committed to limiting administrative assignments for sworn administrative personnel for overtime control purposes. As of the end of February, of the 31 current authorized staffing level, the Fire Department had 25 sworn personnel on administrative assignments.

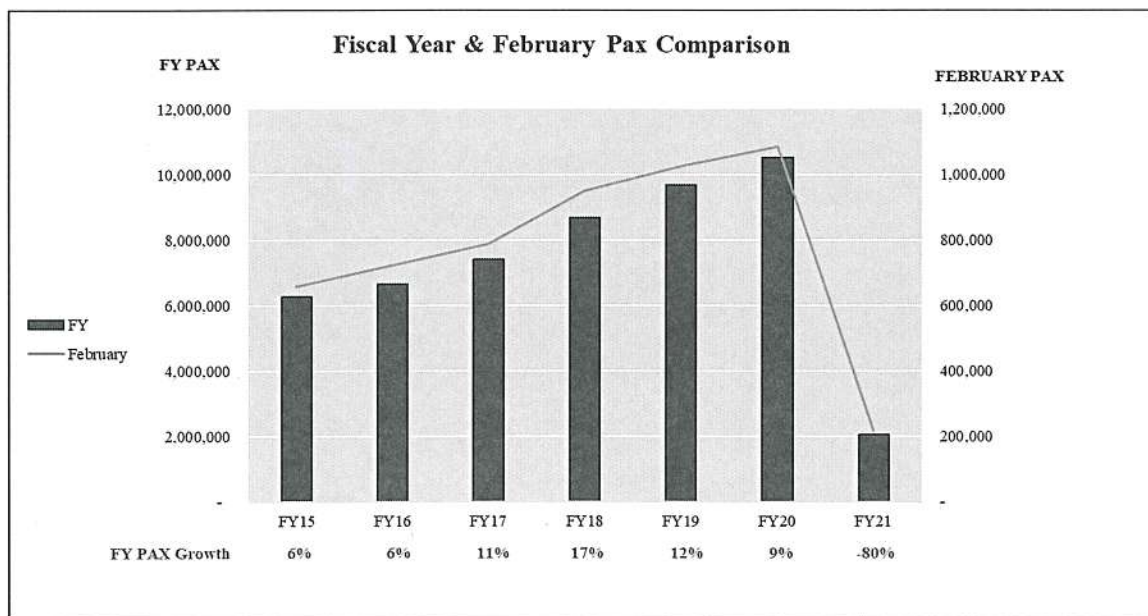
### **CONTINGENCY RESERVE**

The General Fund Contingency Reserve remained at \$40.0 million through February, with no revisions through the February. 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 2.1 million passengers, a decrease of 80.4% from the figures reported through February of the prior year. The chart below depicts the year-over-year change for the month of February and fiscal year-to-date for the last six years.



Through February, overall revenue performance at the Airport tracked 9.0% below estimated levels. Categories trailing forecasts include: Parking & Roadway (-31.5%); Terminal Concessions (-19.8%); Airfield revenues (-16.7%); and Landing Fees and Terminal Rentals both (-5.9%). General and Non-Aviation revenues tracked slightly above the benchmark (+5.2%). 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 within the next two fiscal years. On February 12, 2021, the FAA announced that the Airport is eligible to receive a total of approximately \$15.1 million under the new Appropriations Act that is not yet included in these revenue figures. Finally, on February 1, Airline Landing Fees and Terminal Rental Rates were increased 15% for the final five months of 2020-2021 as permitted in the Airline-Airport Lease and Operating Agreement. This 15% rate increase is estimated to drive an additional \$6.0 million of revenue, which represents approximately 7% of the annual budget. Airport revenue performance will continue to be closely managed and monitored through the remainder of this fiscal year.



**OTHER FUNDS (CONT'D.)**

Through February, 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 64.9% of budget compared to the benchmark of 65.4%, while Non-personal/Equipment expenditures were 27.8% compared to the benchmark of 55.1%. Non-personal/Equipment expenditures in the Customer Facility and Transportation Fee Fund were 29.7% compared to the straight-line benchmark of 66.7%. The Administration will continue to closely monitor and report activity, revenue and expenditure status.

**Construction and Conveyance Tax Funds**

Through February 2021, Construction and Conveyance (C&C) Tax receipts totaled \$27.0 million, which represents 67.6% of the 2020-2021 Modified Budget estimate (\$40.0 million), and are expected to meet or exceed budgeted levels by year-end. Year-to-date collections are 11.8% above receipts through February 2020, which totaled \$24.2 million. However, the City has received the March Conveyance receipts from Santa Clara County, which total \$2.9 million, a 25.4% decrease from the March 2020 collection level. This drop may be the result of the timing of transactions, and receipts will continue to be closely monitored. When taking into account receipts through February and the estimated March collections, C&C receipts in 2020-2021 total \$29.9 million (74.9% of the Modified Budget estimate), a 6.6% increase from the prior year collection level.

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. In accordance with this expectation, C&C Tax receipts in 2020-2021 were initially 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, receipts have since experienced year-over-year growth. Therefore, as part of the 2020-2021 Mid-Year Budget Review, the C&C budgeted estimate was increased by \$10.0 million, from \$30.0 million to \$40.0 million.

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.

**OTHER FUNDS (CONT'D.)****Other Construction-Related Revenues**

Capital Fund revenues associated with construction activity are currently anticipated to meet their budgeted estimates by year-end. As discussed below, the Construction Excise Tax and Building and Structure Construction Tax receipts through February, while still strong, are lower 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 February, the **Building and Structure Construction Tax** collection level of \$18.9 million is 11.2% below the prior year receipts of \$21.3 million and the **Construction Excise Tax** collection level of \$14.2 million is 2.5% below the prior year receipts of \$14.5 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.

While the pace of activity has slowed when compared to the first few months of the fiscal year, revenues recorded through February are outpacing initial expectations. To reflect this increased level, the 2020-2021 Mid-Year Budget Review included an adjustment to increase the budgeted estimates for Building and Construction Tax revenue by \$6.0 million, from \$19.0 million to \$25.0 million, and Construction Excise Tax revenue by \$7.0 million, from \$14.0 million to \$21.0 million.

**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. Currently, all Development Fee Programs are anticipated to meet or exceed the budgeted estimate by year-end. However, activity levels will continue to be closely monitored with updates provided in 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 \$21.4 million through February are 24.8% 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 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 \$5.0 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 February, Citywide Planning Fee revenues of \$2.1 million are 25.7% below the prior year collection level of \$2.8 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 slightly meet or slightly 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 February of \$4.4 million are \$2.4 million (35%) 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 an anticipated decrease in fee activity as a result of the pandemic. Based on activity through February, Fire development revenues are projected to meet 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 February, Planning Fee revenues of \$4.4 million are 10.0% below the prior year collection level of \$4.9 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 impacts associated with the pandemic. Based on current collection trends, Planning Fee revenues are anticipated to meet or slightly 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 February of \$7.5 million are 1.1% above the prior year level of \$7.4 million. The Public Works Development Fee Program total revenue collections are comprised of \$4.2 million from the Development Services Fee Program and \$3.3 million from the Utility Fee Program. The 2020-2021 Adopted Budget estimate of \$10.9 million allows for a 9% decrease from the 2019-2020 actual collection level of \$11.9 million due to an anticipated in fee activity as a result of the pandemic. Based on activity through February, collections in Public Works revenues are projected to exceed budgeted levels by approximately \$500,000 - \$1.0 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 February, small cell permitting fee revenue collection totaled \$4.7 million, whereas \$1.5 million had been received through February 2020, which may partially be due to the timing of payments. The 2020-2021 Modified Budget estimate of \$4 million allows for a 2% decrease from the 2019-2022 actual collection level of xxx due to an anticipated in fee activity as a result of the pandemic. Based on current collection trends, revenues are anticipated to exceed budgeted levels by approximately \$500,000 - \$1.0 million.

#### Other Funds

Overall, the remaining Special and Capital funds are tracking within anticipated levels and are expected to end the year at revised budgeted levels. Due to continued impacts related to the pandemic, budgetary adjustments were brought forward as part of the 2020-2021 Mid-Year Budget Review to rebalance several funds, including the **Transient Occupancy Tax Fund**, the **Convention and Cultural Affairs Fund**, the **Convention Center Facility District Revenue Fund**, and the **General Purpose Parking Fund**. After accounting for the downward revenue adjustments approved by the City Council with the 2020-2021 Mid-Year Budget Review, it is anticipated that the funds will meet budgeted levels.

#### CONCLUSION

As a result of the pandemic and the necessary response to protect community health and safety, economic activity was severely restricted beginning in March 2020. As anticipated, revenue sources across the City were significantly impacted. 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. However, while some revenue categories are tracking to end the year below budgeted levels, several revenues are not being impacted as significantly as initially anticipated and are anticipated to end the year above budget.

Based on the available data through February, overall General Fund revenues are anticipated to end the year approximately \$10 million above the budgeted level, which is due to variances in several revenue categories. Several revenue categories are anticipated to exceed their budgeted estimate, including Property Tax, Sales Tax, and Utility Taxes. However, partially offsetting these increased revenues, are several categories that are anticipated to end the year below the budgeted estimate, including Fines, Forfeitures, and Penalties, Use of Money and Property, Fees, Rates, and Charges, Other Revenue, and Transfers and Reimbursements. These revenues will continue to be closely monitored and recommendations may be included in the Approval of Various Budget



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|                             |
|-----------------------------|
| <b>CONCLUSION (CONT'D.)</b> |
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Actions for Fiscal Year 2020-2021 memorandum (which will be reviewed by the City Council in June 2021) to align General Fund Revenue budgeted estimates with updated collection levels.

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 Transient Occupancy Tax Fund, the Convention and Cultural Affairs Fund, and the Convention Center Facility District Revenue Fund remain heavily impacted. As a result, the 2020-2021 Mid-Year Budget Review rebalanced these funds to address the reduced revenues. However, these funds will need to continue to be monitored closely. In addition, while 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 anticipated to meet budgeted levels, these revenue streams will need to be closely monitored as the volatile nature of the 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 pandemic requires the Administration to closely follow and report on economic indicators and activity levels in 2020-2021 through the March/April Bi-Monthly Financial Report and bring recommended revisions forward to the Mayor and City Council as part of the Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum, as necessary.



JIM SHANNON  
Budget Director