

2023-2024 Mid-Year Budget Review

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues through December totaled \$505.3 million, or 35.2% of the budgeted estimate. A comprehensive review of all General Fund revenue accounts has been performed based on activity through the first six months of the year. Based on the available data through December, General Fund revenues have outperformed expectations and are anticipated to end the year approximately \$30 million (variance of approximately 2% when excluding the Beginning Fund Balance) above budgeted levels due to strong growth in several revenue categories. Revenues that are performing significantly above anticipated levels include Property Tax, Fees, Rates, and Charges, and Revenue from the Use of Money/Property. Partially offsetting these revenue growths is lower than anticipated Real Property Transfer Tax revenue. Revenue adjustments are included in the Mid-Year Budget Review to align several of the budgeted estimates with anticipated receipts, which are further described on the following pages. The following table details actual 2023-2024 General Fund revenue collections through December as compared with budgeted revenue estimates and 2022-2023 actual collections for the same time period in the previous year. Also included are changes to each category that are recommended as part of this report.

2023-2024 General Fund Revenue Status through December (\$ in Thousands)

| Category | Budget Estimate | YTD Actual | % of Estimate | 2022-2023 % of Actual | Proposed Changes |
|--|---------------------|-------------------|------------------|--------------------------|---------------------|
| General Revenue | | | | | |
| Property Tax | \$ 460,400 | \$ 109,752 | 23.8% | 23.1% | \$ 13,500 |
| Sales Tax | 336,400 | 113,489 | 33.7% | 33.8% | - |
| Telephone Line Tax | 22,000 | 7,846 | 35.7% | 34.4% | - |
| Transient Occupancy Tax | 16,000 | 6,127 | 38.3% | 39.1% | - |
| Real Property Transfer Tax | 50,000 | 18,368 | 36.7% | 57.1% | - |
| Franchise Fees | 51,825 | 6,633 | 12.8% | 43.1% | - |
| Utility Tax | 126,550 | 48,092 | 38.0% | 41.7% | - |
| Business Taxes | 87,500 | 41,777 | 47.7% | 47.9% | - |
| Licenses and Permits | 21,804 | 16,750 | 76.8% | 79.1% | - |
| Fines, Forfeitures, and Penalties | 15,080 | 5,936 | 39.4% | 43.8% | - |
| Revenue from Use of Money and Property | 14,864 | 9,547 | 64.2% | 34.3% | 3,500 |
| Revenue from Local Agencies | 21,964 | 5,973 | 27.2% | 16.1% | 51 |
| Revenue from the State of California | 38,234 | 1,447 | 3.8% | 10.1% | 1,960 |
| Revenue from Federal Government | 11,822 | 910 | 7.7% | 17.0% | 301 |
| Fees, Rates, and Charges | 22,369 | 10,870 | 48.6% | 40.0% | 2,000 |
| Other Revenue | 10,885 | 13,994 | 128.6% | 97.2% | 1,015 |
| Sub-Total General Revenue | 1,307,697 | 417,511 | 31.9% | 45.2% | 22,327 |
| Transfers and Reimbursements | | | | | |
| Overhead Reimbursements | 78,155 | 60,514 | 77.4% | 75.3% | - |
| Transfers | 32,132 | 20,797 | 64.7% | 42.2% | 279 |
| Reimbursements for Services | 17,831 | 6,439 | 36.1% | 26.0% | - |
| Sub-Total Transfers and Reimbursements | 128,118 | 87,750 | 68.5% | 58.0% | 279 |
| TOTALS | \$ 1,435,815 | \$ 505,261 | 35.2% | 46.3% | \$ 22,606 |

STATUS OF GENERAL FUND REVENUES

OVERVIEW

As discussed in previous Bi-Monthly Financial Status Reports, although economic conditions remain positive on an overall basis, there are several areas of economic weakness, including the local real estate market and unemployment rates. While employment figures continue to be relatively strong, unemployment rates have been steadily rising. Through the first half of the fiscal year, General Fund revenues are performing strong, with several categories anticipated to exceed budgeted levels. Revenue categories experiencing higher than anticipated collections include Property Tax, Use of Money/Property, and Fees, Rates, and Charges. Partially offsetting these strong revenue collections is lower than anticipated Real Property Transfer Tax revenue. Budget adjustments to several of these revenue categories are included in this document, and are further discussed below.

Recommended Adjustments

As described below, a net upward adjustment to General Fund revenue of \$22.6 million is recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; and (2) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures.

- Implement required technical and rebalancing actions to revise revenue estimates in limited areas to bring estimates in line with revised projections (net increase of \$19.3 million). Significant actions include:
 - Increases the Property Tax estimate by \$13.5 million, from \$460.4 million to \$473.9 million, to reflect updated information provided by Santa Clara County. Recommendations include increasing various Property Tax categories, including Educational Revenue Augmentation Funds (\$5.0 million), general Secured Property Tax (\$4.0 million), Unsecured Property Tax (\$2.0 million), Aircraft Property Tax (\$1.5 million), and SB813 Property Tax (\$1.0 million).
 - Increases the Use of Money/Property budgeted estimate by \$3.5 million, from \$10.5 million to \$14.0 million, to reflect higher than anticipated interest earnings on the General Fund. The 2023-2024 Adopted Budget estimate totaled \$10.5 million for interest earnings on the General Fund. However, based on receipts through December (\$5.6 million), it is anticipated 2023-2024 collections will exceed the Adopted Budget estimate by approximately \$3.5 million and end the year at \$14.0 million. The significant 2023-2024 collection level is attributable to high interest rates and a large cash balance in the General Fund.
 - Increases the Fees, Rates and Charges budgeted estimate by \$2.0 million, from \$22.4 million to \$24.4 million, to reflect higher than anticipated Parks, Recreation and Neighborhood Services (PRNS) Fee revenue. The 2023-2024 Adopted Budget estimate for PRNS Fees, Rates and Charges totaled \$16.6 million. However, based on receipts through December (\$7.6 million), it is anticipated 2023-2024 collections will exceed the Adopted Budget estimate by approximately \$2.0 million and end the year at \$18.6 million. While the 2023-2024 receipts are trending to be higher than 2022-2023, activity levels remain below the pre-pandemic level of approximately \$22.0 million annual receipts.

STATUS OF GENERAL FUND REVENUES

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- Increases the estimate for Transfers and Reimbursements by a net of \$279,005, from \$128.1 million to \$128.4 million, to recognize higher transfers related to interest earnings (\$1.3 million), partially offset by lower transfers from the American Rescue Plan Fund (\$541,995) and Parks Capital Construction and Conveyance (C&C) Tax Funds (\$489,000).
 - Interest earnings on various Capital and Special Funds are transferred to the General Fund. Based on activity through December, interest earnings are anticipated to exceed budgeted levels by \$1.3 million, totaling \$3.9 million by year-end.
 - A negative adjustment to the transfer from the American Rescue Plan Fund to the General Fund totaling \$541,995 is recommended to reflect the final reconciliation of the American Rescue Plan for 2022-2023.
 - A negative adjustment to the transfer from the Parks Capital Construction and Conveyance (C&C) Tax Funds for operating and maintenance costs is recommended. Per the Municipal Code, 15% of all the Parks C&C Tax revenue may be transferred to the General Fund for operating and maintenance costs associated with PRNS. As described later in this memorandum, the C&C revenue estimate is recommended to decrease by \$5.0 million, from \$40.0 million to \$35.0 million. As a result of the lower C&C Tax, Parks C&C Tax revenue will drop by \$3.3 million, and the transfer to the General Fund for operating and maintenance costs will decrease by \$489,000.
- Recognize grant, reimbursement, and/or fee related funds (\$3.3 million). Significant actions include:
 - Recognize revenue from the State for the Neighbor to Neighbor grant (\$1.0 million); recognize revenue from the State for the California Library Connect grant (\$500,000); recognize grant funding from the San Jose Public Library Foundation (\$405,520); recognize grant funding for the Blue Zones Project (\$350,000); and recognize revenue from the State for the Strike Team reimbursement (\$226,790).

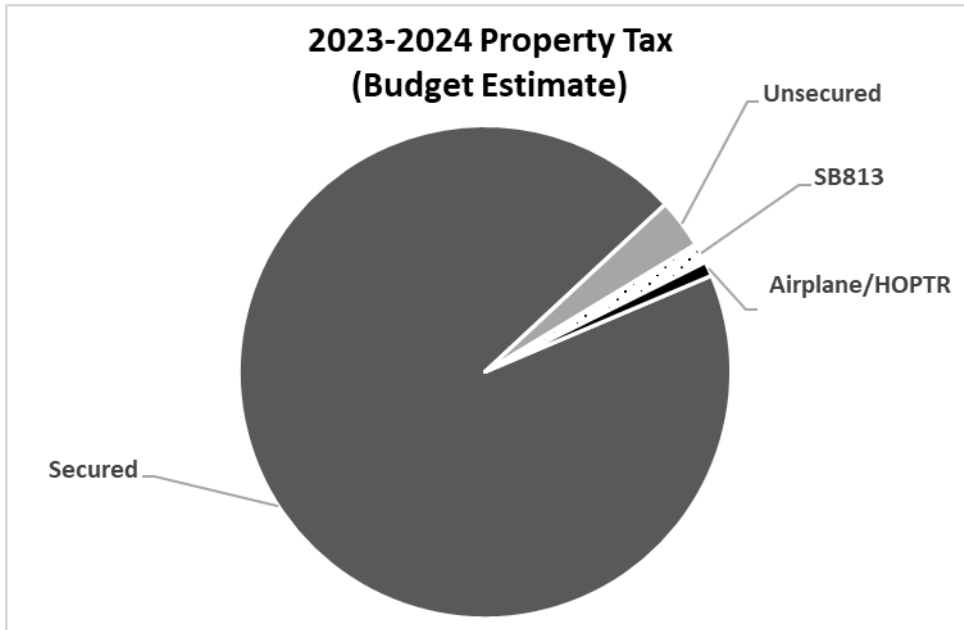
Additional details on all General Fund revenue adjustments can be found in Section III of this document. The following discussion highlights major General Fund activities through December in various revenue categories.

STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

| Revenue Status (\$ in Thousands) | | | | |
|----------------------------------|------------|---------------|-------------|------------------|
| | 2023-2024 | | 2022-2023 | 2023-2024 |
| Budget Estimate | YTD Actual | % of Estimate | % of Actual | Proposed Changes |
| \$460,400 | \$109,752 | 23.8% | 23.1% | \$13,500 |

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. Overall, Property Tax revenues are projected to exceed the budgeted estimate by \$13.5 million based on the most recent information received from Santa Clara County. As a result, a recommendation is included in this report to increase the Property Tax revenue estimate by \$13.5 million (from \$460.4 million to \$473.9 million) to more closely align the Property Tax budget with estimated receipts. Each of the Property Tax sub-categories are further described below.

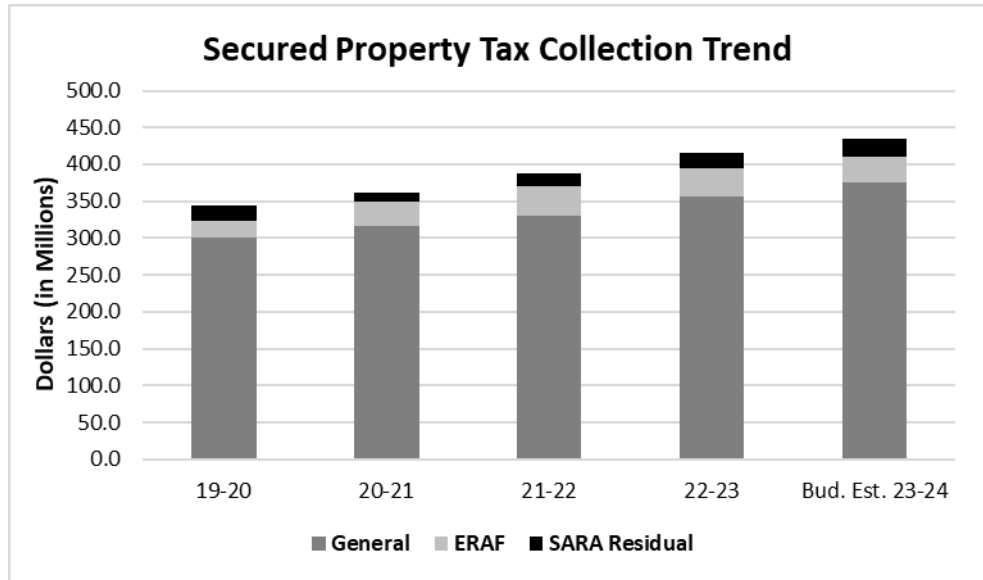


Secured Property Taxes represent over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax, and Educational Revenue Augmentation Fund (ERAF) revenue. The 2023-2024 Secured Property Tax budgeted estimate of \$435.0 million was built on assumed growth of 5.5% for general Secured Property Tax receipts (\$375.0 million), \$24.0 million for SARA revenue, and estimated revenue of \$36.0 million for ERAF receipts. However, based on the most recent information provided by Santa Clara County, overall Secured Property Tax revenue is anticipated to exceed budgeted levels by approximately \$9.0 million. This increase is due to higher general Secured Property Tax (\$4.0 million) and ERAF revenue (\$5.0 million). To more closely align the budgeted estimate with the anticipated collection level, a recommendation is included in this report to increase the Secured Property Tax estimate by \$9.0 million, which is further described in Section III. *Recommended Budget Adjustments and Clean-up Actions.*

STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

The general Secured Property Tax Adopted Budget estimate totaled \$375.0 million in 2023-2024, which assumed growth of approximately 5.5% from the 2022-2023 collection level. This growth primarily reflected an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2% and an estimated



increased valuation due to changes in ownership or new construction of 3.5%. 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. However, the most recent general Secured Property Tax estimate provided by Santa Clara County totals \$379 million, which is approximately \$4 million above the Adopted Budget estimate. Therefore, as described in Section III. *Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the general Secured Property Tax revenue by \$4.0 million (from \$375.0 million to \$379.0 million) to more closely align the revenue with the anticipated collection level.

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 most recent ERAF estimate provided by Santa Clara County totals approximately \$41 million in 2023-2024. This estimate is \$5 million above the Adopted Budget estimate of \$36.0 million. Therefore, as described in Section III. *Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the ERAF revenue by \$5.0 million (from \$36.0 million to \$41.0 million) to more closely align the revenue with the anticipated collection level.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. Based on the most recent information provided by Santa Clara County, 2023-2024 receipts are estimated at \$24.0 million, which is consistent with the 2023-2024 Adopted Budget estimate.

STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

The **Unsecured Property Tax** category refers to property that can be relocated and is not real estate. The most common forms of unsecured property include boats, business personal property, and undeveloped land. The 2023-2024 Unsecured Property Tax Adopted Budget estimate totals \$15.0 million. However, based on the most recent information provided by Santa Clara County, Unsecured Property Tax revenue is anticipated to exceed the budgeted estimate by approximately \$2 million and total \$17 million in 2023-2024. Therefore, as described in Section III. *Recommended Budget Adjustments and Clean-up Actions*, a recommendation is included in this report to increase the Unsecured Property Tax revenue by \$2.0 (from \$15.0 million to \$17.0 million) to more closely align the revenue with the anticipated collection level.

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. Receipts reflect retroactive collections back to the point of sale for reassessments of value due to property resales. When the 2023-2024 Adopted Budget was developed, it was anticipated SB 813 Property Tax revenue would total \$6.0 million, which is significantly below the high 2022-2023 collection level of \$11.9 million. However, based on the most recent information provided by Santa Clara County, SB 813 Property Tax revenue is estimated at \$7.0 million in 2023-2024. Therefore, as described in Section III. *Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the SB 813 Property Tax revenue by \$1.0 million (from \$6.0 million to \$7.0 million) to more closely align the revenue with the anticipated collection level.

In the **Aircraft Property Tax** category, the largest payment is typically received in October of each year. Based on collections received through the first half of the year (\$4.2 million) and information provided by Santa Clara County, 2023-2024 receipts are anticipated to end the year at \$5.0 million, which is \$1.5 million above the budgeted estimate of \$3.5 million. Therefore, as described in Section III. *Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the Aircraft Property Tax revenue by \$1.5 million (from \$3.5 million to \$5.0 million) to more closely align the revenue with the anticipated collection level.

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

STATUS OF GENERAL FUND REVENUES

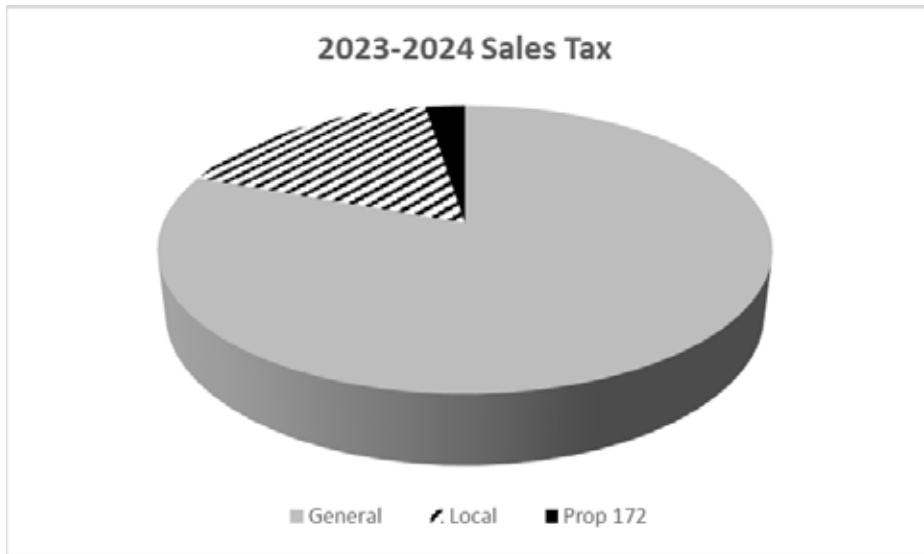
SALES TAX

Revenue Status (\$ in Thousands)

| 2023-2024 | | 2022-2023 | | 2023-2024 |
|------------------------|-------------------|----------------------|--------------------|-------------------------|
| <u>Budget Estimate</u> | <u>YTD Actual</u> | <u>% of Estimate</u> | <u>% of Actual</u> | <u>Proposed Changes</u> |
| \$336,400 | \$113,489 | 33.7% | 33.8% | \$0 |

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. The 2023-2024 Adopted Budget estimate totals \$336.4 million, which is 2.1% below the 2022-2023 receipts of \$343.5 million. This drop is due to the anticipated slowdown in the economy, which may impact Sales Tax receipts.

Information related to Sales Tax payments is 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). The first



Sales Tax payment for 2023-2024 was received in November 2023 and reflects a 1% decline from the prior year. As mentioned above, 2023-2024 revenue can decline by over 2% and meet the budgeted estimate. Therefore, based on the limited information currently known, Sales Tax revenue is anticipated to meet or slightly exceed the budgeted estimate by year-end. However, as only one payment has been received, Sales Tax collections will continue to be analyzed as updated information is received from the CDTFA. Additional information about each of the Sales Tax sub-categories is provided below.

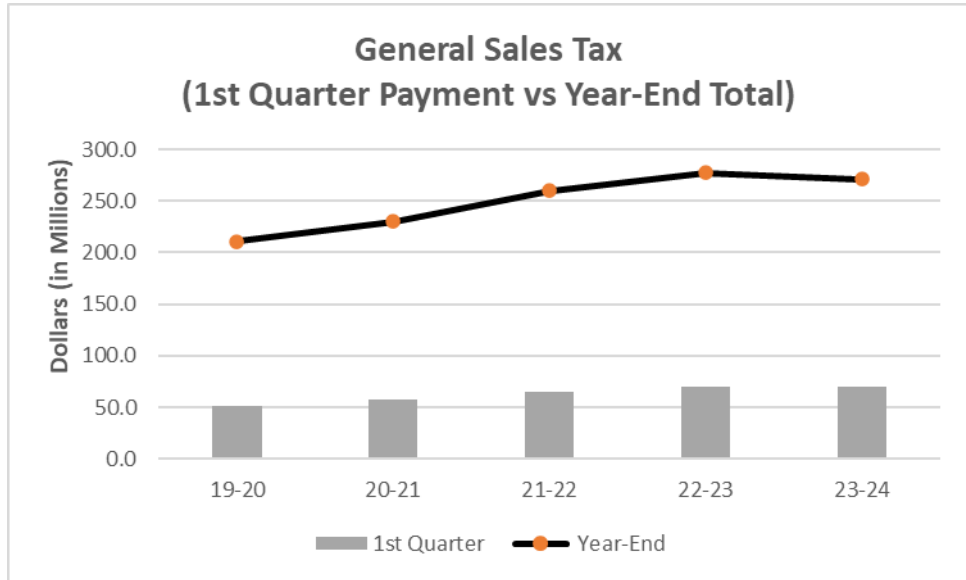
General Sales Tax is the largest driver of the Sales Tax category and accounts for over 80% of all Sales Tax receipts. The 2023-2024 General Sales Tax Adopted Budget estimate was built on the assumption that would total \$279.0 million in 2022-2023, then drop by 3% in 2023-2024. However, since the final quarter payment was lower than anticipated, General Sales Tax ended 2022-2023 at \$277.6 million. Therefore, 2023-2024 General Sales Tax can only drop by 2% to meet the budgeted estimate of \$271.0 million. As mentioned above, the first Sales Tax payment was received from the CDTFA in November 2023 and reflects a 0.7% decline from the prior year. Based on the limited information currently known, General Sales Tax revenue is anticipated to meet or slightly exceed the budgeted estimate of

STATUS OF GENERAL FUND REVENUES

SALES TAX

\$271.0 million. However, as only one payment has been received, General Sales Tax collections will continue to be analyzed as updated information is received from the CDTFA.

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



General Sales Tax Revenue Economic Performance
First Quarter Payment

| Category | 2023-2024 % of Total Revenue | 2022-2023 % of Total Revenue | % Change of Revenue Received by Category |
|----------------------|---------------------------------|---------------------------------|--|
| Business-to-Business | 21.7% | 18.5% | 13.4% |
| General Retail | 17.7% | 17.7% | (3.1%) |
| Transportation | 17.5% | 18.4% | (7.9%) |
| Food Products | 13.9% | 13.0% | 3.4% |
| Construction | 9.6% | 9.9% | (5.6%) |
| Miscellaneous | 1.6% | 0.6% | 132.9% |
| County Pool | 17.9% | 21.9% | (20.7%) |
| Total | 100.0% | 100.0% | |

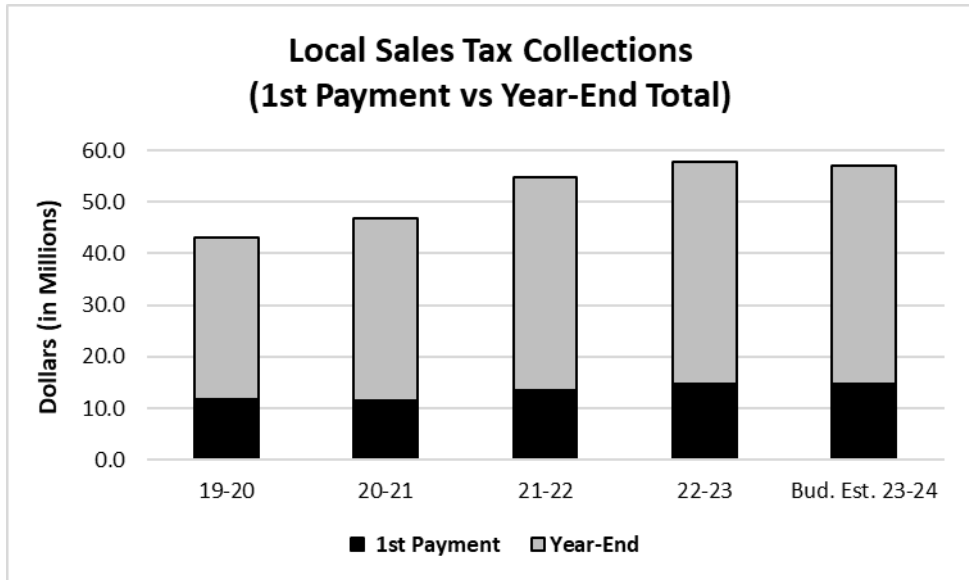
As can be seen in the table above, Business-to-Business, Food Products and Miscellaneous categories experienced year-over-year growth. However, General Retail (apparel stores, department stores, furniture/appliance stores, drug stores, recreation products, and florists/nurseries), Transportation, and Construction declined between the first quarter of 2023-2024 compared to the prior year, which is consistent with the lower Sales Tax collections.

In addition, the County Pool, which is where the majority of online transactions are captured, experienced year-over-year declines. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction’s total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 45% - 50% of the total County Pool.

STATUS OF GENERAL FUND REVENUES

SALES TAX

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax



revenue that is deposited in the County Pool, where the City only receives approximately 45% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

The 2023-2024 Local Sales Tax estimate was built on the assumption that 2022-2023 receipts would total \$59.0 million and decline by 3.5% to \$57.0 million in 2023-2024. However, due to a lower than anticipated final quarter payment, Local Sales Tax ended 2022-2023 at \$57.7 million. Therefore, receipts may only drop by 1% in 2023-2024 to meet the budgeted estimate of \$57.0 million. As mentioned above, the first Local Sales Tax payment was received from CDTFA in November 2023 and reflects a decline of 1% from the first quarter payment in the prior year. Based on the limited information currently known, Local Sales Tax revenue is anticipated to end the year close to the budgeted estimate of \$57.0 million. However, as only one payment has been received, Local Sales Tax collections will continue to be analyzed as updated information is received from the CDTFA.

Proposition 172 Sales Tax collections represent the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. The 2023-2024 budgeted estimate of \$8.4 million requires growth of 2.7% from the 2022-2023 collection level of \$8.2 million. Based on collections through the first half of the fiscal year, it is anticipated that collections will end the year slightly below the budgeted estimate.

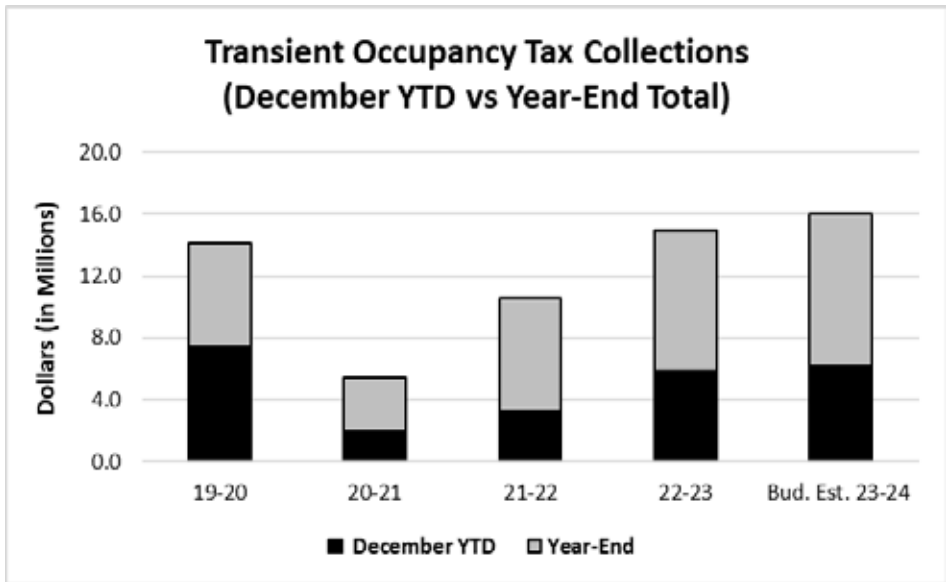
STATUS OF GENERAL FUND REVENUES

TRANSIENT OCCUPANCY TAX

Revenue Status (\$ in Thousands)

| 2023-2024 | | 2022-2023 | | 2023-2024 |
|-----------------|------------|---------------|-------------|------------------|
| Budget Estimate | YTD Actual | % of Estimate | % of Actual | Proposed Changes |
| \$16,000 | \$6,127 | 38.3% | 39.1% | \$0 |

The 2023-2024 budget estimate for the General Fund Transient Occupancy Tax (TOT) allocation (40% of the total tax) is \$16.0 million. When the 2023-2024 Adopted Budget was developed, it was anticipated that 2022-2023 collections would total \$16.0 million and remain flat in 2023-2024. However, 2022-2023



ended the year at \$14.9 million; therefore, 2023-2024 collections require growth of 7.1% to meet the budgeted estimate. Through December 2023, TOT receipts total \$6.1 million, which is 4.9% above the prior year collection level of \$5.8 million. While receipts have experienced year-over-year growth, they are lower than anticipated, which is likely due to the timing of remittances. Based on the activity through December and historical collection trends, receipts are anticipated to meet the budgeted estimate by year-end.

Based on December 2023 data, the cumulative average hotel occupancy rate reported for the San José market was 64.21%, a slight increase from the average of 64.01% through the same period in 2022-2023. The average daily room rate increased slightly (0.6%), from \$158.67 as of December 2022 to \$159.58 as of December 2023; and the year-to-date average revenue-per-available room (RevPAR) increased by 0.89%, from \$101.57 to \$102.47, relative to the same period in 2022-2023.

Reported gross hotel revenue performance through the first half of 2023-2024 continues to track above estimated levels; however, not all revenue related to this higher reported hotel performance is reflected in receipts through December 2023 due to the timing of remittances. In partnership with Team San Jose (the City’s operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in future Bi-Monthly Financial Reports.

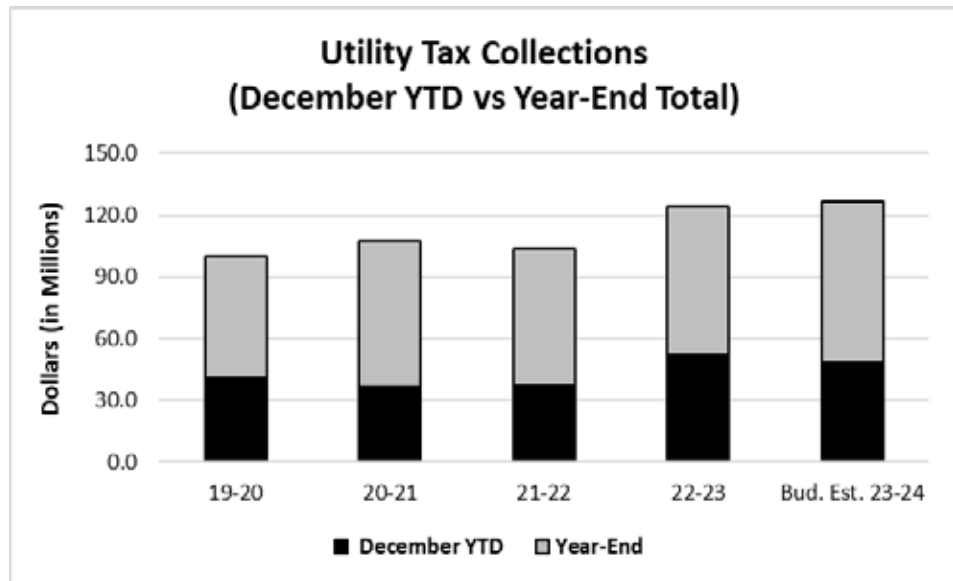
STATUS OF GENERAL FUND REVENUES

UTILITY TAX

| Revenue Status (\$ in Thousands) | | | | |
|----------------------------------|------------|---------------|-------------|------------------|
| 2023-2024 | | 2022-2023 | | 2023-2024 |
| Budget Estimate | YTD Actual | % of Estimate | % of Actual | Proposed Changes |
| \$126,550 | \$48,092 | 38.0% | 41.7% | \$0 |

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through December, Utility Tax receipts of \$48.1 million are 7.1% below the prior year collection level of \$51.8 million. However, this decline may be attributable to the timing of remittances. The 2023-2024 Adopted Budget was built on the assumption that 2022-2023 Utility Tax revenue would end the year at \$121.0 million and increase by almost 5% to \$127.6 million in 2023-2024. However, 2022-2023 ended the year at \$124.3 million, due to stronger year-end collections. As a result, 2023-2024 collections require growth of only 2% to meet the budgeted estimate. Based on collections through December, historical collection patterns, timing of payments, and future planned rate increase, receipts are anticipated to meet the budgeted estimate by year-end. Each of the Utility Tax sub-categories is further described below.

In the **Electricity Utility Tax** category, collections through December totaled \$30.1 million, which is fairly consistent with the prior year level of \$30.4 million. However, as mentioned above, the Administration is currently reviewing collections to determine if there are issues with the timing of payments. The



The 2023-2024 Adopted Budget estimate totals \$70.0 million, which requires growth of 4.7% from the 2022-2023 collection level of \$66.9 million. Based on collections through December, historical collection patterns, and the timing of payments, receipts are anticipated to meet the budgeted estimate by year-end.

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UTILITY TAX

In the **Gas Utility Tax** category, collections through December of \$2.9 million are significantly below the prior year receipts of \$4.6 million, which is potentially due to the timing of remittances. The 2023-2024 Adopted Budget estimate totals \$19.0 million, which is 5.4% below the 2022-2023 collection level of \$20.1 million. Based on collections through December, historical collection patterns, and the timing of payments, receipts are anticipated to meet the budgeted estimate by year-end.

Water Utility Tax collections of \$8.5 million through December are 8.8% below the prior year level of \$9.3 million, which is potentially due to the timing of remittances. The 2023-2024 Adopted Budget estimate totals \$19.0 million, which is consistent with prior year receipts. Based on collections through December, historical collection patterns, and the timing of payments, receipts are anticipated to meet the budgeted estimate by year-end.

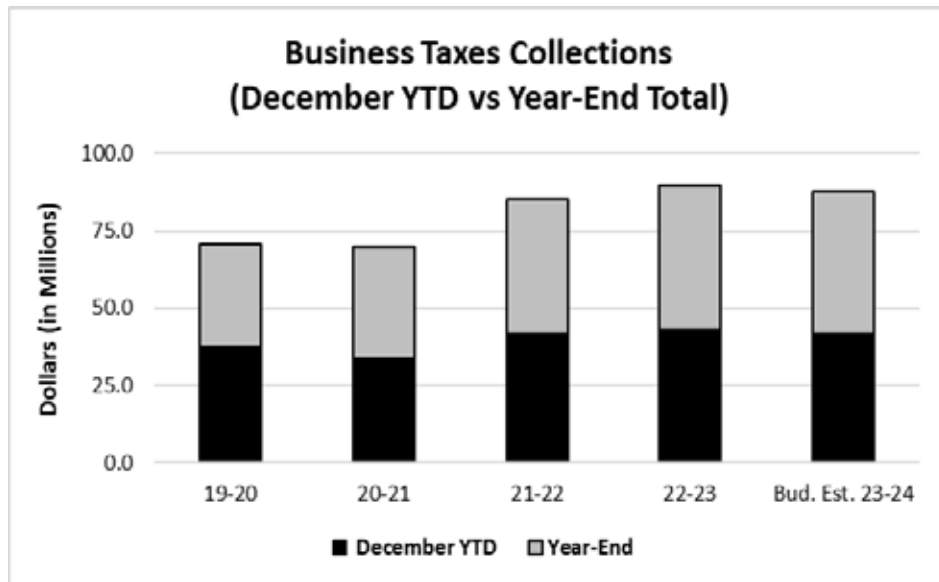
In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Through December, collections of \$6.5 million are 12.4% below the prior year level of \$7.5 million, which is potentially due to the timing of remittances. The 2023-2024 Adopted Budget estimate totals \$18.6 million, which is consistent with prior year receipts. Based on collections through December, historical collection patterns, and the timing of payments, receipts are anticipated to meet the budgeted estimate by year-end.

STATUS OF GENERAL FUND REVENUES

BUSINESS TAXES

| Revenue Status (\$ in Thousands) | | | | |
|----------------------------------|------------|---------------|-------------|------------------|
| 2023-2024 | | 2022-2023 | | 2023-2024 |
| Budget Estimate | YTD Actual | % of Estimate | % of Actual | Proposed Changes |
| \$87,500 | \$41,777 | 47.7% | 47.9% | \$0 |

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Business Tax, Disposal Facility Tax, and General Business Tax. Through December, overall collections of \$41.8 million are 2.6% below the prior year collection levels of \$42.9 million, which reflects lower General Business Tax receipts and Disposal Facility Tax receipts, partially offset by higher Cardroom Business Tax collections and Cannabis Business Tax receipts. The 2023-2024 Modified Budget of \$87.5 million allows for a 2.4% drop from the 2022-2023 Business Taxes collection level of \$89.6 million. Based on overall Business Taxes performance through December, it is anticipated that receipts will meet the overall budgeted level by year-end. Each of the Business Taxes sub-categories are further described below.



Cannabis Business Tax collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Cannabis Business Tax collections began after San José voters approved Ballot Measure U on November 2, 2010, which allowed the City to tax marijuana businesses. Further, in November 2016, the California Marijuana Legalization Initiative (Proposition 64) was approved by voters, which legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at the 16 registered businesses in San José began in January 2018. Through December, receipts of \$6.4 million are 3.7% above the prior-year collection level of \$6.2 million. The 2023-2024 Adopted Budget estimate of \$15.0 million is \$1.6 million below the 2022-2023 collection level of \$16.6 million. Based on the performance through December, receipts in this category are anticipated to exceed the budgeted estimate by \$1 - \$2 million.

STATUS OF GENERAL FUND REVENUES

BUSINESS TAXES

Through December, **Cardroom Business Tax** receipts totaling \$12.1 million have been received, which are 1.9% higher than the prior year level of \$11.9 million. These collections are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021. The 2023-2024 Modified Budget estimate for Cardroom Tax totals \$30.0 million, which is consistent with the 2022-2023 actual collection level. Based on the performance through December, receipts in this category are anticipated to end the year slightly above the budgeted estimate.

Disposal Facility Tax (DFT) are business taxes received based on the tons of solid waste disposed of at landfills within the City. DFT revenue through December totaled \$5.1 million, which is 9.6% below the prior-year collection level of \$5.6 million. The 2023-2024 Adopted Budget estimate of \$13.0 million is slightly below the 2022-2023 collection level of \$13.3 million. Based on performance through December and historical collection patterns, receipts in this category are anticipated to end the year slightly below the budgeted estimate.

Through December, **General Business Tax** receipts of \$18.1 million are 5.4% below the prior-year collection level of \$19.2 million. The 2023-2024 Modified Budget estimate for General Business Tax totals \$29.5 million, which is 1% below the 2022-2023 actual collection level. Based on the performance through December, receipts in this category are anticipated to end the year \$1 - \$2 million below the budgeted estimate.

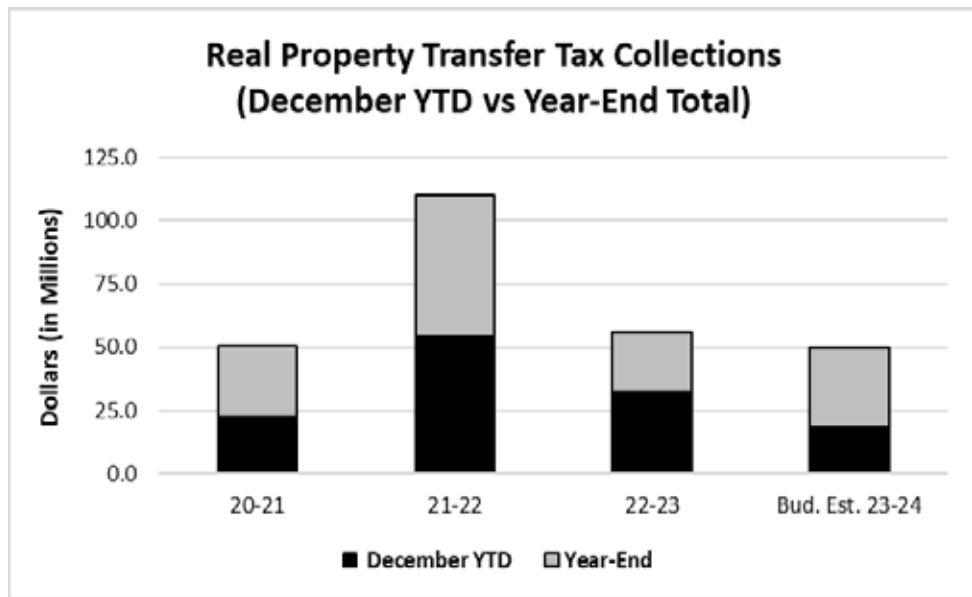
STATUS OF GENERAL FUND REVENUES

REAL PROPERTY TRANSFER TAX

| Revenue Status (\$ in Thousands) | | | | |
|----------------------------------|------------|---------------|-------------|------------------|
| 2023-2024 | | 2022-2023 | | 2023-2024 |
| Budget Estimate | YTD Actual | % of Estimate | % of Actual | Proposed Changes |
| \$50,000 | \$18,368 | 36.7% | 57.1% | \$0 |

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

Through December 2023, Real Property Transfer Tax collections totaled \$18.4 million, which is significantly below the prior-year level of \$32.1 million. In addition, the City has received the January tax receipts from Santa Clara County, which totaled \$2.9 million. When taking into



account total receipts through December and the January remittance, total Real Property Transfer Tax receipts in 2023-2024 totaled \$21.3 million, compared to the prior year level of \$36.8 million. While the number of transactions through January 2024 is 17.3% higher than the prior year, fewer high-value property transfers have occurred, resulting in the significant year-over-year decline in collections. The 2023-2024 Adopted Budget estimate totals \$50.0 million, which allows for a 11.2% drop from the 2022-2023 collection level of \$56.3 million. It is currently anticipated Real Property Transfer Tax receipts will end the year at \$45 million, or approximately \$5 million below the budgeted estimate of \$50.0 million. However, as limited historical data is known for this tax, and given its volatile nature, receipts will continue to be closely monitored and updated information will be provided in future Bi-Monthly Financial Reports.

STATUS OF GENERAL FUND REVENUES

SUMMARY

A comprehensive review of all General Fund revenue accounts has been performed based on activity through the first six months of the year. Based on the available data through December, General Fund revenues are anticipated to end the year approximately \$30 million above budgeted levels due to strong growth in several revenue categories. Revenue categories experiencing higher than anticipated collections include Property Tax, Use of Money/Property, and Fees, Rates, and Charges. Partially offsetting these strong revenue collections is lower than anticipated Real Property Transfer Tax revenue.

In total, a net increase of \$22.6 million to the General Fund Sources is recommended in this document. This increase reflects a net upward adjustment of \$19.3 million related to technical and rebalancing items to more closely align the budgeted estimates with the current anticipated collection levels: Property Tax, \$13.5 million; Revenue from the Use of Money/Property, \$3.5 million; Fees, Rates, and Charges, \$2.0 million; and Transfers and Reimbursements, \$279,005. In addition, recommendations are included in this report to recognize an additional \$3.3 million for grants reimbursements and fees adjustments. Further information regarding these adjustments can be found in Section III. *Recommended Budget Adjustments and Clean-up Actions*.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2025-2029 General Fund Forecast, due to be released on February 28, 2024, as well as the 2024-2025 Proposed Budget, due to be released on May 1, 2024. As always, staff will continue to closely monitor the City's current year financial status and report to the City Council any significant developments through the Bi-Monthly Financial Reports. The January/February Bi-Monthly Financial Report will be brought to the Public Safety, Finance and Strategic Support Committee in April 2024.