

<b>2020-2021</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND REVENUES

### OVERVIEW

General Fund revenues through December totaled \$464.7 million, or 36.2% of the budgeted estimate. The COVID-19 pandemic and the resulting Santa Clara County health orders continue to have a significant impact on General Fund resources; therefore based on information known at this point of the year, existing revenues are anticipated to end the year approximately \$5 million - \$10 million below budgeted levels (variance of approximately 1% when excluding the Beginning Fund Balance). This variance is inclusive of Real Property Transfer Tax revenues, which are allocated for affordable housing and homelessness prevention purposes. Setting these revenues aside, the variance increases to \$15 - \$20 million below budgeted levels. Revenues that are performing below anticipated levels include Fees, Rates, and Charges, Property Tax, Transient Occupancy Tax, Business Taxes, and Fines, Forfeitures and Penalties. Partially offsetting the declining revenues is higher than anticipated Sales Tax and Real Property Transfer Tax receipts. Revenue adjustments are included in the Mid-Year Budget Review to align the budgeted estimate with anticipated receipts, which are further described on the following pages.

The following table details actual 2020-2021 General Fund revenue collections through December as compared with budgeted revenue estimates and 2019-2020 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.

### 2020-2021 General Fund Revenue Status through December (\$ in Thousands)

Category	Budget Estimate	YTD Actual	% of Estimate	2019-2020 % of Actual	Proposed Changes
<b>General Revenue</b>					
Property Tax	\$ 370,500	\$ 1,706	0.5%	24.0%	\$ (9,000)
Sales Tax	242,500	100,977	41.6%	32.2%	20,000
Telephone Line Tax	20,000	8,170	40.9%	36.9%	-
Transient Occupancy Tax	9,000	1,912	21.2%	52.2%	(3,500)
Real Property Transfer Tax	30,000	22,523	75.1%	N/A	10,000
Franchise Fees	45,921	17,938	39.1%	45.9%	-
Utility Tax	95,800	36,260	37.8%	40.6%	-
Business Taxes	63,900	33,876	53.0%	52.9%	-
Licenses and Permits	19,894	15,060	75.7%	67.4%	-
Fines, Forfeitures, and Penalties	9,730	3,607	37.1%	54.6%	-
Use of Money and Property	11,770	4,854	41.2%	50.7%	-
Revenue from Local Agencies	22,831	4,176	18.3%	45.1%	460
Revenue from the State of California	14,565	276	1.9%	36.9%	573
Revenue from Federal Government	7,586	192	2.5%	13.6%	273
Fees, Rates, and Charges	25,576	2,097	8.2%	53.3%	(17,000)
Other Revenue	175,466	136,687	77.9%	61.5%	2,045
<b>Sub-Total General Revenue</b>	<b>1,165,039</b>	<b>390,311</b>	<b>33.5%</b>	<b>37.1%</b>	<b>3,851</b>
<b>Transfers and Reimbursements</b>					
Overhead Reimbursements	69,198	53,630	77.5%	79.1%	-
Transfers	33,738	15,007	44.5%	30.2%	2,840
Reimbursements for Services	15,746	5,719	36.3%	36.4%	-
<b>Sub-Total Transfers and Reimbursements</b>	<b>118,682</b>	<b>74,356</b>	<b>62.7%</b>	<b>56.8%</b>	<b>2,840</b>
<b>TOTALS</b>	<b>\$ 1,283,721</b>	<b>\$ 464,667</b>	<b>36.2%</b>	<b>38.9%</b>	<b>\$ 6,691</b>

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As discussed in previous Bi-Monthly Financial Status Reports, in Silicon Valley economic conditions drastically changed as a result of the shelter-in-place order that was issued in Santa Clara County in March 2020. To comply with the order, a significant portion of economic activity was severely restricted, which has had deep impacts to many of the economically sensitive revenues in the General Fund. Though conditions improved in the summer and early fall, year-over-year unemployment levels and consumer confidence levels have significantly worsened, and the recent surge in COVID-19 cases will continue to negatively impact revenue collections. While the 2020-2021 Adopted Budget anticipated many of these impacts, several revenue categories are performing below the reduced levels.

Through the first half of the fiscal year, while a majority of General Fund revenues are performing at anticipated levels, there are several exceptions. Fees, Rates and Charges (-\$18 million - \$19 million), Property Tax (-\$9 million), Transient Occupancy Tax (-\$3.5 million), Business Taxes (-\$2 million), and Fines, Forfeitures and Penalties (-\$1 million - \$2 million) are tracking to end the year below the budgeted estimate; however, Sales Tax (\$20 million) and Real Property Transfer Tax (\$10 million) revenues are anticipated to end the year above the budgeted estimate. It is important to note that all revenue associated with the Real Property Transfer Tax will be allocated to affordable housing and homeless prevention activities in accordance with City Council Policy 1-18, Section 22. Budget adjustments to several of these revenue categories are included in this document, and are further discussed below. While budget adjustments are not recommended for all revenue categories with variances, the Administration will continue to closely monitor all revenues provide updates as part of future Bi-Monthly Financial Status Reports and the 2021-2022 budget process.

*Recommended Adjustments*

As described below, revenue adjustments totaling \$6.7 million are 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 \$3.1 million). Significant actions include:
  - Increase the Sales Tax estimate by \$20.0 million (from \$242.5 million to \$262.5 million), to reflect higher than estimated General Sales Tax revenue. The first quarter Sales Tax payment was received in November 2020, which reflected July-September activity. The Sales Tax revenue reflected a decrease of 5.5% from the prior year collections; however, the 2020-2021 Adopted Budget allows for a 9% drop from prior year collections. Based on information known at this point in the year, Sales Tax revenue is anticipated to exceed the budget by approximately \$20 million, totaling \$212 million in 2020-2021. When excluding proceeds

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from the Revenue Capture Agreement, which did not take effect until October 2019, the revised estimate for General Sales Tax collections is 6.4% below 2019-2020 collections.

- Increase the Real Property Transfer Tax revenue estimate by \$10.0 million (from \$30.0 million to \$40.0 million), to reflect higher than anticipated collections. All funds related to the Real Property Transfer Tax revenue is allocated to homeless prevention and affordable housing projects and programs. Therefore, corresponding increases to homeless prevention and affordable housing expenditure appropriations are also recommended in this report to offset the increased tax revenue.
- Decrease the Fees, Rates, and Charges estimate by \$17.0 million (from \$25.6 million to \$8.6 million), to reflect reduced Parks, Recreation, and Neighborhood Services (PRNS) Fee revenue. Due to the shelter-in-place mandate, minimal PRNS programming is currently occurring, which will result in a loss of approximately \$17 million in fee revenue. An expenditure adjustment of \$4.0 million to the PRNS Fee Activity appropriation is also recommended in this report.
- Decrease the Property Tax estimate by \$9.0 million (from \$370.5 million to \$361.5 million), to reflect lower estimated Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax receipts (\$10.0 million), partially offset by higher Unsecured Property Tax receipts (\$1.0 million).
- Decrease the Transient Occupancy Tax estimate by \$3.5 million (from \$9.0 million to \$5.5 million), to align the budgeted estimate with anticipated receipts. Transient Occupancy Tax revenue is continued to be extremely impacted by the shelter-in-place mandate, which is decimating hotel occupancy rates.
- Recognize grant, reimbursement, and/or fee related funds (\$3.6 million). Significant actions include:
  - Recognize a transfer from the Ice Centre Revenue Fund to pay for Public Works construction oversight of the Ice Centre Expansion Project (\$1.6 million); recognize revenue for T-Mobile Macro Site Permitting (\$750,000) and T-Mobile Macro Site Process Reimbursements (\$250,000); recognize revenue from the Santa Clara Valley Water District for the Stream Stewardship Law Enforcement program (\$200,000); recognize revenue from the State of California for the Trauma to Triumph program (\$249,000); and recognize revenue from the State of California for Strike Team reimbursements (\$206,000).

Additional detail 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.

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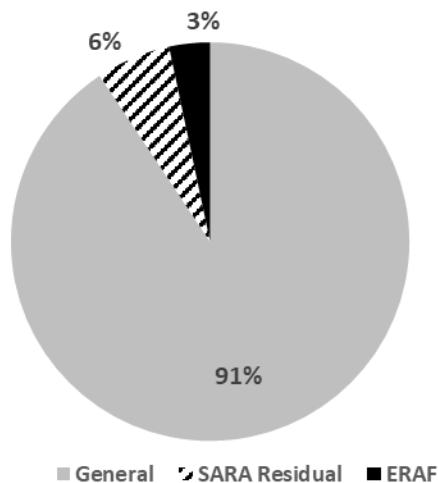
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**PROPERTY TAX**

<b>Revenue Status (\$ in Thousands)</b>				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$370,500	\$1,706	0.5%	24.0%	(\$9,000)

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 fall short of the budgeted estimate by approximately \$9 million based on the most recent information received from the State of California and Santa Clara County. As the result of a State of California Appellate Court decision, the distribution formula related to all California residual property tax revenue from former Redevelopment Agencies has been changed, resulting in a loss of approximately \$10 million in 2020-2021 (from \$21 million to \$11 million) to the City of San José. Partially offsetting the declining Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax, is an additional \$1 million that is anticipated to be received for Unsecured Property Tax collections (from \$13 million to \$14 million). As a result, a recommendation is included in this report to decrease the Property Tax revenue estimate by a net of \$9.0 million (from \$370.5 million to \$361.5 million) to more closely align the Property Tax budget with estimated receipts. Each of the Property Tax sub-categories are further described below.

**2020-2021 Secured Property Tax**



**Secured Property Tax** represents over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, SARA Residual Property Tax, and Educational Revenue Augmentation Fund (ERAF) revenues. The 2020-2021 Secured Property Tax budgeted estimate of \$347.5 million was built on assumed growth of 5.5% for general Secured Property Tax receipts (\$315.0 million), \$21.0 million for SARA Residual Property Tax revenue, and estimated revenue of \$11.5 million for ERAF receipts. As mentioned above, as

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the result of a change in the distribution formula, the SARA Residual Property Tax revenue is anticipated to fall approximately \$10 million below the budgeted estimate. To more closely align the budgeted estimate with the anticipated collection level, a recommendation is included in this report (as described in *Section III. Recommended Budget Adjustments and Clean-up Action*) to decrease the Secured Property Tax estimate by \$10.0 million.

The general Secured Property Tax budgeted estimate totals \$315.0 million in 2020-2021, which assumes growth of 5.5% from the 2019-2020 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2% and increased valuation due to changes in ownership or new construction. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution in 2017-2018. As previously discussed, in 2020-2021 receipts are anticipated to fall approximately \$10 million below the budgeted estimate (from \$21 million to \$11 million) as the result of a change in the residual property tax distribution formula. Of this amount, approximately \$7 million represents prior year receipts that must be repaid and \$3 million reflects the lower 2020-2021 collection level (which represents an ongoing reduction that will continue in future years). As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), a recommendation is included in this report to decrease the SARA Residual Property Tax revenue by \$10.0 million to more closely align the revenue with the anticipated collection level.

Beginning in 1992, agencies are 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. Due to changes that may be implemented by the State regarding the calculation of ERAF, the 2020-2021 budget of \$11.5 million reflects a 50% decline from the 2019-2020 collection level. As additional information is received regarding ERAF calculations, updates will be reported as part of future Bi-Monthly Financial Reports and the 2021-2022 Proposed Operating Budget.

The 2020-2021 Adopted Budget estimate for **Unsecured Property Tax** collections total \$13.1 million. Typically, a majority of the revenue for this category is received in October of each year; however, due to the COVID-19 pandemic, payments have been slightly delayed and no revenue has been received for this category through December. Based on information provided by Santa Clara County, it is anticipated revenues will end the year over \$14 million, which is approximately \$1 million above the budgeted level of \$13.1 million. As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), a recommendation is included in this report to increase the Unsecured Property Tax revenue by \$1.0 million to more closely align the revenue with the anticipated collection level.

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### PROPERTY TAX

**SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) totaled \$1.7 million through December, which is 10.7% above the prior year level. The 2020-2021 Adopted Budget estimate of \$6.0 million is consistent with the 2019-2020 actual collection level and the preliminary 2020-2021 estimate from Santa Clara County.

The 2020-2021 Adopted Budget estimates for **Aircraft Property Tax** (\$3.0 million) and **Homeowner's Property Tax Relief** (\$900,000) are consistent with the 2019-2020 actual collection levels and the estimate provided by Santa Clara County.

### SALES TAX

Revenue Status (\$ in Thousands)				
2020-2021		2019-2020		2020-2021
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$242,500	\$100,977	41.6%	32.2%	\$20,000

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. The 2020-2021 Adopted Budget for Sales Tax totals \$242.5 million, which allows for a 7% drop from the 2019-2020 collection level of \$260.6 million. It is important to note that 2019-2020 receipts only reflect three quarters of revenue associated with the Revenue Capture Agreement with eBay, Inc., as marketplace facilitators were not required to collect and remit sales tax until October 2019.

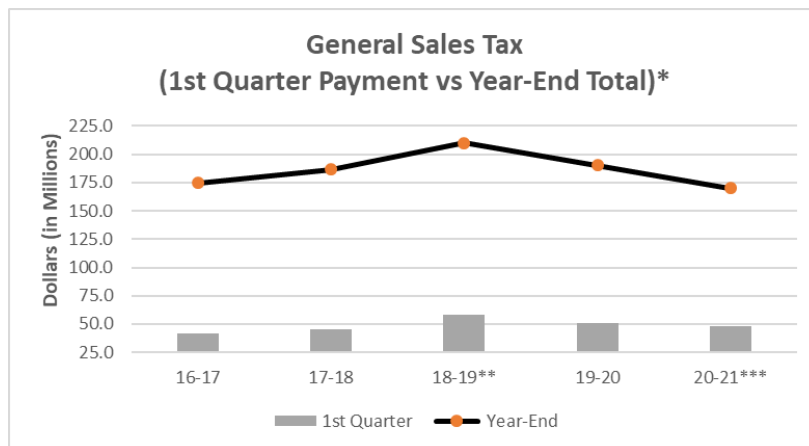
In March 2020, as the COVID-19 pandemic rapidly accelerated, the County of Santa Clara instituted a shelter-in-place order, which severely restricted economic activity. The shelter-in-place and subsequent public health orders has impacted almost all sectors of Sales Tax revenue, including retail sales, transportation, and business-to-business. The 2020-2021 Adopted Budget estimate of \$242.5 million assumes that Sales Tax revenue will continue to be suppressed through 2020-2021. Information related to Sales Tax payments are distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity), February (representing October-December activity), May (representing January-March activity), and August (representing April-June activity). In late November, the first Sales Tax payment was received from the CDTFA for both the General Sales Tax and Local Sales Tax, which totaled approximately \$60 million (excluding the Revenue Capture Agreement) and reflected a 5% decline from the first quarter payment received in 2019-2020.

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### SALES TAX

While only one payment has been received this fiscal year, based on the performance for the final quarter of 2019-2020, the first payment receipts for 2020-2021, and with a full year of revenue associated with the Revenue Capture Agreement being received in 2020-2021, it is anticipated that Sales Tax will exceed the budgeted estimate by \$20 million. As a result, a recommendation is included in this report to increase the Sales Tax revenue estimate by \$20.0 million (from \$242.5 million to \$262.5 million) to more closely align the Sales Tax budget with estimated receipts. Following is a discussion of the three Sales Tax sub-categories: General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax.



**General Sales Tax** is the largest driver of the Sales Tax category and accounts for almost 80% of all Sales Tax receipts. The 2020-2021 General Sales Tax estimate was built on the assumption that 2019-2020 receipts would total \$201.0 million (including the Revenue Capture Agreement) and drop 4.5% to \$192.0 million in 2020-2021. However, since 2019-2020 receipts ended the year at \$211.0 million, receipts can drop by 9.0% and meet the budgeted estimate.

\* Excludes the Revenue Capture Agreement

\*\* Includes overpayment attributable to 2017-2018 activity

\*\*\*2020-2021 Budgeted Estimate

The 2020-2021 General Sales Tax budgeted estimate assumed suppressed economic conditions with social distancing restrictions remaining through at least the first half of the year, which would limit sales activity. As previously mentioned, the first payment for Sales Tax revenue was received in late November 2020. General Sales Tax revenue totaled \$48.3 million (excluding the Revenue Capture Agreement), which represents a 5.5% decline from the first quarter payment in 2019-2020. After including the City’s estimated portion of the Revenue Capture Agreement, General Sales Tax receipts total \$57.5 million, or approximately 30% of the 2020-2021 Adopted Budget estimate of \$192.0 million. Therefore, at this time, based on the performance for the final quarter of 2019-2020, the first quarter payment of 2020-2021, and with a full year of revenue associated with the Revenue Capture Agreement being received in 2020-2021, it is anticipated that General Sales Tax will exceed the budgeted estimate by approximately \$20 million. As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), a recommendation is included in this report to increase the General Sales Tax revenue by \$20.0 million (from \$192.0 million to \$212.0 million) to more closely align the revenue with the anticipated collection level. When excluding the proceeds from the Revenue Capture Agreement, which didn’t take effect until October 2019, the revised estimate for General Sales Tax collections is approximately 6% below the 2019-2020 receipts.

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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 2019-2020 and 2020-2021, excluding Sales Tax associated with the Revenue Capture Agreement.

**General Sales Tax Revenue Economic Performance  
First Quarter Payment**

<b>Category</b>	<b>2020-2021 % of Total Revenue</b>	<b>2019-2020 % of Total Revenue</b>	<b>% Change of Revenue Received by Category</b>
Transportation	17.0%	18.9%	(17.5%)
General Retail	16.4%	19.2%	(21.5%)
Business-to-Business	16.1%	19.2%	(23.1%)
Food Products	12.1%	15.0%	(26.2%)
Construction	11.4%	10.1%	3.7%
Miscellaneous	0.5%	0.5%	(20.4%)
County Pool	26.5%	17.1%	42.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>(8.4%)</b>

As can be seen in the table above, with the exception of Construction and the County Pool, all other categories have all experienced year-over-year declines. The categories most significantly impacted include Business-to-Business, Food Products, and General Retail, which includes Apparel Stores, Department Stores, Furniture/Appliance Stores, Drug Stores, Recreation Products, and Florist/Nurseries. However, the Construction category, which includes both wholesale and retail construction sales have experienced year-over-year growth. Additionally, the County Pool, which is where the majority of online transactions are captured, has experienced growth. This growth is attributable to the surge in online purchases during the pandemic, and facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 40% of the proceeds. Due to this distinction, it was anticipated that the Local Sales Tax revenue may not be impacted as negatively in 2020-2021. The 2020-2021 Local Sales Tax estimate was built on the assumption that 2019-2020 receipts would total \$45.0 million and drop slightly to \$44.5 million in 2020-2021. However, since 2019-2020 receipts ended the year under budget at \$43.2 million, growth of 3.1% is needed in 2020-2021 to meet the budgeted estimate. As mentioned



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above, the first Sales Tax payment was received from CDTFA in late November 2020. Local Sales Tax receipts totaled \$11.6 million, which represents a 1.5% drop from the prior year level. Due to projected year-over-year growth anticipated for the final two payments of 2020-2021 (as 2019-2020 collections were low), it is anticipated Local Sales Tax revenue will meet or fall slightly below the budgeted estimate.

**Proposition 172 Sales Tax** collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Through December, the Proposition 172 Sales Tax receipts of \$2.8 million reflects growth of approximately \$550,000 from the prior year collection level. The 2020-2021 budgeted estimate of \$6.0 million allows for a 5.7%, or \$360,000, decline from the 2019-2020 collection level of \$6.4 million. It is currently anticipated that collections will meet or slightly exceed the budgeted estimate by year-end.

### TRANSIENT OCCUPANCY TAX

Revenue Status (\$ in Thousands)				
2020-2021		2019-2020		2020-2021
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$9,000	\$1,912	21.2%	52.2%	(\$3,500)

The 2020-2021 Adopted Budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) totals \$9.0 million. The 2020-2021 TOT estimate was built on the assumption that 2019-2020 receipts would total \$13.5 million and decrease 33% to \$9.0 million in 2020-2021 due to ongoing impacts related to the COVID-19 pandemic. However, since 2019-2020 receipts ended the year at \$14.1 million, receipts can drop by 36% and meet the budgeted estimate. Through December, TOT receipts totaled \$1.9 million, which represents a 74.0% decline from the prior year collection level, illustrating the drastic contraction in hotel activity in response to the COVID-19 pandemic. Year-to-date revenues of \$1.9 million (21.2% of the budgeted estimate) are significantly underperforming relative to the historical average performance (36.1%) at this point in the fiscal year. The TOT revenue included in the 2020-2021 Adopted Budget assumed considerable declines attributable to COVID-19 impacts on business and leisure travel, convention activity, and other public events; with collection levels not beginning to recover until the second half of 2020-2021. Through December 2020, the average hotel occupancy rate reported for the San José market was 36.7%, a drop of 37.4 percentage points over the same period in 2019-2020 (74.1%). Average room rates also decreased by 46.9%, from \$191.50 to \$101.70, and the year-to-date average revenue-per-available room (RevPAR) decreased 73.7%, from

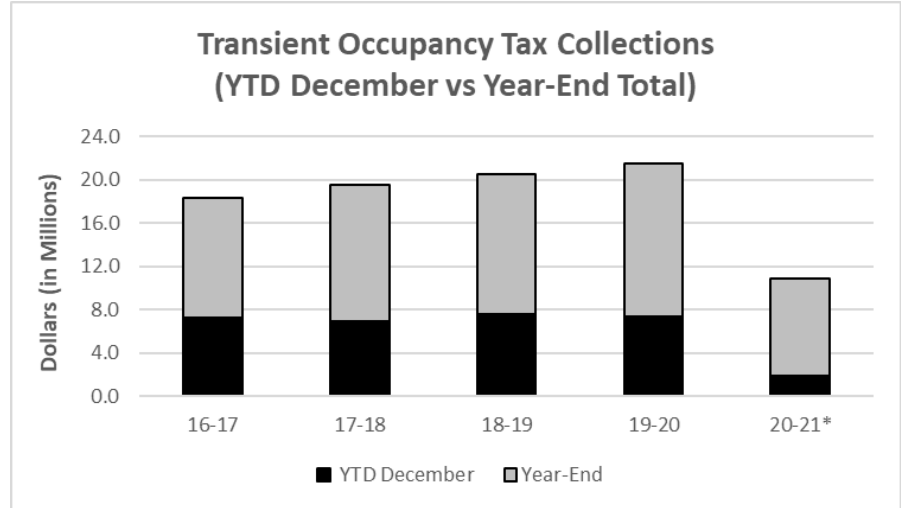
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**TRANSIENT OCCUPANCY TAX**

\$141.96 to \$37.33, relative to the same period in 2019-2020. Moreover, this suppressed performance is unlikely to improve in the near-term due to the resurgence of COVID-19 and the imposition of travel restrictions and regional stay-at-home orders.

Due to the low TOT performance through the first half of the fiscal year, and the assumption that short-term activity will continue at extremely suppressed levels, the 2020-2021 Mid-Year Budget



\* 2020-2021 Budgeted Estimate

Review includes a recommendation to decrease the TOT budgeted estimate in the General Fund by \$3.5 million, from \$9.0 million to \$4.5 million. The revised budget represents a drop of nearly 80% when compared with 2018-2019 levels of \$20.5 million. Additional budgetary adjustments are also recommended in the TOT Special Fund, Convention and Cultural Affairs Funds, and the Convention Center Facilities District Funds, which are further discussed in *Section II, Selected Special/Capital Funds Status Report*.

**FRANCHISE FEES**

**Revenue Status (\$ in Thousands)**

2020-2021		2019-2020		2020-2021
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$45,921	\$17,938	39.1%	45.9%	\$0

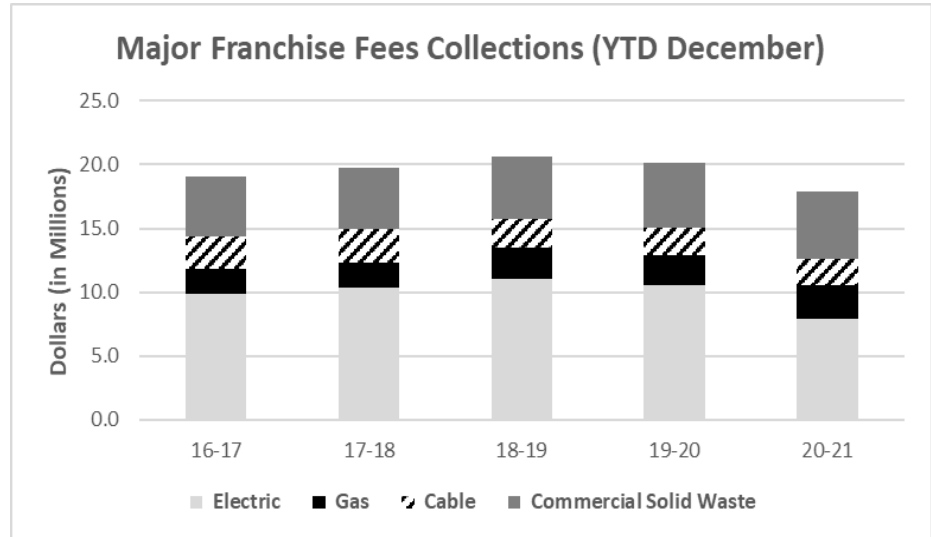
Franchise Fees are collected in the Cable Television, City Generated Tow, Commercial Solid Waste, Great Oaks Water, Nitrogen Gas Pipeline, PG&E Electric, and PG&E Gas categories. Through December, Franchise Fee receipts of \$17.9 million are 12.1% below the prior year collection level of \$20.4 million, which is primarily due to lower Electric Franchise Fee collections. As further discussed below, Electric

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**FRANCHISE FEES**

Franchise Fees collected through December are formula driven advance amounts, with the true-up occurring in April 2021. Based on historical collection trends, it is currently anticipated that overall Franchise Fees will meet budgeted levels by year-end. Each of the Franchise Fees sub-categories are further described below.



**Cable Television Franchise Fees** of \$2.1 million through

December are \$129,000, or 5.8%, below the prior year level and reflect one quarter’s payment. The 2020-2021 Adopted Budget estimate was built on the assumption that 2019-2020 revenues would total \$8.5 million and drop approximately 5% in 2020-2021. However, 2019-2020 collections were stronger than anticipated in the last half of the fiscal year, and ended the year at \$8.7 million. Therefore, the 2020-2021 budgeted estimate allows for a 7% decline from the prior year actual collections. Based on current collection trends and historical patterns, revenues are anticipated to slightly exceed the budgeted estimate by year-end.

The **Commercial Solid Waste (CSW) Franchise Fee** is a base fee of \$5.0 million per year for each of two geographic collection districts, plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District. CSW collections through December totaled \$5.2 million, which is approximately 4% above prior year receipts. Based on current collection trends and historical patterns, CSW revenue is anticipated to exceed the budgeted estimate by approximately \$650,000 by year-end.

**Electric and Gas Franchise Fees** provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in a calendar year (revenues in 2020-2021 are based on calendar year 2020). Collections through December of \$10.5 million reflect formula driven advance amounts; true receipts will not be known until April 2021. The 2020-2021 Adopted Budget for Electric Franchise Fees (\$20.0 million) requires growth of approximately 16% from the unusually low prior year collection level of \$17.3 million. However, the 2020-2021 Adopted Budget for Gas Franchise Fees (\$5.7 million) allows for a slight decline from the prior year collection level of \$5.9 million. Based on the current year performance of Electricity and Gas Utility Tax receipts, which generally have similar collection trends, it is anticipated the Electric and Gas Franchise Fees will meet or fall slightly below the budgeted estimate by year-end.

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**FRANCHISE FEES**

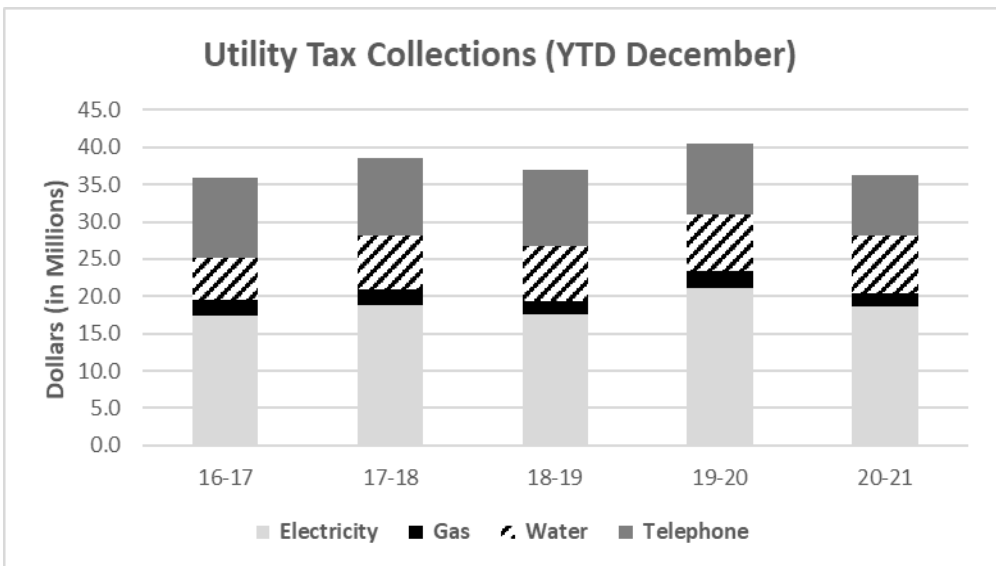
Remaining budgeted franchise fees include the **City Generated Tow Fees** (\$150,000), **Great Oaks Water** (\$260,000), and **Nitrogen Gas Pipeline** (\$65,000) categories. It is currently anticipated that the Nitrogen Gas Pipeline fees will meet the budgeted estimate by year-end. However, it is not anticipated any revenue will be received for City Generated Tow Fees in 2020-2021 due to the pandemic. Additionally, Great Oaks Water Franchise Fees are anticipated to end the year approximately \$50,000 below the budgeted estimate.

**UTILITY TAX**

**Revenue Status** (\$ in Thousands)

2020-2021		2019-2020		2020-2021
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$95,800	\$36,260	37.8%	40.6%	\$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 \$36.3 million are \$4.2 million, or approximately 10%, below the prior year level, which is partially attributable to the timing of payments. The year-over-year drop is primarily due to lower Electricity Utility Tax, Gas Utility Tax, and Telephone Utility Tax receipts. The 2020-2021 Adopted Budget was built on the assumption that 2019-2020 Utility Tax revenue would end the year at \$96.1 million and then stay relatively flat at \$95.8 million in 2020-2021. However, since 2019-2020 ended the year at \$99.5 million, receipts can drop by 3.7% in 2020-2021 to meet the budgeted estimate. Based upon the



**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

**UTILITY TAX**

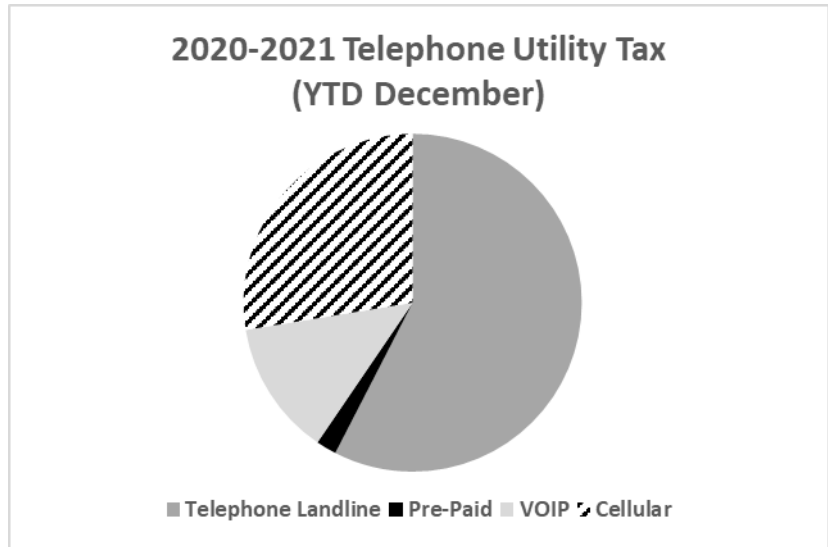
information known at this point of the year and historical collection patterns, it is anticipated that overall Utility Taxes may fall below the budgeted levels by approximately \$1 million by year-end.

In the **Electricity Utility Tax** category, collections through December totaled \$18.6 million, which is approximately 12% below the prior year level. This drop is due to lower usage and the timing of Electricity Utility Tax payments received. The 2020-2021 Adopted Budget assumed that 2019-2020 receipts would total \$46.5 million, and remain relatively flat at \$46.6 million in 2020-2021. However, since 2019-2020 ended the year above estimated levels (\$48.7 million), receipts can decline by 4.3% in 2020-2021 and meet the budgeted estimate. Based on the information known at this point of the year and historical collection trends, receipts are anticipated to meet or fall slightly below the budgeted estimate.

In the **Gas Utility Tax** category, receipts through December totaled \$1.8 million, which is approximately 21%, or \$500,000, below the prior year level. This drop is due to lower usage and the timing of Gas Utility Tax payments received. The 2020-2021 Adopted Budget estimate of \$11.3 million is fairly consistent with the 2019-2020 actual collection level of \$11.23 million. Based on historical collection trends and performance through December, receipts are anticipated to end the year slightly below the budgeted estimate. Gas Utility Tax revenue is predominantly collected during periods of cold weather, a large portion of this revenue will be collected the winter months.

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 \$8.2 million are 13.5% below the prior year level of \$9.4 million. Revenues in this category have been consistently decreasing in recent years, which reflects 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. The 2020-2021 Adopted

Budget estimate of \$21.4 million allows for a 5.7% drop from the 2019-2020 actual collection level of \$22.7 million. Based on current collection trends, receipts in this category are anticipated to fall below the budgeted estimate by approximately \$1 million.



**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

**UTILITY TAX**

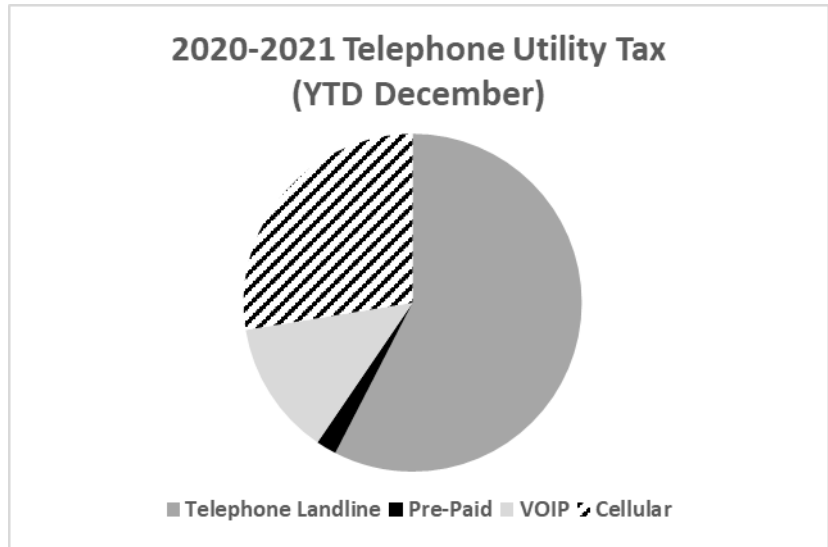
information known at this point of the year and historical collection patterns, it is anticipated that overall Utility Taxes may fall below the budgeted levels by approximately \$1 million by year-end.

In the **Electricity Utility Tax** category, collections through December totaled \$18.6 million, which is approximately 12% below the prior year level. This drop is due to lower usage and the timing of Electricity Utility Tax payments received. The 2020-2021 Adopted Budget assumed that 2019-2020 receipts would total \$46.5 million, and remain relatively flat at \$46.6 million in 2020-2021. However, since 2019-2020 ended the year above estimated levels (\$48.7 million), receipts can decline by 4.3% in 2020-2021 and meet the budgeted estimate. Based on the information known at this point of the year and historical collection trends, receipts are anticipated to meet or fall slightly below the budgeted estimate.

In the **Gas Utility Tax** category, receipts through December totaled \$1.8 million, which is approximately 21%, or \$500,000, below the prior year level. This drop is due to lower usage and the timing of Gas Utility Tax payments received. The 2020-2021 Adopted Budget estimate of \$11.3 million is fairly consistent with the 2019-2020 actual collection level of \$11.23 million. Based on historical collection trends and performance through December, receipts are anticipated to end the year slightly below the budgeted estimate. Gas Utility Tax revenue is predominantly collected during periods of cold weather, a large portion of this revenue will be collected the winter months.

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 \$8.2 million are 13.5% below the prior year level of \$9.4 million. Revenues in this category have been consistently decreasing in recent years, which reflects 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. The 2020-2021 Adopted

Budget estimate of \$21.4 million allows for a 5.7% drop from the 2019-2020 actual collection level of \$22.7 million. Based on current collection trends, receipts in this category are anticipated to fall below the budgeted estimate by approximately \$1 million.



**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

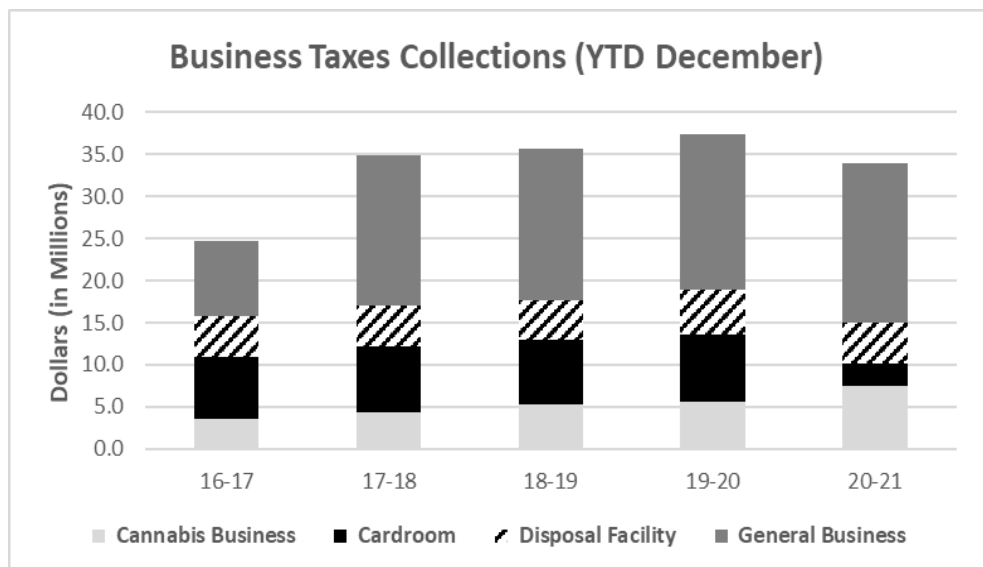
**UTILITY TAX**

**Water Utility Tax** collections of \$7.7 million through December are fairly consistent with the prior year collection level. The 2020-2021 Adopted Budget was built on the assumption that 2019-2020 collections would total \$16.5 million and remain flat in 2020-2021. However, since 2019-2020 receipts totaled \$16.9 million, receipts in 2020-2021 can decline by 2.4% and meet the budgeted estimate. Based on historical collection trends and performance through December, receipts are anticipated to meet or slightly exceed budgeted levels by year-end.

**BUSINESS TAXES**

<b>Revenue Status (\$ in Thousands)</b>				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$63,900	\$33,876	53.0%	52.9%	\$0

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through December, overall collections of \$33.9 million are 9.5% below the prior year collection levels of \$36.4 million, which is primarily attributable to lower Cardroom Tax revenue, partially offset by higher Cannabis Business Tax receipts. The Business Taxes 2020-2021 Modified Budget estimate of \$63.9 million allows for a 10% decline from the 2019-2020 actual collection level. As a result of Santa Clara County’s public health orders and the State of California’s regional stay-at-home order, cardroom operations were halted from November 30 to January 27. As a result, the Cardroom Tax will likely end the year below the budgeted estimate of \$8.6 million by approximately \$2 million; however, that figure may change based



**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

**BUSINESS TAXES**

on the length of time the cardrooms are required to remain closed. While Business Tax collections are overall anticipated to meet budgeted estimates, this category continues to exhibit variability and will continue to be closely monitored to determine if a budget reduction would be necessary for future consideration by the City Council later in the fiscal year. 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. Through December, receipts of \$7.5 million are 32.6% above the prior year level of \$5.7 million. This increase is due to the timing of payments and higher activity levels. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational marijuana use in the State of California. As a result, the sale of recreational cannabis at the 16 licenses dispensaries in San José began in January 2018. The 2020-2021 Adopted Budget estimate of \$17.0 million requires growth of 6.8% from 2019-2020 actual collection levels. Based on collections through December and historical collection patterns, it is anticipated revenue will exceed the budgeted estimate by approximately \$2 million by year end.

Through December, **Cardroom Tax** receipts of \$2.7 million have been received, which is significantly below the prior year level of \$7.9 million. As a result of the shelter-in-place mandate, cardrooms suspended operations in March 2020 and remained closed through August 2020. In September, public health orders were modified to allow cardrooms to begin outdoor operations with social distance requirements. However, cardrooms were only open for a limited period of time, before further health orders by Santa Clara County and then subsequently the State of California resulted in the closure of cardrooms from November 30 through January 27. As a result of this change, Cardroom Tax will likely fall approximately \$2 million below the modified budget estimate of \$8.6 million. Cardroom Tax revenue will continue to be closely monitored and if necessary, additional budget adjustments may be brought forward for City Council consideration later in the fiscal year. It is important to note that the estimates for Cardroom Tax receipts are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021, as daily cardroom operations have been so significantly impacted by necessary public health restrictions.

**Disposal Facility Tax (DFT)** are business taxes received based on the tons of solid waste disposed at landfills within the City. DFT revenue through December totaled \$4.8 million, which is 10.4% below the prior year level, and is partially attributable to the timing of payments. The 2020-2021 Modified Budget estimate of \$12.6 million is fairly consistent with the prior year collection level. Based on activity to date and historical collection patterns, DFT is anticipated to meet or fall slightly below budgeted levels by year-end.



<b>2020-2021</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND REVENUES

### BUSINESS TAXES

Through December, **General Business Tax** receipts of \$18.8 million are 2.0% above the prior year collection level. The 2020-2021 Adopted Budget assumed that 2019-2020 receipts would total \$28.0 million, and drop by approximately 8% to \$25.7 million in 2020-2021. This decrease reflected a net increase of the 2% CPI adjustment that will be assessed in 2020-2021, offset by a 10% reduction to General Business Tax proceeds as a result of the COVID-19 pandemic’s impact on local businesses. Although year-over-year receipts are currently exceeding prior year levels, negative revenue adjustments are anticipated to occur over the next several months for revenue that is not collectible. Therefore, based on the performance through December and the anticipated revenue adjustments, receipts are anticipated to meet or slightly exceed the budgeted estimate by year-end.

### REAL PROPERTY TRANSFER TAX

<b>Revenue Status</b> (\$ in Thousands)				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$30,000	\$22,523	75.1%	N/A	\$10,000

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 2020-2021 Adopted Budget estimate for this new tax totaled \$30.0 million, which will be expended on homeless prevention and affordable housing projects and programs. Through December, Real Property Transfer Tax receipts totaled \$22.5 million, which represents 75.1% of the budgeted estimate. In addition, the City has received the January Real Property Transfer Tax receipts from Santa Clara County, which total \$5.0 million. When taking into account receipts through December and the January collections, Real Property Transfer Tax revenue in 2020-2021 total \$27.5 million, or 91.8% of the Adopted Budget estimate. As a result of the higher than anticipated collections, a recommendation is included in this report to increase the Real Property Transfer Tax estimate by \$10.0 million (from \$30.0 million to \$40.0 million). While collections may exceed even this adjustment, the Administration is taking a conservative approach since this is a new tax, and because tax receipts are significantly influenced by property transfers that exceed \$10 million. As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), corresponding expenditure adjustments related to homeless prevention and affordable housing is recommended to offset the increased tax revenue.

# 2020-2021 MID-YEAR BUDGET REVIEW

## STATUS OF GENERAL FUND REVENUES

### FINES, FORFEITURES, AND PENALTIES

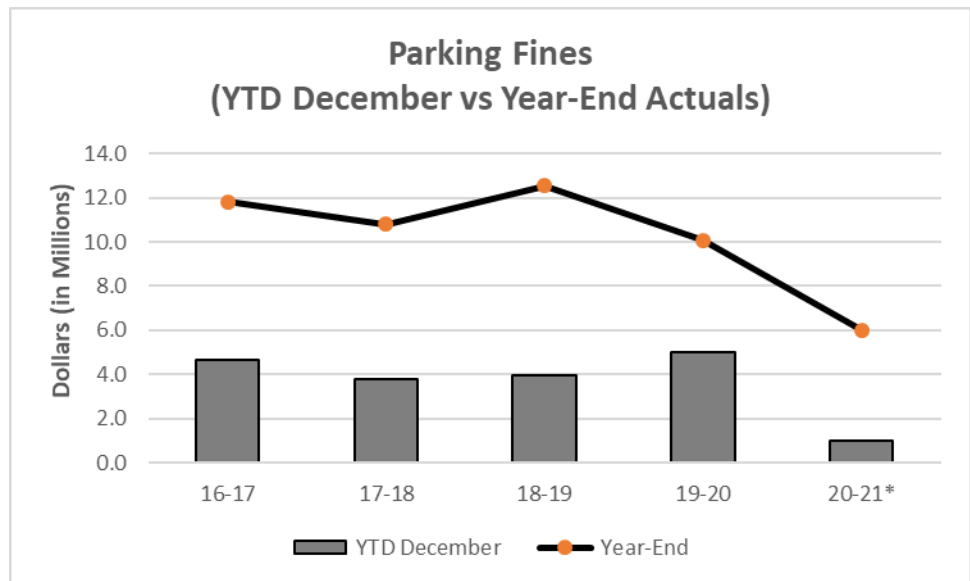
<b>Revenue Status</b> (\$ in Thousands)				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$9,730	\$3,607	37.1%	54.6%	\$0

The primary sources of revenue in the Fines, Forfeitures, and Penalties revenue category are Parking Fines, Vehicle Code Fines, Business License Penalties, Administrative Citation Fines, and Other Fines and Penalties. Through December, Fines, Forfeitures, and Penalties collections of \$3.6 million are 54.1% below the prior year collection level of \$7.9 million. This drop is primarily attributable to lower Parking Fine revenue, which is further discussed below. Based on information known at this point of the year, it is anticipated overall Fines, Forfeitures and Penalties will end the year approximately \$1 - \$2 million below the budgeted estimate.

**Parking Fines**, the largest component of this revenue category, totaled \$1.0 million through December, which represents a 79.5% drop from the prior year collections.

The Transportation Department ceased issuing parking citations in March 2020 and resumed issuing limited parking citations in mid-August 2020. The majority of pre-COVID-19 citation issuance was related to violations pertaining to the support of street sweeping operations, parking meters,

and Residential Permit Parking areas. At this time, citations are only being issued for meter violations in the Downtown core area, safety-related, and street sweeping violations citywide. Citations are not currently being issued for parking meter violations in the Japantown, Old Civic Center, or East Santa Clara areas where meters are not currently active. Enforcement of posted street sweeping restrictions began in January 2021. Historically, street sweeping violations account for approximately 25% of overall annual citations issuance. At this time, there is no set timeline to re-activate parking meters outside the downtown



\* 2020-2021 Budgeted Estimate

<b>2020-2021</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND REVENUES

### FINES, FORFEITURES, AND PENALTIES

area or to resume enforcement of other types of violations, such as Residential Permit Parking (about 6% of annual issuance). Parking Compliance activities will continue to be phased in thoughtfully, addressing and prioritizing potential health and safety concerns while remaining sensitive to the community's economic concerns, as well as, public health order protocols. It is currently anticipated that Parking Fines will end the year at \$4.5 million, which is \$1.5 million below the 2020-2021 Modified Budget estimate and \$5.6 million below 2019-2020 collections.

### FEES, RATES, AND CHARGES

<b>Revenue Status</b> (\$ in Thousands)				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$25,576	\$2,097	8.2%	53.3%	(\$17,000)

The Fees, Rates, and Charges category contains various fees and charges levied to recover costs of services provided by several City departments, including Library; Parks, Recreation and Neighborhood Services (PRNS); Police; and Transportation. Fees, Rates, and Charges revenue has been significantly impacted by the shelter-in-place mandate. While the 2020-2021 Adopted Budget assumed a reduction of fee revenue as a result of the COVID-19 pandemic, the impacts have been much more significant than anticipated. Through the first half of the fiscal year, fee revenue totaled \$2.1 million, which reflects only 8.2% of the budgeted estimate of \$25.6 million. Based on current collection trends it is anticipated Fees, Rates, and Charges revenue will end the year approximately \$18 million - \$19 million below the budgeted estimate. This reduction is primarily due to PRNS fee revenue (\$17 million) and Transportation Fee revenue (\$1 million). As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), a recommendation is included in this report to decrease the PRNS Fee revenue by \$17.0 million (from \$18.1 million to \$1.1 million) to more closely align the revenue with the anticipated collection level.

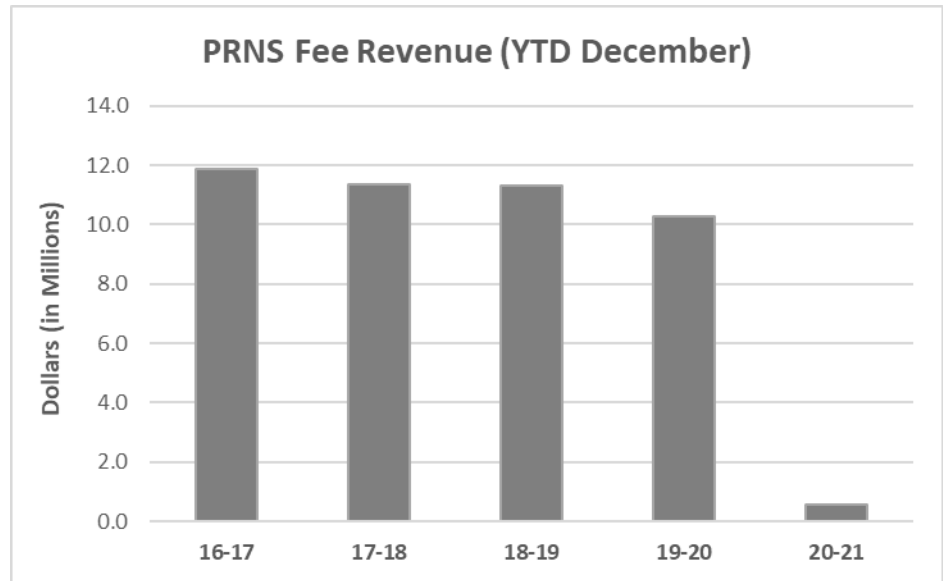
**Parks, Recreation and Neighborhood Services** Departmental Charges revenues through December of approximately \$550,000 are almost 95% below the prior year level of \$10.3 million for the same period. As a result of the shelter-in-place mandate, program delivery and revenue generation has been impacted in all fee categories including: Happy Hollow Park and Zoo; Fee Activity (classes, camps, and after-school activities); Facility Rentals; Sports Facilities Reservations; Lake Cunningham Action Sports Park; Gym and Fitness; Parking; Park Permits; Arcadia Ball Park; Family Camp; and Aquatics Program. As approved in the 2020-2021 Adopted Budget, Family Camp and Aquatics Program have been suspended

**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

**FEES, RATES, AND CHARGES**

in 2020-2021; however, varying levels of programming are still offered in other fee revenue categories, including Sports Facility Reservations and Fee Activities. Based on information known at this point of the year, fee revenue is anticipated to end the year at \$1.1 million, which is \$17.0 million below the 2020-2021 Adopted Budget estimate of \$18.1 million. As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), a



recommendation is included in this report to decrease the PRNS Fee revenue by \$17.0 million, and reduce the PRNS Fee Activities expenditure appropriation by \$4.0 million (from \$9.9 million to \$5.9 million).

**CONCLUSION**

As a result of the COVID-19 pandemic and the necessary response to protect community health and safety, economic activity has been severely restricted. As anticipated, revenue sources across the City have been significantly impacted. The 2020-2021 Adopted Budget was developed assuming that many of the General Fund revenues would continue to be suppressed as public health orders and social distancing protocols are anticipated through much of the fiscal year.

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 \$5 million - \$10 million below budgeted levels. After accounting for Real Property Transfer Tax revenues, which are allocated for affordable housing and homelessness prevention purposes, the estimated shortfall increases to \$15 - \$20 million. Revenues performing below estimated levels include Fees, Rates, and Charges (primarily Parks, Recreation and Neighborhood Services Fee revenue), Property Tax, Transient Occupancy Tax, Business Taxes, and Fines, Forfeitures and Penalties. Partially offsetting the declining revenues is higher than anticipated Sales Tax and Real Property Transfer Tax receipts.

**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

**CONCLUSION**

In total, a net increase of \$6.7 million to the General Fund Sources is recommended in this document. This increase reflects an increase of \$3.4 million related to technical and rebalancing items to more closely align the budgeted estimates with the current anticipated collection levels (Sales Tax, \$20.0 million; Real Property Transfer Tax, \$10.0 million; Fees, Rates, and Charges, -\$17.0 million; Property Tax, -\$10.0 million; and Transient Occupancy Tax, -\$3.5 million) and a \$3.1 million increase related to net-zero grants reimbursements and fees adjustments. Further information regarding these adjustments can be found in *Section III. Recommended Budget Adjustments and Clean-up Actions*.

After considering budget adjustments included in the Mid-Year Budget Review – and after removing consideration of the Real Property Tax revenues generated from Measure E that are allocated to affordable housing and homelessness prevention purposes – revenues are currently tracking to end the year approximately \$10 million below the revised budgeted estimates.

The potential remaining shortfall is not yet recommended to be fully addressed due to other actions and information that will be available in the coming months. As an example, departmental expenditures are currently tracking with savings of \$3 - \$5 million, but this savings is likely to grow by year-end as vacancy estimates are refined. The Administration also continues to align pandemic response spending with available external funding sources, and some of these funding sources have recently broadened eligibility requirements, which may allow the City to further recoup eligible costs associated with the pandemic. Additional economic and revenue data, including second quarter Sales Tax receipts, will also become available in the coming weeks to help refine current year estimates.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2022-2026 General Fund Forecast, due to be released on February 28, 2021, as well as the 2021-2022 Proposed Budget, due to be released on May 3, 2021. 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 2021.

**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

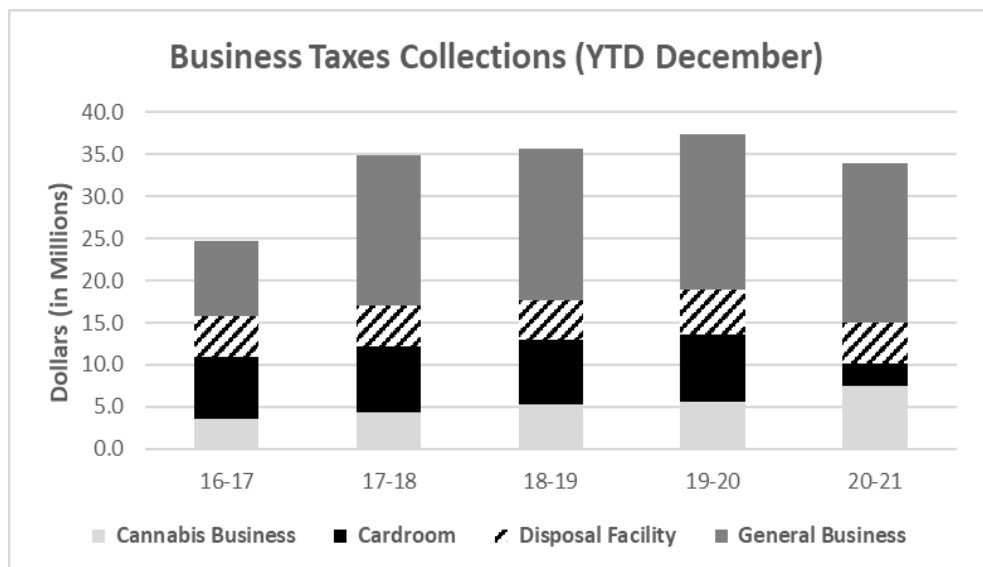
**UTILITY TAX**

**Water Utility Tax** collections of \$7.7 million through December are fairly consistent with the prior year collection level. The 2020-2021 Adopted Budget was built on the assumption that 2019-2020 collections would total \$16.5 million and remain flat in 2020-2021. However, since 2019-2020 receipts totaled \$16.9 million, receipts in 2020-2021 can decline by 2.4% and meet the budgeted estimate. Based on historical collection trends and performance through December, receipts are anticipated to meet or slightly exceed budgeted levels by year-end.

**BUSINESS TAXES**

<b>Revenue Status (\$ in Thousands)</b>				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$63,900	\$33,876	53.0%	52.9%	\$0

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through December, overall collections of \$33.9 million are 9.5% below the prior year collection levels of \$36.4 million, which is primarily attributable to lower Cardroom Tax revenue, partially offset by higher Cannabis Business Tax receipts. The Business Taxes 2020-2021 Modified Budget estimate of \$63.9 million allows for a 10% decline from the 2019-2020 actual collection level. As a result of Santa Clara County’s public health orders and the State of California’s regional stay-at-home order, cardroom operations were halted from November 30 to January 27. As a result, the Cardroom Tax will likely end the year below the budgeted estimate of \$8.6 million by approximately \$2 million; however, that figure may change based



**2020-2021  
MID-YEAR BUDGET REVIEW**

**STATUS OF GENERAL FUND REVENUES**

**BUSINESS TAXES**

on the length of time the cardrooms are required to remain closed. While Business Tax collections are overall anticipated to meet budgeted estimates, this category continues to exhibit variability and will continue to be closely monitored to determine if a budget reduction would be necessary for future consideration by the City Council later in the fiscal year. 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. Through December, receipts of \$7.5 million are 32.6% above the prior year level of \$5.7 million. This increase is due to the timing of payments and higher activity levels. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational marijuana use in the State of California. As a result, the sale of recreational cannabis at the 16 licenses dispensaries in San José began in January 2018. The 2020-2021 Adopted Budget estimate of \$17.0 million requires growth of 6.8% from 2019-2020 actual collection levels. Based on collections through December and historical collection patterns, it is anticipated revenue will exceed the budgeted estimate by approximately \$2 million by year end.

Through December, **Cardroom Tax** receipts of \$2.7 million have been received, which is significantly below the prior year level of \$7.9 million. As a result of the shelter-in-place mandate, cardrooms suspended operations in March 2020 and remained closed through August 2020. In September, public health orders were modified to allow cardrooms to begin outdoor operations with social distance requirements. However, cardrooms were only open for a limited period of time, before further health orders by Santa Clara County and then subsequently the State of California resulted in the closure of cardrooms from November 30 through January 27. As a result of this change, Cardroom Tax will likely fall approximately \$2 million below the modified budget estimate of \$8.6 million. Cardroom Tax revenue will continue to be closely monitored and if necessary, additional budget adjustments may be brought forward for City Council consideration later in the fiscal year. It is important to note that the estimates for Cardroom Tax receipts are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021, as daily cardroom operations have been so significantly impacted by necessary public health restrictions.

**Disposal Facility Tax (DFT)** are business taxes received based on the tons of solid waste disposed at landfills within the City. DFT revenue through December totaled \$4.8 million, which is 10.4% below the prior year level, and is partially attributable to the timing of payments. The 2020-2021 Modified Budget estimate of \$12.6 million is fairly consistent with the prior year collection level. Based on activity to date and historical collection patterns, DFT is anticipated to meet or fall slightly below budgeted levels by year-end.

<b>2020-2021</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND REVENUES

### BUSINESS TAXES

Through December, **General Business Tax** receipts of \$18.8 million are 2.0% above the prior year collection level. The 2020-2021 Adopted Budget assumed that 2019-2020 receipts would total \$28.0 million, and drop by approximately 8% to \$25.7 million in 2020-2021. This decrease reflected a net increase of the 2% CPI adjustment that will be assessed in 2020-2021, offset by a 10% reduction to General Business Tax proceeds as a result of the COVID-19 pandemic’s impact on local businesses. Although year-over-year receipts are currently exceeding prior year levels, negative revenue adjustments are anticipated to occur over the next several months for revenue that is not collectible. Therefore, based on the performance through December and the anticipated revenue adjustments, receipts are anticipated to meet or slightly exceed the budgeted estimate by year-end.

### REAL PROPERTY TRANSFER TAX

<b>Revenue Status</b> (\$ in Thousands)				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$30,000	\$22,523	75.1%	N/A	\$10,000

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 2020-2021 Adopted Budget estimate for this new tax totaled \$30.0 million, which will be expended on homeless prevention and affordable housing projects and programs. Through December, Real Property Transfer Tax receipts totaled \$22.5 million, which represents 75.1% of the budgeted estimate. In addition, the City has received the January Real Property Transfer Tax receipts from Santa Clara County, which total \$5.0 million. When taking into account receipts through December and the January collections, Real Property Transfer Tax revenue in 2020-2021 total \$27.5 million, or 91.8% of the Adopted Budget estimate. As a result of the higher than anticipated collections, a recommendation is included in this report to increase the Real Property Transfer Tax estimate by \$10.0 million (from \$30.0 million to \$40.0 million). While collections may exceed even this adjustment, the Administration is taking a conservative approach since this is a new tax, and because tax receipts are significantly influenced by property transfers that exceed \$10 million. As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), corresponding expenditure adjustments related to homeless prevention and affordable housing is recommended to offset the increased tax revenue.



# 2020-2021 MID-YEAR BUDGET REVIEW

## STATUS OF GENERAL FUND REVENUES

### FINES, FORFEITURES, AND PENALTIES

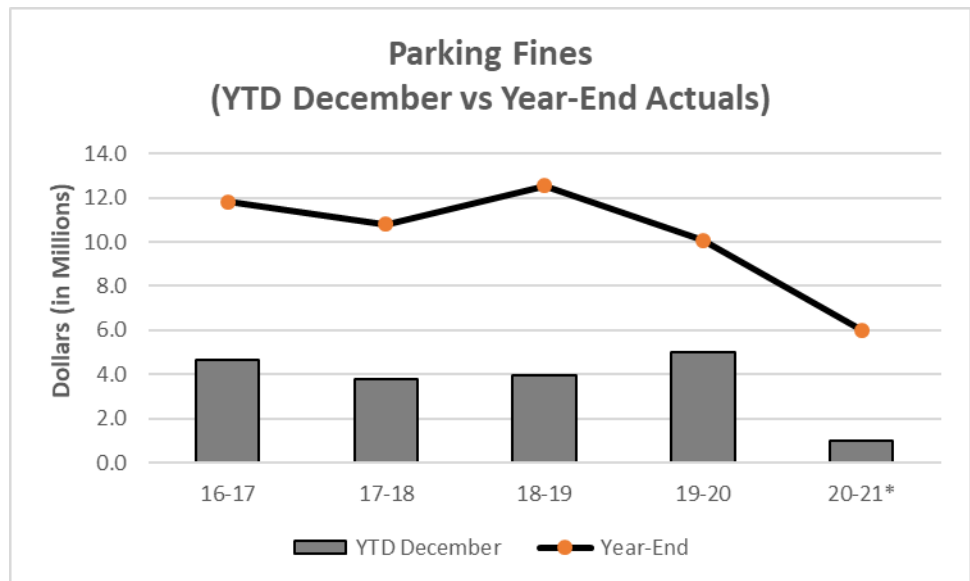
<b>Revenue Status</b> (\$ in Thousands)				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$9,730	\$3,607	37.1%	54.6%	\$0

The primary sources of revenue in the Fines, Forfeitures, and Penalties revenue category are Parking Fines, Vehicle Code Fines, Business License Penalties, Administrative Citation Fines, and Other Fines and Penalties. Through December, Fines, Forfeitures, and Penalties collections of \$3.6 million are 54.1% below the prior year collection level of \$7.9 million. This drop is primarily attributable to lower Parking Fine revenue, which is further discussed below. Based on information known at this point of the year, it is anticipated overall Fines, Forfeitures and Penalties will end the year approximately \$1 - \$2 million below the budgeted estimate.

**Parking Fines**, the largest component of this revenue category, totaled \$1.0 million through December, which represents a 79.5% drop from the prior year collections.

The Transportation Department ceased issuing parking citations in March 2020 and resumed issuing limited parking citations in mid-August 2020. The majority of pre-COVID-19 citation issuance was related to violations pertaining to the support of street sweeping operations, parking meters,

and Residential Permit Parking areas. At this time, citations are only being issued for meter violations in the Downtown core area, safety-related, and street sweeping violations citywide. Citations are not currently being issued for parking meter violations in the Japantown, Old Civic Center, or East Santa Clara areas where meters are not currently active. Enforcement of posted street sweeping restrictions began in January 2021. Historically, street sweeping violations account for approximately 25% of overall annual citations issuance. At this time, there is no set timeline to re-activate parking meters outside the downtown



\* 2020-2021 Budgeted Estimate

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area or to resume enforcement of other types of violations, such as Residential Permit Parking (about 6% of annual issuance). Parking Compliance activities will continue to be phased in thoughtfully, addressing and prioritizing potential health and safety concerns while remaining sensitive to the community's economic concerns, as well as, public health order protocols. It is currently anticipated that Parking Fines will end the year at \$4.5 million, which is \$1.5 million below the 2020-2021 Modified Budget estimate and \$5.6 million below 2019-2020 collections.

### FEES, RATES, AND CHARGES

<b>Revenue Status</b> (\$ in Thousands)				
<b>2020-2021</b>		<b>2019-2020</b>		<b>2020-2021</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$25,576	\$2,097	8.2%	53.3%	(\$17,000)

The Fees, Rates, and Charges category contains various fees and charges levied to recover costs of services provided by several City departments, including Library; Parks, Recreation and Neighborhood Services (PRNS); Police; and Transportation. Fees, Rates, and Charges revenue has been significantly impacted by the shelter-in-place mandate. While the 2020-2021 Adopted Budget assumed a reduction of fee revenue as a result of the COVID-19 pandemic, the impacts have been much more significant than anticipated. Through the first half of the fiscal year, fee revenue totaled \$2.1 million, which reflects only 8.2% of the budgeted estimate of \$25.6 million. Based on current collection trends it is anticipated Fees, Rates, and Charges revenue will end the year approximately \$18 million - \$19 million below the budgeted estimate. This reduction is primarily due to PRNS fee revenue (\$17 million) and Transportation Fee revenue (\$1 million). As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), a recommendation is included in this report to decrease the PRNS Fee revenue by \$17.0 million (from \$18.1 million to \$1.1 million) to more closely align the revenue with the anticipated collection level.

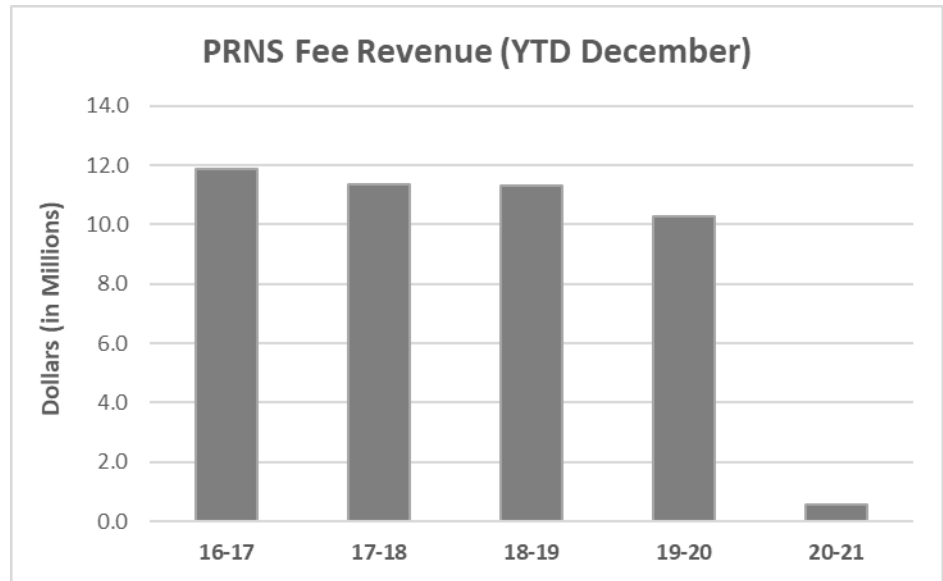
**Parks, Recreation and Neighborhood Services** Departmental Charges revenues through December of approximately \$550,000 are almost 95% below the prior year level of \$10.3 million for the same period. As a result of the shelter-in-place mandate, program delivery and revenue generation has been impacted in all fee categories including: Happy Hollow Park and Zoo; Fee Activity (classes, camps, and after-school activities); Facility Rentals; Sports Facilities Reservations; Lake Cunningham Action Sports Park; Gym and Fitness; Parking; Park Permits; Arcadia Ball Park; Family Camp; and Aquatics Program. As approved in the 2020-2021 Adopted Budget, Family Camp and Aquatics Program have been suspended

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in 2020-2021; however, varying levels of programming are still offered in other fee revenue categories, including Sports Facility Reservations and Fee Activities. Based on information known at this point of the year, fee revenue is anticipated to end the year at \$1.1 million, which is \$17.0 million below the 2020-2021 Adopted Budget estimate of \$18.1 million. As described in *Section III. Recommended Budget Adjustments and Clean-up Action*), a



recommendation is included in this report to decrease the PRNS Fee revenue by \$17.0 million, and reduce the PRNS Fee Activities expenditure appropriation by \$4.0 million (from \$9.9 million to \$5.9 million).

**CONCLUSION**

As a result of the COVID-19 pandemic and the necessary response to protect community health and safety, economic activity has been severely restricted. As anticipated, revenue sources across the City have been significantly impacted. The 2020-2021 Adopted Budget was developed assuming that many of the General Fund revenues would continue to be suppressed as public health orders and social distancing protocols are anticipated through much of the fiscal year.

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 \$5 million - \$10 million below budgeted levels. After accounting for Real Property Transfer Tax revenues, which are allocated for affordable housing and homelessness prevention purposes, the estimated shortfall increases to \$15 - \$20 million. Revenues performing below estimated levels include Fees, Rates, and Charges (primarily Parks, Recreation and Neighborhood Services Fee revenue), Property Tax, Transient Occupancy Tax, Business Taxes, and Fines, Forfeitures and Penalties. Partially offsetting the declining revenues is higher than anticipated Sales Tax and Real Property Transfer Tax receipts.

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**CONCLUSION**

In total, a net increase of \$6.7 million to the General Fund Sources is recommended in this document. This increase reflects an increase of \$3.4 million related to technical and rebalancing items to more closely align the budgeted estimates with the current anticipated collection levels (Sales Tax, \$20.0 million; Real Property Transfer Tax, \$10.0 million; Fees, Rates, and Charges, -\$17.0 million; Property Tax, -\$10.0 million; and Transient Occupancy Tax, -\$3.5 million) and a \$3.1 million increase related to net-zero grants reimbursements and fees adjustments. Further information regarding these adjustments can be found in *Section III. Recommended Budget Adjustments and Clean-up Actions*.

After considering budget adjustments included in the Mid-Year Budget Review – and after removing consideration of the Real Property Tax revenues generated from Measure E that are allocated to affordable housing and homelessness prevention purposes – revenues are currently tracking to end the year approximately \$10 million below the revised budgeted estimates.

The potential remaining shortfall is not yet recommended to be fully addressed due to other actions and information that will be available in the coming months. As an example, departmental expenditures are currently tracking with savings of \$3 - \$5 million, but this savings is likely to grow by year-end as vacancy estimates are refined. The Administration also continues to align pandemic response spending with available external funding sources, and some of these funding sources have recently broadened eligibility requirements, which may allow the City to further recoup eligible costs associated with the pandemic. Additional economic and revenue data, including second quarter Sales Tax receipts, will also become available in the coming weeks to help refine current year estimates.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2022-2026 General Fund Forecast, due to be released on February 28, 2021, as well as the 2021-2022 Proposed Budget, due to be released on May 3, 2021. 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 2021.