

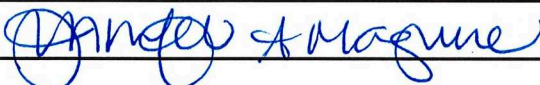
# Memorandum

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

**FROM:** Jim Shannon

**SUBJECT: BI-MONTHLY FINANCIAL REPORT  
FOR JULY/AUGUST 2021**

**DATE:** October 13, 2021

Approved		Date	10-14-21
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## RECOMMENDATION

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

## OVERVIEW

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

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

- While it is very early in the fiscal year and there is minimal data, overall, General Fund revenues appear to be tracking within estimated levels in the General Fund.
- Overall, General Fund expenditures tracked within estimated levels through August. Expenditures will continue to be controlled and monitored to ensure appropriations stay within approved levels.
- As a result of the strong local real estate market, Construction and Conveyance Tax revenue and Real Property Transfer Tax revenue are performing above anticipated levels. Budget adjustments may be brought forward for City Council consideration as part of the 2021-2022 Mid-Year Budget Review (released at the end of January 2022) to increase the budgeted estimates. In accordance with City Council Policy 1-18, Section 22, the additional Real Property Transfer Tax revenue will be allocated for homelessness prevention efforts and the development of new affordable housing.

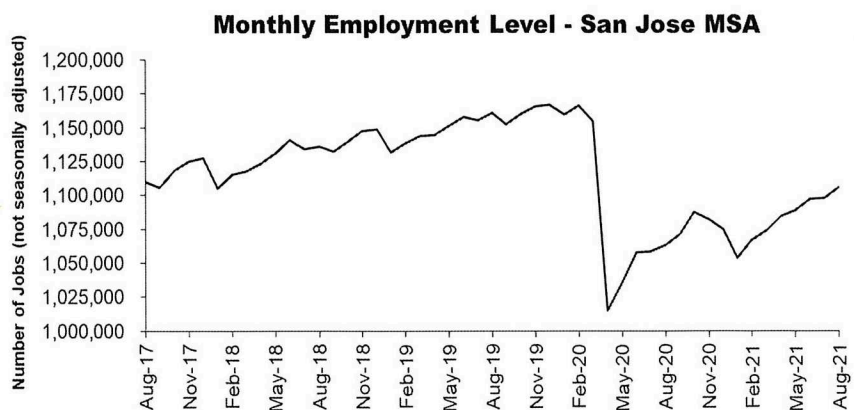
**OVERVIEW (CONT'D.)**

- Building and Structure Construction Tax and Construction Excise Tax collections are experiencing year-over-year declines from the extraordinarily high levels experienced at the beginning of last year. However, these revenue sources, which are dependent on construction activity, are anticipated to end the year within budgeted levels.
- At this early point in the fiscal year, all Development Fee Programs, with the exception of the Fire Development Fee Program, are anticipated to end the year within budgeted levels. However, the ongoing impacts from the pandemic can abruptly affect these revenue collections, therefore, activity levels will continue to be closely monitored.
- The Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned close to 1.6 million passengers through August, an increase of 195.3% from the figures reported through August of the prior year. This year-over-year increase is due to the ongoing recovery of passenger traffic, which was significantly impacted as a result of the pandemic.
- Cost of Energy expenditures including encumbrances totaled \$194.3 million through August, or 66% of the total budget. As San José Clean Energy (SJCE) encumbers a significant amount of funds for contracted energy early in the fiscal year, it is anticipated that the Cost of Energy will end the year within budgeted levels. In accordance with City Council direction, staff will return to the Transportation and Environment Committee in December 2021 with a report on SJCE's business plan and outlook for the next twelve months.
- The Administration will continue to report to the City Council all significant developments through future Bi-Monthly Financial Reports and the 2021-2022 Mid-Year Budget Review.

**Economic Environment**

The City of San José had been experiencing strong economic growth coupled with low unemployment levels for over a decade. However, the shelter-in-place mandate issued at the onset of the pandemic had an immediate impact to daily economic activity that was felt throughout 2020-2021 and will continue into 2021-2022.

California's employment was significantly impacted when health orders in response to the pandemic severely curtailed economic activity. As can be seen from the chart, after the immediate employment drop in April 2020, employment levels have progressively grown, with a small decline at the end of





**OVERVIEW (CONT'D.)**

2020 when COVID-19 cases re-surged. Employment levels in spring and summer 2021 have continued to expand at a rapid pace, which is anticipated to continue until the end of the 2021. The August 2021 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.11 million was 3.9% above the August 2020 level of 1.06 million. Between August 2020 and August 2021, employment in the San José MSA increased by 41,700 jobs. This increase includes leisure and hospitality jobs increasing by 14,900 jobs; private educational and health services jobs growing by 7,000; professional and business services expanding by 6,800 jobs; other services increasing by 6,700; and the information sector growing by 4,200 jobs.<sup>1</sup>

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

After topping over 12% near the beginning of the pandemic in April 2020, the local unemployment rate has significantly dropped. In August 2021, the local unemployment rate was 4.8%, which is significantly lower than the August 2020 rate (8.2%). However, the unemployment rates remain significantly above the February 2020 pre-pandemic level of 2.6%. It is important to note though that although local unemployment figures have risen since the shelter-in-place mandate began, the rates continue to be lower than the State and the national levels.

<b>Unemployment Rate (Unadjusted)</b>				
	<b>Feb. 2020</b>	<b>April 2020</b>	<b>Aug. 2020</b>	<b>Aug. 2021**</b>
San Jose Metropolitan Statistical Area*	2.6%	12.4%	8.2%	4.8%
State of California	4.3%	16.0%	12.3%	7.5%
United States	3.8%	14.4%	8.5%	5.3%
* San Benito and Santa Clara Counties Source: California Employment Development Department.				
** August 2021 estimates are preliminary and may be updated.				

Overall construction activity for July and August 2021 decreased 74.6% from prior year levels due to activity for all land use categories (residential, commercial, and industrial) experiencing significant year-over-year declines from the prior year, especially for commercial activity. It is important to note that prior construction activity through August was abnormally high – the \$945 million was 50% of the \$1.9 billion experienced over the entire year. The 2021-2022 Adopted Budget was developed with the expectation that development activity would decrease slightly from the high levels experienced in 2020-2021, but would remain relatively strong. Additional months of activity will be needed to determine the accuracy of the 2021-2022 budget assumptions.

<sup>1</sup> State of California Employment Development: Labor Market Information Division Press Release, September 17, 2021

**OVERVIEW (CONT'D.)**

<b>Private Sector Construction Activity (Valuation in \$ Million)</b>			
	<b>August 2020 (YTD)</b>	<b>August 2021 (YTD)</b>	<b>% Change</b>
Residential	\$101.6	\$52.1	(48.7%)
Commercial	\$613.5	\$103.8	(83.1%)
Industrial	\$229.8	\$84.6	(63.2%)
<b>TOTAL</b>	<b>\$944.9</b>	<b>\$240.4</b>	<b>(74.6%)</b>

Through August 2021, residential permit valuation decreased 48.7% from prior year levels (\$52.1 million through August 2021; \$101.6 million through August 2020). Valuation for July and August was roughly split evenly between new construction and alterations. Residential activity through August included 108 multi-family units and 78 units for single-family construction for a total of 186 units, which included a permit being issued for a 108-unit apartment building on Leigh Avenue.

Commercial valuation through August experienced a decrease of 83.1% from the prior year level (\$103.8 million through August 2021; \$613.5 million through August 2020). Most of the activity for July and August was for new construction at about 75% of the total, with approximately 25% for alterations. Major projects through August include the finished interior work on two stories (46,650 square feet) of a medical/dental clinic on Samaritan Court and finished interior work on a 238,000 square foot office building on East Brokaw Road.

Industrial construction valuation through August was 63.2% lower than prior year levels, with receipts totaling \$84.6 million through August 2021 and \$229.8 million through August 2020. The valuation for July and August was entirely from additions/alterations.

When the pandemic began, real estate activity was anticipated to be negatively impacted 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 in March 2020 through June 2020. However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains.





## **OVERVIEW (CONT'D.)**

In 2021-2022, year-to-date there were a total of 1,708 property transfers for all residences, which represents growth of almost 35% from prior year levels. In addition, median single family home prices remain strong. As of August 2021, the median single family home price totaled \$1.44 million, which represents a 15.2% increase from the August 2020 price of \$1.25 million. Finally, it is taking significantly less time to sell these more expensive homes. The average days-on-market through August 2021 totaled 13 days, which is significantly below the average of 29 days experienced year-to-date through August 2020.

On a national level, in August consumer confidence fell to the lowest level experienced since February 2021. Lynn Franco, Senior Director of Economic Indicators at The Conference Board, stated “Concerns about the Delta variant – and, to a lesser degree, rising gas and food prices – resulted in a less favorable view of current economic conditions and short-term growth prospects.”<sup>2</sup> The drop in consumer confidence highlights that although economic conditions have been improving in recent months, the ongoing impacts of the pandemic remain unclear.

Economic conditions will continue to be closely monitored and will be factored into the assessment of the City’s performance in 2021-2022 as well as the development of the 2023-2027 General Fund Forecast that will be released at the end of February 2022.

## **GENERAL FUND**

### **REVENUES**

General Fund revenues through August 2021 totaled \$398.5 million, which represents an increase of \$185.4 million from the August 2020 level of \$213.0 million. This increase is primarily attributable to higher Tax and Revenue Anticipation Notes (TRANs) receipts, which facilitate the pre-payment of a portion of the City’s retirement contributions. TRANs receipts increased by \$155.0 million, from \$130.0 million in 2020-2021 to \$285.0 million in 2021-2022. The higher level of TRANs receipts is due to the City also including in the prefunding other pensionable employer-paid benefits (OPEB) and increasing the amount borrowed to take advantage of the low interest rate environment. In addition, several other categories are experiencing increases compared to prior year levels, including Real Property Transfer Tax (\$21.0 million), Fees, Rates, and Charges (\$3.5 million, primarily due to higher Parks, Recreation and Neighborhood Services Fees), Sales Tax (\$2.4 million), and Licenses and Permits (\$2.4 million). However, while many revenues are performing stronger than the prior year, there are several categories experiencing declines; including, Franchise Fees (-\$5.2 million), Utility Tax (-\$3.3 million), and Revenue from the Federal Government (-\$2.0 million). These lower collections are primarily attributable to timing of payments. It is important to note that only very preliminary information is currently known for all revenue categories.

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<sup>2</sup> The Conference Board, Consumer Confidence Survey, August 31, 2021

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

At this early point in the year the revenues are overall anticipated to meet the budgeted level by year-end. Additionally, it is currently anticipated several revenue categories will exceed budgeted levels, including, Property Tax, Sales Tax, and Real Property Transfer Tax. As described further below, budget adjustments may be brought forward as part of the 2021-2022 Mid-Year Budget Review (which will be released in January 2022) to align the budgeted estimate with the higher anticipated collection level for these revenue categories. However, since it is very early in the fiscal year and only very preliminary information is currently known for all categories, revenues will continue to be closely monitored. The discussion on the following pages highlights General Fund revenue activities through August 2021.

**KEY GENERAL FUND REVENUES**

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Property Tax</b>	<b>\$ 395,500,000</b>	<b>\$ 0</b>	<b>\$ 0</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 2021-2022, Property Tax receipts are estimated at \$395.5 million, which reflects overall growth of 1% from the 2020-2021 collection level of \$390.9 million. Through August, no Property Tax revenue has been received, as a majority of the revenue in this category does not begin to be received until October of each year. At this early point in the year, Property Tax revenue is overall anticipated to meet or exceed budgeted levels. Additional information about each of the Property Tax sub-categories is provided on the following pages.

**Secured Property Taxes** represent over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax, and Educational Revenue Augmentation Fund (ERAF) revenues. The 2021-2022 Secured Property Tax budgeted estimate of \$372.9 million was built on assumed growth of 3.5% for general Secured Property Tax receipts (\$326.0 million), \$18.9 million for SARA revenue, and estimated revenue of \$28.0 million for ERAF receipts. As anticipated, no Secured Property Tax receipts have been received through August due to the scheduled timing of these payments.

As mentioned above, the general Secured Property Tax estimate totals \$326.0 million in 2021-2022, which assumes growth of approximately 3.5% from the 2020-2021 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 1% and increased valuation due to changes in ownership or new construction of 2.5%. 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 \$329.5 million, which is approximately \$3.5 million above the budgeted estimate.



<b>GENERAL FUND (CONT'D.)</b>
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However, as it is still very early in the year, this estimate will likely change as additional information is known. The 2021-2022 estimated collection level will continue to be monitored and information will be included in future Bi-Monthly Financial Status Reports, the 2021-2022 Mid-Year Status Report, and the 2022-2023 budget process.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. In 2021-2022, receipts are estimated at \$18.9 million, which reflects an increase of \$5.3 million from the 2020-2021 collection level. The preliminary estimate from the County of Santa Clara for 2021-2022 totals \$13.6 million, which is consistent with the 2020-2021 collection level. However, as it is still very early in the year, this estimate will likely change as additional information is known.

Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. Once there are sufficient funds in ERAF to fulfill obligations, the remainder of the funding is returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. The 2021-2022 budgeted estimate was built on the assumption that 2020-2021 collections would total \$23.6 million, then grow to \$28.0 million in 2021-2022. However, due to unanticipated additional revenue received at the end of 2020-2021, receipts actually ended the year at \$33.2 million. In 2021-2022, the County of Santa Clara projects ERAF receipts for the City will be approximately \$35.2 million. However, as this amount has not been confirmed by the State of California (final calculation of revenue is received in late February or early March), approximately 30% (\$10.5 million) is considered at risk for not being distributed. As additional information is received regarding ERAF, updates will be reported back as part of the 2021-2022 Mid-Year Review and future Bi-Monthly Financial Reports.

In the **Unsecured Property Tax** category, the largest payment is received in October of each year. The 2021-2022 Adopted Budget revenue estimate of \$13.5 million allows for a drop of approximately 15% drop from the 2020-2021 collection level of \$15.8 million. The preliminary estimate from the County of Santa Clara for 2021-2022 totals \$14.4 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 2021-2022 Adopted Budget estimate anticipates collections totaling \$5.1 million, which is slightly higher than the most recent estimate provided by the County of Santa Clara (\$5.0 million).

**Aircraft Property Tax** receipts are typically received in October of each year. The 2021-2022 Adopted Budget estimate of \$3.1 million is consistent with the 2020-2021 receipts, but is slightly above the \$2.8 million preliminary estimate from the County of Santa Clara.

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

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

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Sales Tax</b>	<b>\$ 280,200,000</b>	<b>\$ 9,724,345</b>	<b>\$ 7,303,824</b>

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. The 2021-2022 Adopted Budget assumed that 2020-2021 receipts would total \$269.0 million, then grow approximately 4% to \$280.0 million in 2021-2022. However, since fourth quarter receipts (representing sales tax activity for April through June) were significantly stronger than anticipated, 2020-2021 ended the year at \$284.0 million. Therefore, in 2021-2022, Sales Tax receipts can drop by over 1% and still meet the budgeted estimate of \$280.0 million.

Sales Tax payments are distributed from the CDTFA four times throughout the year. The first payment (representing sales tax activity for July through September) will not be received until November 2021. Once the first Sales Tax payment is received and analyzed, additional information will be included in future Bi-Monthly Financial Reports and the 2021-2022 Mid-Year Budget Review, which will be released at the end of January 2022. If Sales Tax performance continues to exceed anticipated levels, budget adjustments may be brought forward as part of the 2021-2022 Mid-Year Budget Review for City Council consideration. Additional information about each of the Sales Tax sub-categories is provided on the following pages.

**General Sales Tax** is the largest driver of the Sales Tax category and accounts for over 80% of all Sales Tax receipts. The 2021-2022 General Sales Tax estimate was built on the assumption that 2020-2021 receipts would total \$219.0 million (including the Revenue Capture Agreement with eBay) and grow to \$228.0 million in 2021-2022. This estimate assumed underlying growth of 7%, but overall only 4% as collections associated with the Revenue Capture Agreement are anticipated to decrease slightly as people shift some online spending to general retail shopping. However, as mentioned above, since fourth quarter receipts were significantly stronger than anticipated, 2020-2021 collections totaled \$230.1 million. Therefore, 2021-2022 receipts may fall by almost 1% and meet the budgeted estimate. The first quarter collections for General Sales Tax will be received in late November. After analyzing the receipts, if collections remain higher than estimated, a budget adjustment may be brought forward as part of the 2021-2022 Mid-Year Budget Review.

In 2020-2021, General Retail (apparel stores, department stores, furniture/appliance stores, drug stores, recreation products, and florists/nurseries), Business-to-Business and Food Products experienced year-over-year declines. However, several other categories experienced growth, the largest of which was the County Pool, which is where the majority of online transactions are captured. This growth is attributable to the pandemic's sustained impact of redirecting a significant amount of activity to online sales. The recent growth in County Pool receipts is facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each



<b>GENERAL FUND (CONT'D.)</b>
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jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 40% - 50% of the total County Pool. In 2021-2022, it is anticipated the County Pool receipts will continue to remain strong, though may decline slightly from the extremely high levels experienced in 2020-2021 as consumers slightly shift online spending to general retail stores.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 40% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same rates of growth and decline as General Sales Tax receipts. The 2021-2022 Local Sales Tax estimate was built on the assumption that 2020-2021 receipts would total \$44.0 million and grow approximately 5% to \$46.0 million in 2021-2022. However, due to stronger than anticipated collections in the fourth quarter of 2020-2021, Local Sales Tax receipts ended the year at \$46.9 million. Therefore, 2021-2022 collections may fall by almost 2% and meet the budgeted estimate. The first quarter collections for Local Sales Tax will be received in late November. After analyzing the receipts, if collections remain higher than estimated, a budget adjustment may be brought forward as part of the 2021-2022 Mid-Year Budget Review.

**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 2021-2022 budgeted estimate of \$6.2 million allows for a 12% drop from the 2020-2021 collection level of \$7.0 million. At this very early point in the fiscal year, it is anticipated that collections will exceed the budgeted estimate by year-end.

<b>GENERAL FUND (CONT'D.)</b>
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Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Transient Occupancy Tax</b>	<b>\$ 10,000,000</b>	<b>\$ 550,740</b>	<b>\$ 338,516</b>

The 2021-2022 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$10.0 million, which assumes an 82% increase from the 2020-2021 estimated collection level of \$5.5 million. Actual year-end receipts were slightly below (\$91,000) the revised estimate for 2020-2021, which was adjusted to account for the continued impact of COVID-19 pandemic on the hospitality industry and associated revenue losses. Relative to this actual performance for 2020-2021, the current budget estimate represents an increase of 85%. Year-to-date TOT receipts through August 2021 of \$0.6 million are 62.7% above the prior year collection level of \$0.3 million. While, due to the timing of payments, these revenues reflect only one month of activity, early indications point toward a continued gradual increase in the demand for hotel rooms following the unprecedented impacts of COVID-19.

Overall, the average room rate across the City's reporting hotels decreased by \$78.81 (from \$181.72 to \$102.91) in 2020-2021 relative to 2019-2020, with average occupancy decreasing 18.4% (from 57.56% to 39.15%). Occupancy levels hovered between 30.2% and 42.5% from July 2020 to March 2021, with room rates ranging between \$95.29 and \$105.11. However, room demand and revenues began to exhibit incremental gains over the final quarter of 2020-2021, closing at an occupancy rate of 52.31% and room rate of \$112.37 for June 2021. This incremental rebound has continued into 2021-2022, with the occupancy and room rates reaching 57.94% and \$119.99 in August 2021 – the highest performance levels to date since activity bottomed in April 2020 at the height of the pandemic's impacts. For the 2021-2022 fiscal year (as of August 2021), cumulative average occupancy was 56.24%, the room rate was \$117.86, and revenue per available room (RevPAR) was \$66.29.

Overall, gross hotel revenue performance for the first two months of 2021-2022 is lagging the forecast used for development of the 2021-2022 Adopted Budget, at approximately 81% of forecasted activity), suggesting a slower resumption of hotel room demand than anticipated ahead of the fall/winter seasons, which historically exhibit lower seasonal performance levels. Additionally, the potential for resurgent impacts from COVID-19 inject considerable uncertainty into this already volatile revenue source. In partnership with Team San Jose (the City's operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in the 2021-2022 Mid-Year Review (released in January 2022) and future Bi-Monthly Financial Reports.



<b>GENERAL FUND (CONT'D.)</b>
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Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Utility Tax</b>	<b>\$ 97,060,000</b>	<b>\$ 3,219,304</b>	<b>\$ 6,530,640</b>

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through August, Utility Tax receipts of \$3.2 million are \$3.3 million lower than the prior year level. The year-over-year decrease is primarily due to lower Water Utility Tax receipts, which totaled \$160,000 in August 2021 compared to \$2.7 million in August 2020, due to the timing of payments. The 2021-2022 Adopted Budget was built on the assumption that 2020-2021 Utility Tax revenue would end the year at \$100.2 million and then decline approximately 3% to \$97.1 million in 2021-2022. However, since 2020-2021 ended the year at \$107.0 million, receipts can drop by over 9% in 2021-2022 to meet the budgeted estimate. Based on historical collection trends and performance through August, it is anticipated overall Utility Taxes will meet or exceed the budgeted levels by year-end.

In the **Electricity Utility Tax** category, collections through August totaled \$1.9 million, which is consistent with the prior year level. The 2021-2022 Adopted Budget assumed that 2020-2021 receipts would total \$51.1 million, then decline approximately 5% to \$48.5 million in 2021-2022. However, since 2020-2021 ended the year above estimated levels, receipts can decline by approximately 10% in 2021-2022 and meet the budgeted estimate. Based on the preliminary information known at this very early point in the year and historical collection patterns, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

In the **Gas Utility Tax** category, no revenue has been received through August 2021 while a total of \$74,000 was received in the prior year. This decrease in revenue is due to the timing of payments. The 2021-2022 Adopted Budget estimate of \$11.7 million allows for an approximate 10% drop from the prior year collection level of \$12.9 million. Based on historical collection patterns, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

**Water Utility Tax** collections of \$160,000 through August are significantly below the prior year level of \$2.7 million due to the timing of payments. The 2021-2022 Adopted Budget allows for an approximate 8% drop from prior year collection level of \$19.1 million. Based on the historical collection patterns, receipts are anticipated to meet or exceed the budgeted estimate by year-end.

Collections in the **Telephone Utility Tax** category of \$1.3 million through August are below the prior year collections of \$1.8 million. The 2021-2022 Adopted Budget estimate of \$19.3 million allows for a 10% drop from the 2020-2021 actual collection level of \$21.3 million. The anticipated decline in this revenue category is the result of wireless consumers shifting to less expensive prepaid wireless plans, competition with cellular companies that keep prices down, and the shifting of wireless communications to increase reliance on data plans, which are not taxable. Based on historical collection patterns, receipts in this category are anticipated to meet the budgeted estimate by year-end.

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

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Business Taxes</b>	<b>\$ 74,500,000</b>	<b>\$ 11,646,854</b>	<b>\$ 10,347,264</b>

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through August, overall collections of \$11.6 million are 12.6% above the prior year collection levels of \$10.3 million, primarily reflecting higher Cardroom Business Tax collections, partially offset by lower Cannabis Business Tax and General Business Tax revenue. The 2021-2022 Adopted Budget estimate of \$74.5 million requires growth of over 6% from the 2020-2021 actual collection level. Although it is very early in the fiscal year, based on overall Business Taxes performance through August and historical collection patterns, it is anticipated receipts will meet or exceed the budgeted level by year end.

**Cannabis Business Tax** collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Through August, receipts of \$1.2 million are significantly below the prior year levels of \$2.1 million, which is due to the timing of payments. 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 2021-2022 Adopted Budget estimate was built on the assumption that 2020-2021 receipts would total \$17.0 million and grow approximately 3% to \$17.5 million in 2021-2022. However, due to stronger than anticipated performance at the end of the fiscal year, receipts ended 2020-2021 the year at \$19.2 million. Therefore, 2021-2022 collections may fall by almost 9% and meet the budgeted estimate. Although it is very early in the fiscal year, based on historical collection patterns, it is anticipated revenue will meet or exceed the budgeted level by year end.

Through August, **Cardroom Tax** receipts totaling \$2.4 million have been received, while no revenue had been received in the prior year due to the cardrooms not being operational. As a result of the shelter-in-place mandate, cardrooms suspended operations in March 2020 and remained closed through August 2020. In September 2020, 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 the County of Santa Clara and then subsequently the State of California resulted in the closure of cardrooms from November 30, 2020 through January 27, 2021. Since late January 2021, cardrooms have once again been operational, under modified restrictions. In 2020-2021, Cardroom Tax collections totaled \$11.1 million; in 2021-2022 receipts are anticipated to grow to approximately \$20.0 million, which is inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021. Although it is very early in the fiscal year, based on collections through August, it is anticipated revenue will meet or exceed the budgeted level by year end.



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

**Disposal Facility Tax (DFT)** are business taxes received based on the tons of solid waste disposed at landfills within the City. DFT revenue through August totaled \$1.3 million, which is \$267,000 above the prior year level. The 2021-2022 budget was built on the assumption that the COVID-19 pandemic would impact revenue collections, resulting in 2020-2021 receipts totaling total \$11.3 million and remain flat in 2021-2022. However, collections have not been negatively impacted by the pandemic and 2020-2021 collections ended the year at \$13.8 million; allowing 2021-2022 receipts to fall by 18.0% to meet the budgeted estimate. Based on the preliminary information known at this very early point in the year, receipts are anticipated to exceed the budgeted estimate by year-end.

Through August, **General Business Tax** receipts of \$6.7 million are 6.7% below the prior year collection level. The 2021-2022 Adopted Budget estimate was built on the assumption that 2020-2021 receipts would total \$25.7 million and remain flat in 2021-2022. The 2021-2022 estimate reflects a moderate annual inflation rate change of 1.6%, offset by reduced activity levels. However, due to stronger than anticipated performance at the end of the fiscal year, receipts ended 2020-2021 the year at \$26.5 million. Therefore, 2021-2022 collections may fall by 3.0% and meet the budgeted estimate. On September 28, 2021, the City Council approved the Temporary Extension of Business Tax Financial Hardship Exemptions memorandum, which extended (through June 30, 2022) the eligibility for the existing financial hardship exemptions for low-revenue generating small businesses and small business owners with limited household incomes to include all persons engaged in business in the City who satisfy certain financial hardship requirements. Based on revenue received through August and the unknown impacts associated with the temporary business hardship extension, it is currently anticipated revenue will meet or fall slightly below the budgeted level by year end. General Business Tax receipts will continue to be closely monitored, with updates provided in future bi-monthly financial reports and the 2021-2022 Mid-Year Budget Review.

Revenue	2021-2022 Budget Estimate	YTD Actual	Prior YTD Collections
<b>Real Property Transfer Tax</b>	<b>\$ 40,000,000</b>	<b>\$ 22,748,449</b>	<b>\$ 1,703,374</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. The 2021-2022 Adopted Budget estimate was built on the assumption that 2020-2021 receipts would total \$40.0 million and remain flat in 2021-2022. However, due to several large property transfers that occurred near the end of the fiscal year, the Approval of Various Budget Actions for Fiscal Year 2020-2021 memorandum, which was approved by the City Council on June 22, 2021, included a recommendation to increase the 2020-2021 Modified Budget Estimate to \$50.0 million. In accordance with City Council Policy 1-18, Section 22, this revenue was allocated for homelessness prevention efforts and the development of new affordable housing. Through August 2021, Real Property Transfer Tax collections total \$22.8 million, which represents almost 60% of the 2021-2022 budget estimate. In addition, the City has received the

<b>GENERAL FUND (CONT'D.)</b>
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September tax receipts from Santa Clara County, which total \$7.1 million. When taking into account total receipts through August and the estimated September collections, total Real Property Transfer Tax receipts in 2021-2022 total \$29.9 million, or approximately 75% of the budgeted estimate. Due to tax receipts being significantly influenced by large property transfers, including commercial transactions, collections will continue to be closely monitored and a recommendation to increase the 2021-2022 budgeted estimate and the applicable homeless prevention expenditure appropriations may be brought forward for City Council consideration as part of the 2021-2022 Mid-Year Budget Review.

### **EXPENDITURES**

Through August, General Fund expenditures (without encumbrances) of \$171.1 million were 12.4% above the prior year level of \$152.2 million. Encumbrances of \$75.0 million were 4.0% above the prior year level of \$67.2 million. General Fund expenditures and encumbrances through August of \$246.1 million constitute 13.0% of the total budget including reserves, and 14.5% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year within budgeted levels.

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

### **KEY GENERAL FUND EXPENDITURES**

Department	2021-2022 Budget	YTD Actual	Prior YTD Actual
<b>Police</b>	<b>\$ 484,663,946</b>	<b>\$ 74,519,364</b>	<b>\$ 69,853,640</b>

Overall, Police Department expenditures are slightly above estimated levels through August. Personal Services expenditures of \$64.7 million are slightly above the anticipated level for this point of the year (14.42% expended, compared to the par level of 14.23%), with overtime expenditures of \$6.3 million (26.8% of the total \$23.4 million budget) indicating continued elevated usage. While overtime expenditures continue to track over budgeted levels, average monthly usage (\$3.2 million) for the two-month period (July 2021 – August 2021) is below the recent monthly average of \$3.9 million for comparable periods in 2019-2020 and 2020-2021. This reduction is partly attributable to fewer emergent conditions than in prior years (COVID-19 response and demonstrations), as well as the implementation of additional approvals and other controls to actively manage overtime use.



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

A total of \$9.8 million (27.48%) of the Department's Non-Personal/Equipment budget (\$35.6 million, including carry-over encumbrances) has been expended or encumbered through August. Excluding the remaining balances for centrally-determined details (\$14.4 million), including electricity, gas, and vehicle operation and replacement, the Police Department has approximately \$11.4 million, or 32.1%, of its total Non-Personal/Equipment budget available for the remainder of the fiscal year. Although Non-Personal/Equipment expenditures are tracking high at this point of the fiscal year due to encumbrances of \$5.6 million (57.1% of year-to-date activity), overall expenditures are expected to remain within budgeted levels as this encumbrance balance is expended for planned activity. The Department is committed to ensuring that personal services and non-personal/equipment expenditures remain within overall budgeted levels.

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 \$7.0 million in one-time funding from the Sworn Hire Ahead Program to pay for Police Academy Recruits as well as to backfill patrol and investigative positions on overtime. While the goal is to fill vacancies and eliminate the need to backfill positions, the normal duration for the academy and field training is approximately 10-12 months, requiring overtime to backfill until the new recruits are ready to serve as solo beat officers. Effective vacancy levels, which includes vacancies, field training officers, academy recruits and sworn personnel on disability, modified, or other leaves, reduce the amount of street-ready sworn officers available and is the most significant contributing factor to overtime usage. The effective vacancy rate was 17% as of September 10, 2021. Historically, the effective vacancy rate has averaged 23% (based on the 5-year time period between 2015-2016 and 2020-2021) resulting in the build-up of compensatory time balances for sworn personnel, for which there is a limit of 480 hours after which sworn personnel are paid in overtime for any additional hours worked.

As of August 2021, 437 sworn personnel had reached the 480-hour limit, an increase of 1.6% compared to 430 sworn personnel as of August 2020. A total of 280 sworn personnel were between 240 hours<sup>3</sup> and 480 hours, compared to the 260 sworn personnel as of August 2020.

The compensatory time balance at the end of August 2021 was 354,972 hours for sworn personnel (\$26.9 million). This represents an increase of 11,635 hours or 3.4% compared to the August 2020 balance of 343,337 (\$24.3 million). As described above, 437 sworn personnel have reached the compensatory balance limit of 480 hours and all overtime worked by these employees is paid as overtime.

Year-to-date overtime expenses attributable to staff that have reached the 480-hour compensatory accrual limit through August 2021 was \$3.3 million (41,389 hours), compared to \$3.4 million in

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<sup>3</sup> 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.

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

August 2020 (45,670 hours), a 3.6% decrease in expense. This 3.6% decrease is driven by the implementation of compensatory time controls and additional funding for 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 POA 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.

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. Of the 1,153 authorized sworn staff, 105 were in training (9.11%) as of September 2021, leaving 1,035 street ready sworn positions available (this includes sworn employees on disability/modified duty/other leaves) when also accounting for vacancies as shown in the chart below. Excluding sworn employees on disability/modified duty/other leaves, 954 sworn officers were actively deployed as of September 10, 2021.

	2020-2021 (as of 09/11/2020)	2021-2022 (as of 09/10/2021)
<b>Authorized Sworn Positions</b>	<b>1,159</b>	<b>1,153<sup>4</sup></b>
Vacancies	(20)	(13)
<b>Filled Sworn Positions</b>	<b>1,139</b>	<b>1,140</b>
Field Training Officer/Recruits	(126)	(105)
<b>Street-Ready Sworn Officers Available</b>	<b>1,013</b>	<b>1,035</b>
Disability/Modified Duty/Other Leaves	(61)	(81)
<b>Street-Ready Sworn Officers Working</b>	<b>952</b>	<b>954</b>

The Police Department 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 suspended in March 2020 and resumed in late June; this academy graduated in February 2021. The October 2020 academy graduated in May 2021 and the February 2021 academy graduated in September 2021. The Department will continue with additional Police Recruit Academies, starting with the June 2021 (36 recruits) and October 2021 (40 recruits) academies that will graduate later this fiscal year, and the February 2022 and June 2022 academies that will graduate in 2022-2023.

<sup>4</sup> As a cost saving measure, a total of 6.0 vacant sworn positions were replaced with civilian positions in the 2021-2022 Adopted Operating Budget.



<b>GENERAL FUND (CONT'D.)</b>
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Department	2021-2022 Budget	YTD Actual	Prior YTD Actual
<b>Fire</b>	<b>\$ 269,350,956</b>	<b>\$ 43,482,288</b>	<b>\$ 38,287,315</b>

The Fire Department's budget totals \$269.4 million, which is comprised of \$255.31 million in personal services and \$14.04 million in non-personal/equipment expenditures. Overall, Fire Department expenditures are performing slightly above estimated levels through August. Personal services expenditures of \$40.2 million, or 15.73% of the Modified Budget, are slightly above the expected level of 14.23% at this point of the year. The higher than estimated expenditures are due to an active fire season in the summer of 2021, and the costs incurred from mutual aid and Strike Team deployments, which will be reimbursed by the State of California. The Fire Department's non-personal/equipment budget of \$14.04 million was 22.82% expended or encumbered through August 2021. The Department's non-personal/equipment expenditures are above the expected levels of 14.23% primarily due to a large encumbrance amount. It is currently anticipated that the Fire Department will end the year within budget levels after adjusting for the anticipated mutual aid and strike team reimbursements by the State of California.

Overall, the average sworn vacancy rate of 5.84% through August 2021 is slightly higher than the vacancy rate of 3.28% experienced this time last year, and above the budgeted rate of 2.5%. The most recent fire fighter academy began in April 2021 and concluded in September 2021 with 22 graduates. The next fire fighter academy is anticipated to begin in November 2021 with 28 firefighter recruits.

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 April, of the 31 current authorized staffing level, the Fire Department had 30 sworn personnel on administrative assignments.

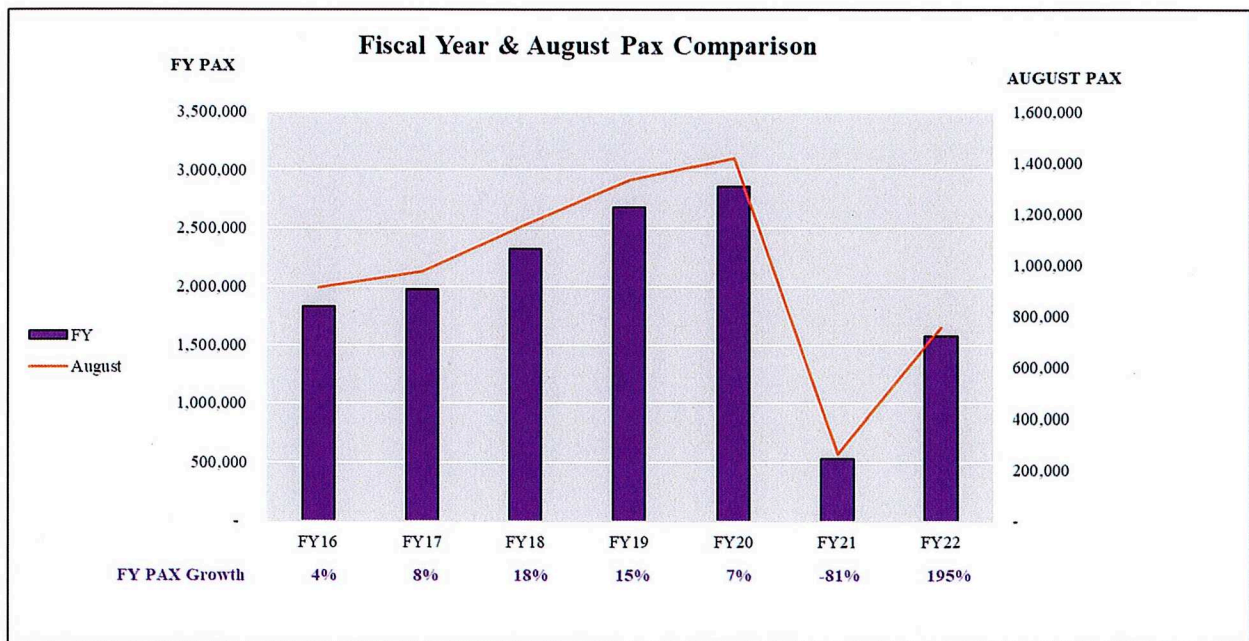
### **CONTINGENCY RESERVE**

The General Fund Contingency Reserve remained at \$40.0 million through August, with no revisions through the first two months of the fiscal year. However, the 2020-2021 Annual Report, which was released on September 30, 2021 and will be brought forth for City Council consideration on October 19, 2021, includes a recommendation to increase the Contingency Reserve by \$500,000, to \$40.5 million. 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 1.6 million passengers, an increase of 195.3% from the figures reported through August of the prior year. Year-to-date international passengers have increased 113% and domestic passengers have increased 203%. This year-over-year increase is due to the ongoing recovery of passenger traffic, which was significantly impacted as a result of the pandemic. The chart below depicts the year-over-year change for the month of August and Fiscal Year-to-Date for the last seven years.



Fiscal year-to-date mail, freight and cargo totaled 11.4 million pounds, a 20.4% decrease through August compared to the prior year. Revenue-generating activities all posted increases over the same period of the prior fiscal year: Ground Transportation trips (taxicabs & Transportation Network Companies) by 196.5%, Parking exits by 137.4%, Gallons of aviation fuel sold by 126.6%, Traffic Operations (landings and takeoffs) by 30.6%, and Landed Weights by 30.2%.

Year-to-date Airport revenue through August primarily reflects just one month of receipts due to the timing of receipts. Due to the unpredictable air travel environment, revenue, as well as expenses, will be closely monitored. The Airport has \$59.6 million of Federal funding programmed in 2021-2022 to reimburse operating expenses and partially offset a reduced revenue outlook. Airport activity and revenue markers such as passengers, landed weights, parking revenue, and Passenger Facility Charge (PFC) collections will continue to be closely monitored through this fiscal year.



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

Through August, both the Airport Customer Facility and Transportation Fee Fund and Airport Maintenance and Operation Fund expenditures tracked well below budgeted levels. In the Maintenance and Operation Fund personal service expenditures were 13.7% of budget compared to the benchmark of 15.4%, while non-personal/equipment expenditures were 4.9% compared to the benchmark of 7.1%. Non-Personal/Equipment expenditures in the Customer Facility and Transportation Fee Fund were 4.2% compared to the straight-line benchmark of 16.7%. The activity levels, revenues and expenditure status of the Airport Funds will continue to be closely monitored throughout the fiscal year.

**San José Clean Energy Fund**

The Community Energy Department operates San José Clean Energy (SJCE), which supplies residents and businesses of San José with cost competitive electricity and higher renewable energy content than PG&E. In November 2020, City Council approved SJCE's 2021 generation rates for its default GreenSource product at 0.25% below PG&E's rates, inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge for all customers. The PCIA is a fee assessed by investor-owned utilities (IOUs) on all electric customers to cover the above-market generation costs associated with the IOUs' power generation portfolios. PG&E's PCIA has risen over 900% between 2013 and 2021, and 41% alone between 2020 and 2021. As a result of the increasing PCIA fees, in May 2021 the City Council approved an SJCE rate increase of 8% above PG&E generation rates, an increase to the renewable energy content of GreenSource to 55%, and the introduction of a new low-cost GreenValue product set to match PG&E rates.

However, rising PCIA fees together with a delayed PG&E rate increase, bad debt for unpaid customer bills due to the pandemic, and high energy market prices, the effect of weather events and facilities that experienced operational issues, all negatively affected SJCE's revenues and cash flow projections. In June 2021, City Council approved the issuance of \$15.0 million of Commercial Paper Notes to cover SJCE's identified cash flow shortage through June 2021 and approved a total Commercial Paper authorization of up to \$95.0 million. Consistent with this authorization and the cash flow projections assumed with the City Council's action in June 2021, the 2020-2021 Annual Report includes recommendations in the San José Clean Energy Fund to establish a 2021-2022 estimate for Commercial Paper proceeds of \$53.0 million. When combined with the 2020-2021 issuance of \$15.0 million, the 2021-2022 estimate brings the total estimated Commercial Paper need through June 30, 2022 to \$68.0 million.

Through August, Energy Sales totaled \$58.2 million, or 19.9% of the budgeted estimate of \$293.0 million. Cost of Energy expenditures including encumbrances totaled \$194.3 million, or 66% of the total budget. As San José Clean Energy encumbers a significant amount of funds for contracted energy early in the fiscal year, it is anticipated that the Cost of Energy will end the year within budgeted levels. In accordance with City Council direction, staff will return to the Transportation and Environment Committee in December 2021 with a report on SJCE's business operations and outlook for the next twelve months.

<b>OTHER FUNDS (CONT'D.)</b>
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**Construction and Conveyance Tax Funds**

Through August 2021, Construction and Conveyance (C&C) Tax receipts totaled \$7.5 million, which represents 19.7% of the 2021-2022 Adopted Budget estimate (\$38.0 million). This amount is significantly above collections through August 2020, which totaled \$3.1 million. In addition, the City has received the September Conveyance receipts from Santa Clara County, which total \$6.6 million, while September 2020 Conveyance collections totaled only \$2.8 million. When taking into account total receipts through August and the estimated September collections, C&C receipts in 2021-2022 total \$14.2 million, 37.3% of the 2021-2022 budgeted estimate, and 132.8% above the prior year collection level of \$6.1 million.

The 2021-2022 Adopted Capital Budget was built on the assumption that C&C Tax receipts would total \$40.0 million in 2020-2021 and drop slightly to \$38.0 million in 2021-2022. This slight drop was due to uncertainty regarding the pandemic's long-term effect on the local real estate market, which is the primary driver of this revenue source. However, 2020-2021 C&C Tax receipts ended the year at \$53.1 million, therefore, in 2021-2022 receipts can drop by 28.5% and meet the budgeted estimate. Due to the extremely strong collections through the first few months of the fiscal year, it is currently anticipated C&C receipts will exceed the budgeted estimate. Therefore, a recommendation may be brought forward for City Council consideration to increase the 2021-2022 budgeted estimate as part of the 2021-2022 Mid-Year Budget Review, which will be released in January 2022.

Over 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). As discussed in the Economic Environment section of this Bi-Monthly Financial Report, the local real estate market has continued to be extremely strong. Since housing statistics are a key driver for the overall C&C collection levels, significant changes in the housing market will drastically affect the C&C Tax receipts. The local market will continue to be closely monitored, with updates provided in the 2021-2022 Mid-Year Review and future Bi-Monthly Financial Reports.



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

Capital Fund revenues associated with construction activity are anticipated to meet or exceed budgeted levels by year-end. Construction activities drive revenue collection in several categories, including the Building and Structure Construction Tax and the Construction Excise Tax (which are described in further detail below) that help fund the City's Traffic Capital Program, and are an indicator of future activity for several other categories, such as storm and sanitary sewer system fees.

Through August, the **Building and Structure Construction Tax** collection level of \$3.0 million represents 14.9% of the budgeted estimate of \$20.0 million; however, it is 71.4% below the prior year receipts of \$10.4 million. This significant year-over-year decline is due to construction permit valuation for all categories (residential, commercial, and industrial) being lower than the prior year, especially for commercial activity. Last year, several large projects contributed to an extraordinarily high collection level at the beginning of the fiscal year. When the 2021-2022 Adopted Capital Budget was developed it was anticipated that 2020-2021 Building and Structure Construction Tax receipts would total \$22.0 million, then decrease by approximately 9.1% to \$20.0 million in 2021-2022. However, since 2020-2021 receipts ended the year at \$24.2 million, the 2021-2022 budget allows for a 17.4% decline from the prior year collection level. At this early point in the fiscal year, it is anticipated that Building and Structure Construction Tax revenue will meet the budgeted estimate by year-end.

Through August, the **Construction Excise Tax** collection level of \$2.5 million represents 14.0% of the budgeted estimate of \$18.0 million, however, is 64.4% below the prior year receipts of \$7.1 million. This significant year-over-year decline is due to construction permit valuation for residential and commercial land use categories being lower than the prior year, especially for commercial activity. Last year, several large projects contributed to an extraordinarily high collection level at the beginning of the fiscal year. When the 2021-2022 Adopted Capital Budget was developed it was anticipated 2020-2021 Construction Excise Tax receipts would total \$17.0 million, then increase by approximately 5.6% to \$18.0 million in 2021-2022. However, since 2020-2021 receipts ended the year at \$20.1 million, the 2021-2022 budget allows for a 11.7% decline from the prior year collection level. At this early point in the fiscal year, it is anticipated that Construction Excise Tax revenue will meet the budgeted estimate by year-end.

**Development Fee Program Funds**

Development Fee Programs include the Building Development Fee Program, Citywide Planning Fee Program, Fire Development Fee Program, Planning Development Fee Program, and Public Works Development Fee Program Fund. At this very early point in the fiscal year, all Development Fee Programs, with the exception of the Fire Development Fee Program, are anticipated to meet or exceed the budgeted estimates. However, as it is still very early in the fiscal year, activity levels will continue to be closely monitored with updates provided in the 2021-2022 Mid-Year Review (released in January 2022) and future Bi-Monthly Financial Reports.

<b>OTHER FUNDS (CONT'D.)</b>
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Additional information about each of the Development Fee Program Funds is provided below.

The **Building Development Fee Program** issues building permits and oversees construction on private property. Through August, Building Development Fee revenue of \$5.9 million is 15.7% above the prior year collection level of \$5.1 million. The 2021-2022 Adopted Budget estimate of \$32.2 million allows for a 7.5% drop from the 2020-2021 collection level of \$35.0 million. Based on current collection trends, Building Development Fee revenue is anticipated to meet the 2021-2022 budgeted revenue estimate.

The **Citywide Planning Fee Program** provides funding for the City's long-range planning projects, such as developing and updating the City's General Plan, to match the City's planning goals. The Citywide Planning Fee is an 11.97% fee applied to Entitlement, Building Permit Fees, and Building Plan Check Fee Categories. Through August, Citywide Planning Fee revenue of \$530,000 is 5.0% above the prior year collection level of \$505,000. The 2021-2022 Adopted Budget estimate of \$3.3 million allows for a 3.0% drop from the 2020-2021 collection level of \$3.4 million. Based on current collection trends, Citywide Planning Fee revenue is anticipated to meet the 2021-2022 budgeted revenue estimate.

The **Fire Development Fee Program** provides operational and construction permits and inspections to ensure that development within San José meets the City's fire codes. Development-related receipts through August 2021 of \$1.1 million are \$41,000 (3.6%) lower than prior year collections. The 2021-2022 Adopted Budget estimate of \$7.5 million, requires growth of 10.5% from the 2020-2021 collection level of \$6.8 million. Based on current collection trends, Fire Development Fee revenue is projected to fall slightly below the 2021-2022 budgeted revenue estimate. However, as it is still very early in the fiscal year, and only preliminary information is currently available, this fee program will continue to be closely monitored.

The **Planning Development Fee Program** processes land development applications for planning permits and services, such as zoning review, to match the City's planning goals. Through August, Planning Fee revenue of \$1.5 million is 27.1% above the prior year collection level of \$1.2 million. The 2021-2022 Adopted Budget estimate of \$6.7 million allows for a 11.8% drop from the 2020-2021 collection level of \$7.6 million. Based on current collection trends, Planning Fee revenue is anticipated to meet the 2021-2022 budgeted revenue estimate.

The **Public Works Development Fee Program** ensures that developments comply with regulations and provide appropriate public infrastructure, such as sidewalks, traffic signals, and streetlights. Revenues through August of \$1.7 million are on par with prior year level of \$1.7 million. The Public Works Development Fee Program total revenue collections are comprised of \$1.1 million from the Development Services Fee Program and \$636,000 from the Utility Fee Program. The 2021-2022 Adopted Budget estimate of \$18.5 million, allows for a 7% drop from the 2020-2021 collection level of \$19.9 million. Based on activity through August, collections in Public Works Development Fee Program are anticipated to meet budgeted levels by year-end.




## 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, with many of the economically sensitive categories beginning to recover in 2020-2021, some strongly so toward the end of the fiscal year. The 2021-2022 Adopted Budget was developed assuming that many of the General Fund and other economically sensitive City fund revenues would continue to recover as public health orders loosen and the vaccine rates continue to increase.

While it is still very early in the fiscal year, overall General Fund and other City funds revenues and expenditures are tracking within anticipated levels. Additionally, several revenue categories are currently projected to end the year above budgeted levels, including Sales Tax, Property Tax, Real Property Transfer Tax, and Construction and Conveyance Tax. Budget adjustments may be brought forward for City Council consideration as part of the 2021-2022 Mid-Year Budget Review (which will be released at the end of January 2022) to align the budgeted estimate with the increased anticipated revenue collections. However, since only very preliminary information is currently known for all categories, revenues and expenditures will continue to be closely monitored.

The Administration will follow and report on economic indicators and revenues in 2021-2022 through future Bi-Monthly Financial Reports and the Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions, if necessary.

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

A handwritten signature in black ink, appearing to read "Jim Shannon". The signature is fluid and cursive, with the first name "Jim" and last name "Shannon" clearly distinguishable.

JIM SHANNON  
Budget Director

Attachment: Finance Department Monthly Financial Report