



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jim Shannon

**SUBJECT: 2024-2025 REVISED GENERAL  
FUND REVENUE ESTIMATES AND  
RECOMMENDED EXPENDITURE  
ALLOCATIONS**

**DATE:** May 31, 2024

Approved

Date: 5/31/24

## RECOMMENDATION

1. Approve the following adjustments to the 2024-2025 Proposed Operating Budget in the General Fund:
  - a. Increase the Sales Tax revenue estimate by \$8,000,000;
  - b. Increase the Property Tax revenue estimate by \$3,000,000;
  - c. Increase the Fees, Rates and Charges revenue estimate by \$1,000,000;
  - d. Decrease the Revenue from the State of California revenue estimate by \$11,000,000; and
  - e. Increase the Interim Housing Construction and Operation City-Wide Expenses budget by \$1,000,000.
2. Approve the following adjustments to the 2024-2025 Proposed Operating Budget in the Real Property Transfer Tax Fund:
  - a. Decrease the Interim Housing Construction and Operations budget by \$1,000,000; and
  - b. Increase the Measure E – 5% Moderate-Income Households Reserve by \$1,000,000.

## BACKGROUND

Since the release of the 2024-2025 Proposed Operating Budget on May 4, 2024, the Administration has continued to evaluate revenues and expenditure estimates in all funds to determine if any adjustments should be brought forward for City Council consideration before final approval of the budget. Each year, the Administration uses the last two weeks of May to conduct a final review of every revenue category and expenditure appropriation, with a close scrutiny on the General Fund. In most years, this review does not lead to significant adjustments to the overall budgetary position, as often increases in one category may partially offset decreases in another. However, recent information regarding the anticipated receipt of Sales Tax and Parks, Recreation and Neighborhood Services (PRNS) Fee revenues, and recent developments regarding the State of California's budget process related to the receipt of Property Tax revenues, meaningfully impact revenue assumptions that were included in the 2024-2025 Proposed Operating Budget.

**ANALYSIS**

As discussed below, the improved outlook in 2024-2025 for Sales Tax, Property Tax, and Fees and Charges revenue, while available for any use as directed by the City Council, allows for the partial restoration of Measure E resources that were reallocated from affordable housing development to interim housing construction and operations, and results in a revised contingency plan that is much less impactful to affordable housing production.

The table below summarizes the recommended adjustments followed by a description of each action. This memorandum also provides a revised set of tables that show the increased levels of Measure E for affordable housing purposes.

<b>GENERAL FUND</b>	<b>2024-2025</b>	<b>Ongoing</b>
<b>Source</b>		
Sales Tax Revenue	\$8,000,000	\$8,000,000
Property Tax Revenue	\$3,000,000	\$3,000,000
Fees, Rates, and Charges (PRNS Revenue)	\$1,000,000	\$1,000,000
Revenue from the State of California	(\$11,000,000)	0
<b>Total Source</b>	<b>\$1,000,000</b>	<b>\$12,000,000</b>
<b>Use</b>		
Interim Housing Construction and Operations	\$1,000,000	\$12,000,000
<b>Total Use</b>	<b>\$1,000,000</b>	<b>\$12,000,000</b>
Amount Unspent/(Overage)	\$0	\$0

<b>REAL PROPERTY TRANSFER TAX FUND</b>	<b>2024-2025</b>	<b>Ongoing</b>
<b>Source</b>		
N/A	0	0
<b>Total Source</b>	<b>\$ 0</b>	<b>\$0</b>
<b>Use</b>		
Interim Housing Construction and Operations	(\$1,000,000)	(\$12,000,000)
Affordable Housing Development	\$1,000,000	\$12,000,000
<b>Total Use</b>	<b>\$0</b>	<b>\$0</b>
Amount Unspent/(Overage)	\$0	\$0

***General Fund Adjustments***

**Sales Tax Revenue (\$8.0 million)** – Sales Tax is the second largest revenue category for the City of San José, of which General Sales Tax is the largest component. General Sales Tax payments are distributed from the California Department of Tax and Fee Administration (CDTFA) four times per year: November, February, May, and August. When the 2024-2025 Proposed Budget was being developed, the 1<sup>st</sup> and 2<sup>nd</sup> quarter payments had been received, which represented a -1% and -10% year-over-year decline, respectively. These drops reflected

the slowdown of the economy, which was anticipated to continue for the rest of the fiscal year. Therefore the 2023-2024 General Sales Tax estimate totaled \$271.0 million, which reflected an anticipated decline of -3% in the 3<sup>rd</sup> quarter and -2% in the 4<sup>th</sup> quarter. In late May 2024, however, the 3<sup>rd</sup> quarter General Sales Tax payment was received from CDTFA and reflected positive growth of 8%. While limited data is available, it is anticipated that the level of economic weakness experienced in the first half of the fiscal year is not continuing to the same degree in the second half of the fiscal year. As a result, the Administration assumes that anticipated receipts in the fourth quarter will grow by approximately 5%, thereby increasing the year-end revenue for 2023-2024 by \$7.0 million. A corresponding adjustment to increase Sales Tax by \$7.0 million, from \$336.4 million to \$343.3 million, will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2023-2024 memorandum that will be reviewed by the City Council on June 18, 2024, and will be recommended to offset various corrections and adjustments to the 2023-2024 Modified Budget and assist with meeting the year-end fund balance target.

When developing the 2024-2025 Proposed Budget, General Sales Tax was anticipated to grow between 1% to 6% per quarter compared to 2023-2024 levels due to the rebounding economy and total \$276.0 million, which reflects overall growth of 3.5%. As 2023-2024 is now anticipated to end the year at a higher level, growth in 2024-2025 is estimated to be closer to 3%, totaling \$284.0 million. As a result, a recommendation is included in this memorandum to increase the overall 2024-2025 Sales Tax budgeted estimate by \$8.0 million, from \$344.0 million to \$352.0 million.

**Property Tax Revenue (\$3.0 million)** – The Governor’s 2024-2025 Budget for the State of California included proposed statutory changes that would make charter schools eligible for funding from the Educational Revenue Augmentation Fund (ERAF), which is a component of the City’s Property Tax revenue. If the budget proposal was approved, the City’s ERAF funding would be reduced by approximately \$3 million beginning in 2024-2025. Due to the anticipated passage of the legislation, the 2024-2025 Property Tax ERAF estimate of \$40.0 million assumed a \$3 million reduction<sup>1</sup>. However, in late May 2024, the Legislature rejected the Governor’s ERAF budget proposal. As a result, a recommendation is included in this memorandum to increase the overall Property Tax revenue estimate by \$3.0 million, from \$492.0 million to \$495.0 million.

**Fees, Rates, and Charges Revenue (\$1.0 million)** – The Fees, Rates, and Charges revenue category includes various fees and charges levied to recover costs of services provided by several City departments, the largest of which is PRNS Fees. PRNS program delivery and revenue generation fee categories include: Happy Hollow Park and Zoo; Fee Activity (classes, camps and after-school activities); Facility Rentals; Sports Facilities Reservations; Lake Cunningham Action Sports Park; Parking; Park Permits; Arcadia Ball Park; Family Camp; and Aquatics Program. Before the pandemic, PRNS Fee revenue was approximately \$22 million annually. During the pandemic, revenue fell to as low as \$2 million, but has experienced strong growth in subsequent years. When the 2024-2025 Proposed Budget was developed, 2023-2024 PRNS Fee revenue was anticipated at \$20 million, then dropping to \$19.8 million in 2024-2025 due to the budget proposal to close community center fitness centers, that is estimated to have a revenue

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<sup>1</sup> Please see Page 182 of the 2024-2025 Proposed Operating Budget:

<https://www.sanjoseca.gov/home/showpublisheddocument/111433/638504125018930000>

impact. However, based on recent information, PRNS Fee revenue is anticipated to exceed the 2023-2024 budget by approximately \$1 million, which is estimated to be received on an ongoing basis. As a result, a recommendation is included in this memorandum to increase the overall Fees, Rates, and Charges revenue estimate by \$1.0 million, from \$26.7 million to \$27.7 million.

**Revenue from the State of California (-\$11.0 million)** – The 2024-2025 Proposed Budget assumed the receipt of one-time revenues of \$11.0 million from State sources to support the City’s interim housing portfolio, which would be pursued in collaboration with our regional system partners. Given the uncertainty of receiving all or a portion of this funding, the 2024-2025 Proposed Operating Budget included a contingency plan that would shift additional interim housing costs to Measure E funds (now budgeted in the Real Property Transfer Tax Fund) if the \$11.0 million of State funding is not received. Because of the anticipated increased revenues from Sales Tax, Property Tax, and Fees and Charges, the Administration recommends reducing the amount of State grant resources to support interim housing, which would eliminate the need for the Measure E contingency in 2024-2025. However, it is important to note that the City will continue to pursue resources to support service provision to the City’s unhoused residents, including continued advocacy for State and Federal funding, and collaboration with regional partners, including Valley Water and the County.

**Interim Housing Construction and Operations City-Wide Expenses (\$1.0 million)** – The additional net revenue increase of \$1.0 million in the General Fund (\$12.0 million ongoing) is recommended to increase the General Fund contribution for interim housing construction and operations above the amounts included in the 2024-2025 Proposed Operating Budget. The ongoing General Fund Base Budget contribution to support the City’s interim housing portfolio is \$25.0 million in 2024-2025. Actions included in the 2024-2025 Proposed Operating Budget shifted \$8.0 million of this cost to Measure E resources within the Real Property Transfer Tax Fund. In 2025-2026, the amount shifted is expected to increase to \$22.5 million. Substituting ongoing revenue of \$12.0 million for the \$11.0 million of one-time revenue yields a net increase of \$1.0 million in 2024-2025 and \$12.0 million in 2025-2026. Both of these increases are recommended to support interim housing costs in the General Fund, and decrease the shifting of obligations Measure E resources (Please see the tables below).

***Real Property Transfer Tax Fund Adjustments***

**Interim Housing Construction and Operations (-\$1.0 million)** – As discussed above, the Administration recommends reducing the use of Measure E funds to support the City’s interim housing portfolio by \$1.0 million in 2024-2025 and \$12.0 million in 2025-2026.

**Affordable Housing Development (Measure E – 5% Moderate-Income Households Reserve, \$1.0 million)** – To maximize the impact to potential affordable housing development, the additional \$1.0 million is recommended to help catalyze projects that target lower-income and moderate-income households of up to 120% of area median income (AMI). As these developments require less complexity in capital financing, modest investments can play an outsized role in facilitating project delivery.

***Revisions to the Recommended Reallocation of Measure E Resources***

The City Manager’s transmittal message of the 2024-2025 Proposed Operating Budget included tables on Pages 19 and 21 that summarized the reallocation of Measure E resources for affordable housing. If the City Council accepts the recommendations included in this memorandum, these tables would be revised as shown below. Table 1 displays the revised reallocation of Measure E resources; this is contrasted with what was originally included in the 2024-2025 Proposed Operating Budget in Table 2. Table 3 shows the revised amount of funding available for affordable housing in 2024-2025; compared to the amounts in the budget document in Table 4.

While the amount of funding available for affordable housing increases by \$1.0 million for 2024-2025, it increases by \$12.0 million for 2025-2026. Importantly, under the revised contingency plan, there is now no difference in the amount of Measure E available for affordable housing in 2024-2025, as the less certain revenue of \$11.0 million from the State has been replaced by the \$12.0 million from Sales Tax, Property Tax, and Fees, Rates and Charges revenue, thereby eliminating the need for the Measure E contingency plan. The only amount related to the contingency plan is now the \$8.0 million from the California Health Facilities and Finance Authority (CHFFA)<sup>2</sup>, which would impact Measure E by \$2.5 million.

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<sup>2</sup> The County approached the City to utilize funds CHFFA to acquire the Vermont House, a 17-unit permanent supportive housing facility operated by the City, and the Monterey/Bernal Emergency Interim Housing (EIH) site, while ensuring that they continue to serve formerly and currently homeless residents. Sale proceeds would support affordable housing development, and transitioning operational responsibility of the Monterey/Bernal EIH site to the County would lower the City’s ongoing costs in the General Fund by \$2.5 million.

REVISED Recommended Reallocation of Measure E Resources (\$ Millions) (Table 1)				
	Proposed Budget Include All New Revenues/Cost Reduction		Contingency Plan Does Not Include CHFFA (\$8 M)	
	2024-2025	2025-2026	2024-2025	2025-2026
<b>Base Budget Affordable Housing Production Allocation [A]</b>	<b>35.6</b>	<b>39.2</b>	<b>N/A</b>	<b>39.2</b>
<b>Interim Housing Construction and Operations</b>	<b>7.0</b>	<b>10.5</b>	<b>N/A</b>	<b>13.0</b>
<b>Stormwater Permit Implementation</b>	<b>15.0</b>	<b>10.2</b>	<b>N/A</b>	<b>10.2</b>
Safe or Alternative Sleeping Sites	10.0	5.0	N/A	5.0
Outreach, Sanitation and Other Support Services	3.6	3.5	N/A	3.5
Recreational Vehicle Pollution Prevention Program Expansion	1.4	1.7	N/A	1.7
<b>Lived-In Vehicle Safe Parking Site</b>	<b>1.0</b>	<b>-</b>	<b>N/A</b>	<b>-</b>
<b>City Outreach Team (Reactive)</b>	<b>0.6</b>	<b>-</b>	<b>N/A</b>	<b>-</b>
<b>Total [B]</b>	<b>23.6</b>	<b>20.7</b>	<b>N/A</b>	<b>23.2</b>
<b>Remaining Measure E for Affordable Housing [A] – [B] = [C]</b>	<b>12.0</b>	<b>18.5</b>	<b>N/A</b>	<b>16.0</b>

ORIGINAL Recommended Reallocation of Measure E Resources (\$ Millions) (Table 2)				
	Proposed Budget Include All New Revenues/Cost Reduction		Contingency Plan Does Not Include Additional State Grant Funds (\$11 M) or CHFFA (\$8 M)	
	2024-2025	2025-2026	2024-2025	2025-2026
<b>Base Budget Affordable Housing Production Allocation [A]</b>	<b>35.6</b>	<b>39.2</b>	<b>35.6</b>	<b>39.2</b>
<b>Interim Housing Construction and Operations</b>	<b>8.0</b>	<b>22.5</b>	<b>19.0</b>	<b>25.0</b>
<b>Stormwater Permit Implementation</b>	<b>15.0</b>	<b>10.2</b>	<b>15.0</b>	<b>10.2</b>
Safe or Alternative Sleeping Sites	10.0	5.0	10.0	5.0
Outreach, Sanitation and Other Support Services	3.6	3.5*	3.6	3.9
Recreational Vehicle Pollution Prevention Program Expansion	1.4	1.7	1.4	1.7
<b>Lived-In Vehicle Safe Parking Site</b>	<b>1.0</b>	<b>-</b>	<b>1.0</b>	<b>-</b>
<b>City Outreach Team (Reactive)</b>	<b>0.6</b>	<b>-</b>	<b>0.6</b>	<b>-</b>
<b>Total [B]</b>	<b>24.6</b>	<b>32.7</b>	<b>35.6</b>	<b>35.2</b>
<b>Remaining Measure E for Affordable Housing [A] – [B] = [C]</b>	<b>11.0</b>	<b>6.5</b>	<b>0.0</b>	<b>4.0</b>

\*This table in the 2024-2025 Proposed Operating Budget originally had this amount at \$3.9 million; however, the correct figure is \$3.5 million, as shown in Attachment D to the City Manager’s transmittal message.

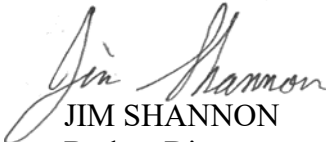
<b>REVISED Available Resources for New Affordable Housing Commitments in 2024-2025 (\$ Millions)</b> (Table 3)		
	<b>2024-2025 Proposed Budget</b>	<b>Contingency Plan</b>
2024-2025 Measure E Funds	12.0	12.0
California Health Facilities Finance Authority (CHFFA)	8.0	0.0
Available Current and Prior Year Measure E Funds	4.0	4.0
Other Housing Funds	17.6	17.6
<b>Total Available Funding</b>	<b>41.6</b>	<b>33.6</b>

<b>ORIGINAL Available Resources for New Affordable Housing Commitments in 2024-2025 (\$ Millions)</b> (Table 4)		
	<b>2024-2025 Proposed Budget</b>	<b>Contingency Plan</b>
2024-2025 Measure E Funds	11.0	0.0
California Health Facilities Finance Authority (CHFFA)	8.0	0.0
Available Current and Prior Year Measure E Funds	4.0	4.0
Other Housing Funds	17.6	17.6
<b>Total Available Funding</b>	<b>40.6</b>	<b>21.6</b>

The recommended changes to Measure E allocation percentages for the 2024-2025 Proposed Operating Budget will be included in a forthcoming Manager’s Budget Addendum.

**COORDINATION**

This memorandum has been coordinated with the Housing Department and the City Attorney’s Office.

  
**JIM SHANNON**  
 Budget Director