

II. GENERAL FUND BUDGET PERFORMANCE

This section of the Annual Report summarizes the performance of the General Fund and is broken down into the following sections:

General Fund Year-End Performance – This section provides data on the overall status of the General Fund at the end of 2020-2021. It includes a chart that compares the General Fund modified budget and actuals for sources, uses, and ending fund balance as well as a chart that compares the General Fund actuals to the estimates used in developing the 2021-2022 Adopted Budget.

General Fund Revenue Performance – This section provides detail on the actual 2020-2021 General Fund revenue collections. This section includes a chart that compares the 2020-2021 Modified Budget to the actuals for each of the General Fund revenue categories. This chart is followed by a discussion of the performance in each category that includes an explanation of variances from the modified budget, any resulting current year implications for revenue estimates, and a comparison of the actual revenues to prior year collections to indicate collection trends and provide a historical perspective.

General Fund Expenditure Performance – This section provides detail on the actual 2020-2021 General Fund expenditures. This section includes charts that compare the 2020-2021 Modified Budget to actuals for the major expenditure categories as well as the 2020-2021 year-end estimates to actuals for the total expenditures. The review of the General Fund expenditure performance also includes detailed information on departmental and non-departmental performance, including a discussion of significant variances as well as a chart on total expenditures by each category broken down in further detail. In addition, this section includes a discussion of significant departmental variances and highlights of non-departmental expenditures and variances.

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GENERAL FUND YEAR-END PERFORMANCE

The General Fund ended the year with an available 2020-2021 ending fund balance (unaudited) of \$369.2 million, as reflected in the following table:

GENERAL FUND BUDGET TO ACTUAL COMPARISON FOR THE YEAR ENDED JUNE 30, 2021

	2020-2021 Modified Budget	2020-2021 Budgetary Basis Actual	Variance
Sources			
Beginning Fund Balance	400,283,991	400,283,991	-
Carryover Encumbrances	46,447,982	46,447,982	-
Liquidation of Carryover Encumbrances		457,778	457,778
<i>Subtotal</i>	<i>446,731,973</i>	<i>447,189,751</i>	<i>457,778</i>
Revenues	1,342,855,953	1,355,444,037	12,588,084
Total Sources	<u>1,789,587,926</u>	<u>1,802,633,788</u>	<u>13,045,862</u>
Uses			
Personal Services	878,284,373	871,751,515	(6,532,858)
Non-Personal/Equipment/Other	175,324,867	151,741,786	(23,583,081)
City-Wide Expenses	328,350,544	274,241,519	(54,109,025)
Capital Contributions	130,568,593	54,892,934	(75,675,659)
Transfers	80,825,604	80,825,604	-
Reserves	196,233,945	-	(196,233,945)
Total Uses	<u>1,789,587,926</u>	<u>1,433,453,358</u>	<u>(356,134,568)</u>
Available Ending Fund Balance		<u>369,180,430</u>	<u>369,180,430</u>

Note: In the chart above, the General Fund excludes the Emergency Reserve Fund and Cash Reserve Fund, which are budgeted as separate funds and reflected separately in this document. In the 2020-2021 Comprehensive Annual Financial Report (CAFR), the Emergency Reserve Fund and Cash Reserve Fund will be displayed as part of the General Fund to comply with GASB 54 reporting requirements.

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GENERAL FUND YEAR-END PERFORMANCE

The actual ending fund balance of \$369.2 million exceeded the estimated ending fund balance level used in the development of the 2021-2022 Adopted Budget by \$48.0 million (2.7% of the 2020-2021 Modified Budget). However, once adjusted for clean-up actions recommended in this report associated with the close-out of 2020-2021, a true ending fund balance of \$61.6 million (3.4% of the 2020-2021 Modified Budget) remains in 2020-2021 and is available for allocation in 2021-2022. The elements of the Ending Fund Balance variance are illustrated in the following estimate to actual comparison chart.

GENERAL FUND ESTIMATE TO ACTUAL COMPARISON FOR THE YEAR ENDED JUNE 30, 2021

Sources	2020-2021 Estimate	2020-2021 Budgetary Basis Actual	Variance
Beginning Fund Balance	400,283,991	400,283,991	-
Carryover Encumbrances	46,447,982	46,447,982	-
Liquidation of Carryover Encumbrances	-	457,778	457,778
<i>Subtotal</i>	<i>446,731,973</i>	<i>447,189,751</i>	<i>457,778</i>
Revenues	1,344,213,300	1,355,444,037	11,230,737 ¹
Total Sources	<u>1,790,945,273</u>	<u>1,802,633,788</u>	<u>11,688,515</u>
Uses			
Expenditures	1,469,756,872	1,433,453,358	(36,303,514) ¹
Total Uses	<u>1,469,756,872</u>	<u>1,433,453,358</u>	<u>(36,303,514)</u>
Ending Fund Balance	<u>321,188,401</u>	<u>369,180,430</u>	<u>47,992,029</u>

¹ The 2021-2022 Adopted Budget included \$4.6 million in grant and reimbursement-related revenues and expenditures not expected to be received in 2020-2021 and were rebudgeted to 2021-2022. This resulted in lower actual revenues and expenditures in 2020-2021, with no net impact to the General Fund. After factoring out the lower revenues and expenditures associated with these grants and reimbursements, the revenues variance actually resulted in a surplus of \$15.8 million, rather than a surplus of \$11.2 million, and the expenditures variance actually resulted in savings of \$31.7 million, rather than savings of \$36.3 million.

Note: In the chart above, the General Fund excludes the Emergency Reserve Funds and Cash Reserve Fund, which are budgeted as separate funds and reflected separately in this document. In the 2020-2021 Annual Financial Report, the Emergency Reserve Fund and Cash Reserve Fund will be displayed as part of the General Fund to comply with GASB 54 reporting requirements.

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A detailed analysis of the variances between the 2020-2021 Modified Budget and Budgetary Basis Actuals for revenues, expenditures, transfers, and reserves is provided in the following section. However, the variances for the Beginning Fund Balance and Liquidation of Carryover Encumbrances category are discussed below.

The actual 2020-2021 Beginning Fund Balance of \$400.3 million was consistent with the estimate. The actual 2020-2021 Liquidation of Carryover Encumbrances was \$458,000 and reflects encumbered appropriations liquidated by the Finance Department during the period between the release of audited 2019-2020 financial statements and the end of 2020-2021. Liquidation of prior year encumbrances results in a reduction in the obligations against the fund balance. These funds then become available for reappropriation. The 2021-2022 Adopted Budget did not assume any encumbrance liquidations.

As noted on the chart on the previous page, after adjusting for \$4.6 million in grants and reimbursements that were not received or expended in 2020-2021, the final General Fund Ending Fund Balance represents a positive variance of \$48.0 million (2.7% of the 2020-2021 Modified Budget), which includes higher than estimated expenditures savings (\$36.3 million), higher revenues (\$11.2 million), and higher than estimated liquidation of prior year encumbrances (\$458,000). After accounting for revenue and expenditure clean-up actions recommended in the Annual Report, including additional rebudgets, to close-out 2020-2021, \$61.6 million (3.4% of the 2020-2021 Modified Budget) in additional ending fund balance is available. The \$61.6 million positive fund balance variance is comprised of higher than estimated revenues of \$41.7 million (3.1%), net expenditure savings of \$19.5 million (1.1%), and higher than estimated liquidation of prior year encumbrances (\$458,000).

Recommendations for the allocation of the additional 2020-2021 Ending Fund Balance are provided elsewhere in this document.

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GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2020-2021 General Fund revenue collections as compared with the Modified Budget estimates:

TABLE A
2020-2021 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000s)

Category	2019-2020 Budgetary Basis Actual	2020-2021 Modified Budget	2020-2021 Budgetary Basis Actual	2020-2021 Budget to Actual \$ Variance
Property Tax	\$ 369,506,527	\$ 379,500,000	\$ 390,896,950	\$ 11,396,950
Sales Tax	260,558,394	262,500,000	284,020,471	21,520,471
Transient Occupancy Tax	14,103,867	5,500,000	5,409,142	(90,858)
Business Taxes	70,822,027	63,900,000	70,035,779	6,135,779
Utility Tax	99,518,300	95,800,000	106,970,843	11,170,843
Franchise Fees	44,435,817	45,921,096	45,628,289	(292,807)
Real Property Transfer Tax	0	50,000,000	50,530,828	530,828
Telephone Line Tax	20,694,877	20,000,000	20,872,785	872,785
Licenses and Permits	64,520,529	19,894,447	19,388,370	(506,077)
Fees, Rates, and Charges	48,568,307	8,750,702	7,442,173	(1,308,529)
Fines, Forfeitures, and Penalties	14,383,145	9,730,100	9,760,327	30,227
Rev. from Use of Money/Property	13,523,097	11,769,800	8,778,301	(2,991,499)
Revenue from Local Agencies	15,659,671	23,291,739	20,411,974	(2,879,765)
Revenue from State of California	22,511,983	20,580,155	20,734,690	154,535
Rev. from Federal Government	2,638,902	8,022,531	3,733,619	(4,288,912)
Other Revenue	34,504,998	193,282,508	166,871,618	(26,410,890)
Subtotal	1,095,950,441	1,218,443,078	1,231,486,159	13,043,081
Overhead Reimbursements	57,003,787	70,187,893	68,109,800	(2,078,093)
Transfers	35,629,474	38,478,985	39,190,393	711,408
Reimbursements for Services	16,145,354	15,745,997	16,657,685	911,688
Subtotal	108,778,615	124,412,875	123,957,878	(454,997)
TOTALS¹	\$ 1,204,729,056	\$ 1,342,855,953	\$ 1,355,444,037	\$ 12,588,084

¹ Excludes Beginning Fund Balance.

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The General Fund revenue performance for 2020-2021 is discussed in detail in this section. The 2020-2021 actual revenue receipts for each of the major revenue categories are compared to the modified budgets and any significant variances and resulting implications for current year revenue estimates are described. In addition, comparisons with prior fiscal year collection levels are included to indicate collection trends and to provide a historical perspective.

As shown in Table A, total revenue received in the General Fund in 2020-2021 was \$1.36 billion. This collection level was within 0.9%, or \$12.6 million, of the 2020-2021 Modified Budget. After accounting for reconciling items, rebudgets, and other clean-up actions, revenues ended the year \$41.7 million, or 3.1%, above the Modified Budget estimate.

The 2020-2021 collection level of \$1.36 billion was \$150.7 million, or 12.5%, above the actual 2019-2020 collections of \$1.20 billion. This year-over-year increase is primarily attributable to the City receiving Tax and Revenue Anticipation Notes (TRANS) in 2020-2021 (\$130.0 million) to facilitate the pre-payment of a portion of the City's 2020-2021 retirement contributions; retirement pre-payment did not occur in 2019-2020. Additionally, the Real Property Transfer Tax did not begin until July 2020, therefore no revenue was received in 2019-2020, compared to the \$50.5 million collected in 2020-2021. Partially offsetting the higher revenues is a significant year-over-year decrease related to the Development Fee Program. Revenue totaling \$71.1 million was received in 2019-2020; however, revenue was not captured in the General Fund in 2020-2021 as these revenues (and associated expenditures) were moved out of the General Fund and into specific Development Fee Program funds. After adjusting for these significant variances, revenue in 2020-2021 increased approximately \$41.2 million (3.6%) from the prior year.

Several revenue categories experienced growth in 2020-2021 compared to the prior year, including, Other Revenue, Property Tax, Real Property Transfer Tax, Revenue from Local Agencies, Sales Tax, and Utility Tax. These increases were partially offset by declines in several categories, including Fees, Rates, and Charges, Fines, Forfeitures and Penalties, Licenses and Permits, Transient Occupancy Tax, and Use of Money and Property. As a result of the pandemic and the necessary response to protect community health and safety, economic activity was severely restricted beginning in March 2020. The immediate halt of much of daily economic activity as a result of the shelter-in-place mandate significantly impacted General Fund revenue performance for the remainder of 2019-2020. These impacts continued into 2020-2021; however, as vaccination rates increased and state and local restrictions began to ease, the local economy began to rebound, and accelerated toward the end of the fiscal year, resulting in most 2020-2021 General Fund revenue categories exceeding 2019-2020 levels.

The variances from the Modified Budget levels, implications for current year revenue estimates, and changes from prior year level are further discussed on the following pages for all significant and notable revenue categories, as well as sources with substantial variances.

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Property Tax

Property Tax	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Secured Property Tax	352,000,000	362,409,212	10,409,212	3.0%
Unsecured Property Tax	16,100,000	16,076,533	(23,467)	(0.1%)
SB 813 Property Tax	7,500,000	8,394,646	894,646	11.9%
Aircraft Property Tax	3,000,000	3,108,541	108,541	3.6%
Homeowner's Property Tax Relief	900,000	908,018	8,018	0.9%
Total	379,500,000	390,896,950	11,396,950	3.0%

The Property Tax revenue category includes Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax, Aircraft Property Tax, and Homeowner's Property Tax Relief (HOPTR). Property Tax receipts in 2020-2021 totaled \$390.9 million, which was \$11.4 million, or 3.0%, above the budgeted estimate of \$379.5 million, and represented an increase of 5.8% from 2019-2020 collections of \$369.5 million.

In 2020-2021, **Secured Property Tax** receipts continued to be the largest source of revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Educational Revenue Augmentation Fund (ERAF) revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax. In 2020-2021, receipts totaled \$362.4 million, which is slightly higher (3.0%) than the budgeted estimate of \$352.0 million, and is 5.3% above the 2019-2020 receipts of \$344.0 million. The growth from 2019-2020 collections reflects increased general Secured Property Tax receipts (\$15.8 million) and additional ERAF revenue (\$10.1 million), partially offset by lower SARA Residual Property Tax receipts (\$7.5 million).

The general Secured Property Tax receipts growth of \$15.8 million in 2020-2021 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



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Property Tax

CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. On a County-wide basis, the 2020-2021 roll growth was driven primarily by changes in ownership (48.3%), change in the CCPI (27.3%), and new construction (24.0%).

In addition to the changes in assessed value, Secured Property Tax collections were positively impacted by excess ERAF revenue. ERAF collections totaled \$33.2 million in 2020-2021, which is \$10.1 million above the 2019-2020 collection level. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. In 2019-2020, the State of California notified counties that changes were being considered to the calculation formula for ERAF distributions. In February 2021, the State of California released the Excess ERAF Guidance, which included a new calculation methodology. The County revised ERAF collections based off the updated guidance and distributed the funds to City jurisdictions; however, a portion of funding was still considered "at risk" with the revised calculation, therefore, this funding was held by the County. In late July 2021, the City was notified the State had agreed with the County's updated methodology and the "at-risk" funding would be allocated to each City in late August 2021. As a result, the City of San José received an additional \$9.6 million in ERAF funding that was not expected in 2020-2021 and is captured in the General Fund 2020-2021 Ending Fund Balance/2021-2022 Beginning Fund Balance.

The final component of the Secured Property Tax category is the SARA Residual Property Tax receipts. As a result of the SARA bond refunding that occurred in December 2017, the City receives a residual property tax distribution. In 2020-2021 SARA Residual Property Tax receipts totaled \$13.6 million, which is significantly below the 2019-2020 receipts of \$21.1 million. This decrease is the result of a State of California Appellate Court decision, which revised the distribution formula related to all California residual property tax revenue from former Redevelopment Agencies. The County of Santa Clara reduced the SARA Residual Property Tax receipts in 2020-2021 to both retroactively adjust for previous disbursements and to modify the 2020-2021 allocation. Going forward, the 2021-2022 Adopted Budget includes estimated residual receipts of \$18.9 million.

In the **Unsecured Property Tax** category, collections of \$16.1 million were consistent with the 2020-2021 Modified Budget estimate, and 3.6% (\$566,000) above 2019-2020 collections of \$15.5 million.

The **SB 813 Property Tax** component represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Assessor formally revalues the property. In 2020-2021, receipts of \$8.4 million were 11.9% (\$895,000) above the 2020-2021 Modified Budget estimate of \$7.5 million and were \$2.4 million, or 39.7%, above the prior year collection level of \$6.0 million.

The remaining Property Tax categories include **Aircraft Property Tax** receipts, which totaled \$3.1 million in 2020-2021, up slightly from 2019-2020 receipts of \$3.0 million; and **Homeowners Property Tax Relief** revenue, which totaled \$908,000 in 2020-2021 and was fairly consistent with 2019-2020 receipts of \$929,000.

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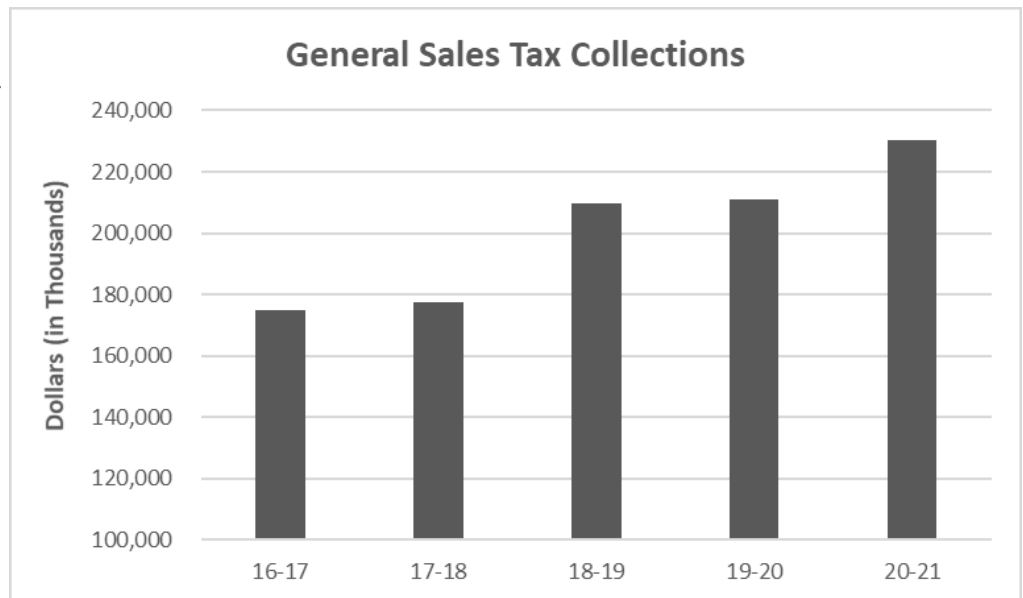
GENERAL FUND REVENUE PERFORMANCE

Sales Tax

Sales Tax	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
General Sales Tax	212,000,000	230,118,812	18,118,812	8.5%
Local Sales Tax	44,500,000	46,869,396	2,369,396	5.3%
Prop 172 Sales Tax	6,000,000	7,032,263	1,032,263	17.2%
Total	262,500,000	284,020,471	21,520,471	8.2%

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. Overall, Sales Tax collections in 2020-2021 of \$284.0 million were 8.2% (\$21.5 million) above the 2020-2021 Modified Budget and 9.0% (\$23.5 million) above the prior year level. It is important to note that 2019-2020 receipts only reflect three quarters of revenue associated with the Revenue Capture Agreement with eBay, Inc., as marketplace facilitators were not required to collect and remit sales tax until October 2020. When excluding collections associated with the Revenue Capture Agreement for both 2019-2020 and 2020-2021, overall collections grew by 5.0% in 2020-2021.

General Sales Tax revenue is the largest driver of the Sales Tax category and accounts for over 80% of all Sales Tax receipts. In 2020-2021 General Sales Tax collections totaled \$230.1 million, which was 8.5% above the 2020-2021 Modified Budget level of \$212.0 million and 9.0% above the 2019-2020 collection level. When excluding collections associated with the Revenue Capture Agreement from 2019-2020 and 2020-2021, General Sales Tax receipts grew by 4.0% in 2020-2021.



The shelter-in-place mandate that began in March 2020 as a result of the COVID-19 pandemic had a significant impact on General Sales Tax collections. Beginning in the third quarter of 2019-2020 through the second quarter of 2020-2021, General Sales Tax receipts experienced year-over-year declines ranging from 5% to 19%. Beginning in the third quarter of 2020-2021 (representing sales tax activity from January to March 2021), activity began to rebound. The final payment of the fiscal year (which represented

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Sales Tax

April to June 2021 activity) was received at the end of August 2021 and represented the second highest General Sales Tax collection level ever. As a result of this extremely high collection level, 2020-2021 year-end receipts of \$230.1 million exceeded the estimated collection level by over \$11 million.

The City’s Sales Tax consultant, Avenu Insights & Analytics, has provided economic performance data for 2020-2021, as displayed in the following chart. This analysis measures sales tax receipts for 2019-2020 and 2020-2021, excluding Sales Tax associated with the Revenue Capture Agreement.

General Sales Tax Revenue Performance (Economic Basis)

Economic Sector	2020-2021 % of Total Revenue	2019-2020 % of Total Revenue	% Change of Revenue Re- ceived by Cate- gory
General Retail	17.8%	18.3%	(0.5%)
Business-to-Business	16.2%	17.7%	(1.5%)
Transportation	17.4%	17.1%	0.3%
Food Products	12.0%	14.2%	(2.2%)
Construction	10.5%	9.7%	0.8%
Miscellaneous	0.8%	0.5%	0.3%
County Pool	25.3%	22.5%	2.8%
Total	100.0%	100.0%	

As can be seen in the table above, General Retail (includes apparel stores, department stores, furniture/appliance stores, drug stores, recreation products, and florists/nurseries), Business-to-Business and Food Products experienced year-over-year declines. However, several other categories experienced growth, the largest of which is the County Pool, which is where the majority of online transactions are captured. This growth is attributable to the pandemic’s sustained impact of redirecting a significant amount of activity to online sales. The recent growth in County Pool receipts is facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction’s total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 40% - 50% of the total County Pool.

In 2021-2022, General Sales Tax collections are estimated at \$228.0 million. Due to the stronger than anticipated performance during the last quarter of 2020-2021, the 2021-2022 estimate allows for a 1% drop from the 2020-2021 collection level. First quarter 2021-2022 General Sales Tax collections (July to September 2021 activity) are anticipated to be received in late November 2021. After these receipts are received and analyzed, budgetary adjustments may be brought forward as part of the 2021-2022 Mid-Year Review for City Council consideration.

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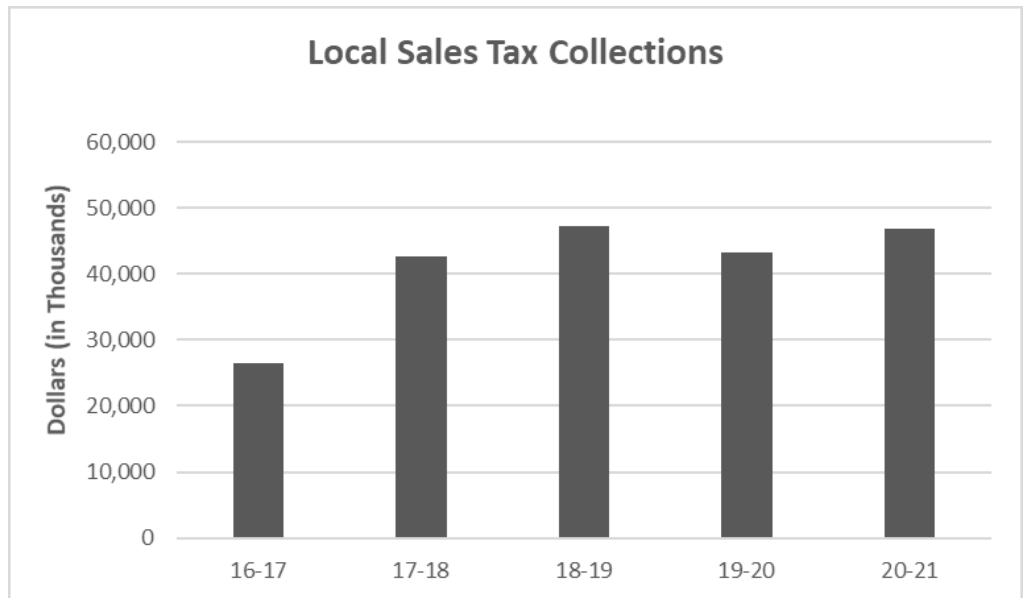
Sales Tax

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which began implementation in October 2016. In 2020-2021, Local Sales Tax revenues totaled \$46.9 million, which was 5.3% above the budget estimate of \$44.5 million, and 8.6% above the prior year collection level of \$43.2 million.

As discussed above, the shelter-in-place mandate that began in March 2020 as a result of the COVID-19

pandemic had a significant impact on Local Sales Tax collections.

Beginning in the third quarter of 2019-2020 through the second quarter of 2020-2021, Local Sales Tax receipts experienced year-over-year declines ranging from 1.5% to 19%. Beginning in the third quarter of 2020-2021 (representing sales tax activity from January



to March 2021), activity began to rebound. The final payment of the fiscal year (which represented April to June 2021 activity) was received at the end of August 2021 and represented the highest Local Sales Tax collection level since the tax began in October 2016. As a result of this extremely high collection level, 2020-2021 year-end receipts of \$46.9 million exceeded the estimated revenue by almost \$3 million.

In 2021-2022, Local Sales Tax collections are estimated at \$46.9 million. Due to the stronger than anticipated performance during the last quarter of 2020-2021, the 2021-2022 estimate allows for a 2% drop from the 2020-2021 level. First quarter 2021-2022 Local Sales Tax collections (July to September 2021 activity) are anticipated to be received in late November 2021. After these receipts are received and analyzed, budgetary adjustments may be brought forward as part of the 2021-2022 Mid-Year Review for City Council consideration.

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. In 2020-2021, receipts of \$7.0 million were 17.2% above the budgeted estimate of \$6.0 million and 10.6% above the 2019-2020 collection level of \$6.4 million. This performance reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

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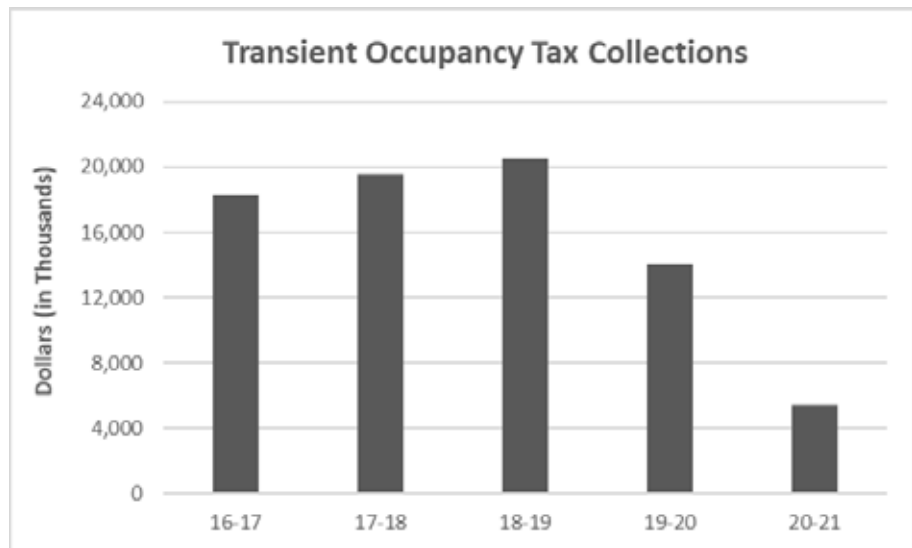
GENERAL FUND REVENUE PERFORMANCE

Transient Occupancy Tax

Transient Occupancy Tax	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Transient Occupancy Tax	5,500,000	5,409,142	(90,858)	(1.7%)
Total	5,500,000	5,409,142	(90,858)	(1.7%)

In 2020-2021, receipts of \$5.4 million for the General Fund’s portion (4.0%) of the City’s Transient Occupancy Tax (TOT) ended the year slightly below (1.7%) the 2020-2021 Modified Budget estimate of \$5.5 million. This performance level represents a significant annual decline (61.6%) relative to 2019-2020 receipts of \$14.1 million, and to 2018-2019 receipts of \$20.5 million (73.7%), highlighting the continued impacts of the pandemic on the hospitality industry. The public health threat posed by the pandemic abruptly disrupted business and leisure activity in the latter half of 2019-2020, resulting in plummeting demand for hotel rooms and revenue potential, and reaching an historic low of 15.13% occupancy in April 2020. While still suppressed relative to pre-pandemic levels, demand for hotel rooms stabilized from July 2020 to March 2021 and performance steadily improved from April 2021 through June 2021, coinciding with increased vaccination levels and the relaxation of public health restrictions. This gradual, incremental rebound was expected; however, the consistency and degree of this recent upward trajectory remain uncertain, especially as new variants of the virus emerge and continue to threaten public health.

Overall, the average room rate across the City’s reporting hotels decreased by \$78.81 (from \$181.72 to \$102.91), with average occupancy decreasing 18.4% (from 57.56% to 39.15%). Occupancy levels hovered between 30.2% and 42.5% from July 2020 to March 2021, with room rates ranging between \$95.29 and \$105.11. However, room demand and revenues began to exhibit incremental gains over



the final quarter of 2020-2021, closing at an occupancy rate of 52.31% and room rate of \$112.37 for June 2021. This incremental rebound is projected to continue into 2021-2022 under the assumption that business and leisure activities will steadily resume as public health restrictions are lifted or modified.

This volatile source of revenue will continue to be closely monitored, especially given the unprecedented impacts of COVID-19. If necessary, recommendations may be brought forward for City Council consideration at a future date, to account for evolving conditions amid the continued response to the pandemic.

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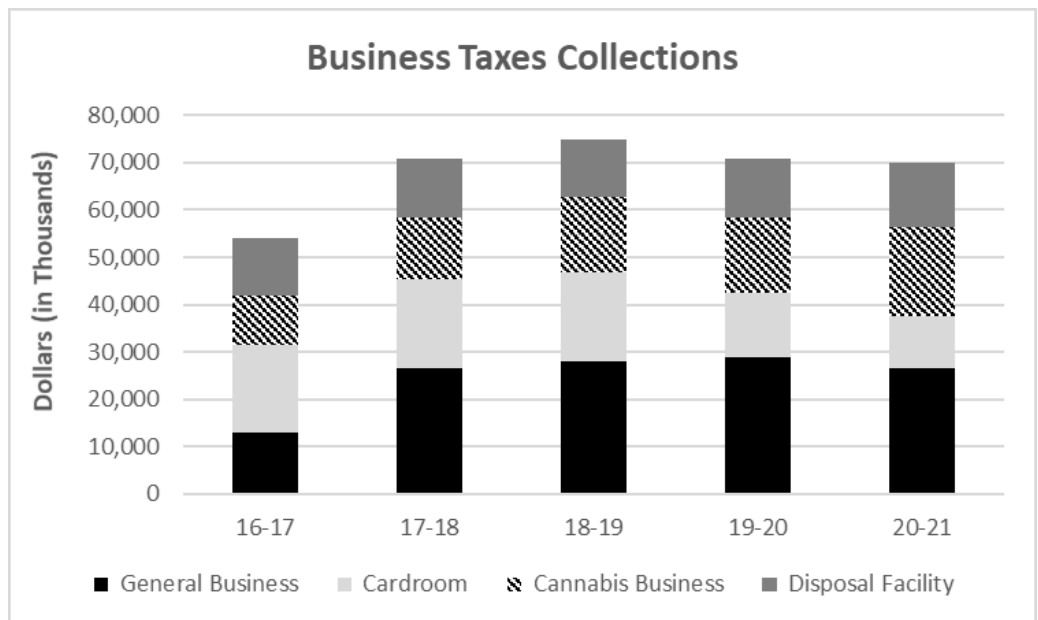
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Business Taxes

Business Taxes	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
General Business Tax	25,700,000	26,501,774	801,774	3.1%
Cardroom Tax	8,600,000	11,072,013	2,472,013	28.7%
Cannabis Business Tax	17,000,000	18,678,707	1,678,707	9.9%
Disposal Facility Tax	12,600,000	13,783,285	1,183,285	9.4%
Total	63,900,000	70,035,779	6,135,779	9.6%

Revenues in the Business Taxes category include the General Business Tax, Cardroom Tax, Cannabis Business Tax, and Disposal Facility Tax. Overall, collections of \$70.0 million were 9.6% above the 2020-2021 Modified Budget estimate of \$63.9 million, but were slightly (-\$786,000; -1.1%) below the 2019-2020 collection level.

Beginning in 2017-2018, **General Business Tax** collections reflect the modernization of the San José business tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017. The adjustments to the business tax included increasing the base tax, increasing the incremental tax and making it more progressive, increasing the cap (the maximum amount of the tax affecting large



businesses), updating the application of the tax to more classes of business, and adding inflation-based adjustments for future tax rates. In 2020-2021, General Business Tax collections of \$26.5 million ended the year 3.1% above the Modified Budget estimate of \$25.7 million. In 2021-2022 revenue of \$25.7 million is anticipated, which reflects a moderate annual inflation rate change of 1.6%, offset by reduced activity levels. This revenue category will continue to be closely monitored and updated information will be included in future bi-monthly financial reports and the 2021-2022 Mid-Year Budget Review, which will be released in January 2022.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Business Taxes

In 2020-2021, **Cardroom Tax** collections of \$11.1 million ended the year \$2.5 million (28.7%) above the 2020-2021 Modified Budget estimate of \$8.6 million. However, this collection level represents an 18.2% decrease from the 2019-2020 collection level (\$13.5 million) and a 41.3% drop from pre-pandemic 2018-2019 receipts (\$18.9 million). As a result of the shelter-in-place mandate, cardrooms suspended operations in March 2020 and remained closed through August 2020. In September 2020, public health orders were modified to allow cardrooms to begin outdoor operations with social distancing requirements. However, cardrooms were only open for a limited period of time before further health orders by the County of Santa Clara and then subsequently the State of California resulted in the closure of cardrooms from November 30, 2020 through January 27, 2021. Since late January 2021, cardrooms have once again been operational, under modified restrictions. In 2021-2022, Cardroom Tax receipts are anticipated to grow to approximately \$20.0 million, which is inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021.

In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational cannabis use in the State of California. With this change, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. In 2020-2021, **Cannabis Business Tax** collections, which includes recreational and medicinal cannabis, totaled \$18.7 million. The 2020-2021 collection level was \$1.7 million (9.9%) above the budgeted estimate and \$2.8 million (17.3%) above the 2019-2020 collection level.

In 2020-2021, **Disposal Facility Tax** collections of \$13.8 million were \$1.2 million (9.4%) above the 2020-2021 Modified Budget level and were \$1.3 million (10.1%) above the prior year collections of \$12.5 million. When the 2021-2022 Adopted Budget was developed, it was anticipated that 2020-2021 collections would total \$11.3 million and remain flat in 2021-2022. However, since 2020-2021 collections totaled \$13.8 million, the 2021-2022 Adopted Budget estimate allows for a 18.0% drop from the 2020-2021 actual collection level.

Utility Tax

Utility Tax	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Electricity Utility Tax	46,600,000	53,734,940	7,134,940	15.3%
Telephone Utility Tax	21,400,000	21,283,198	(116,802)	(0.5%)
Water Utility Tax	16,500,000	19,060,818	2,560,818	15.5%
Gas Utility Tax	11,300,000	12,891,887	1,591,887	14.1%
Total	95,800,000	106,970,843	11,170,843	11.7%

II. GENERAL FUND BUDGET PERFORMANCE

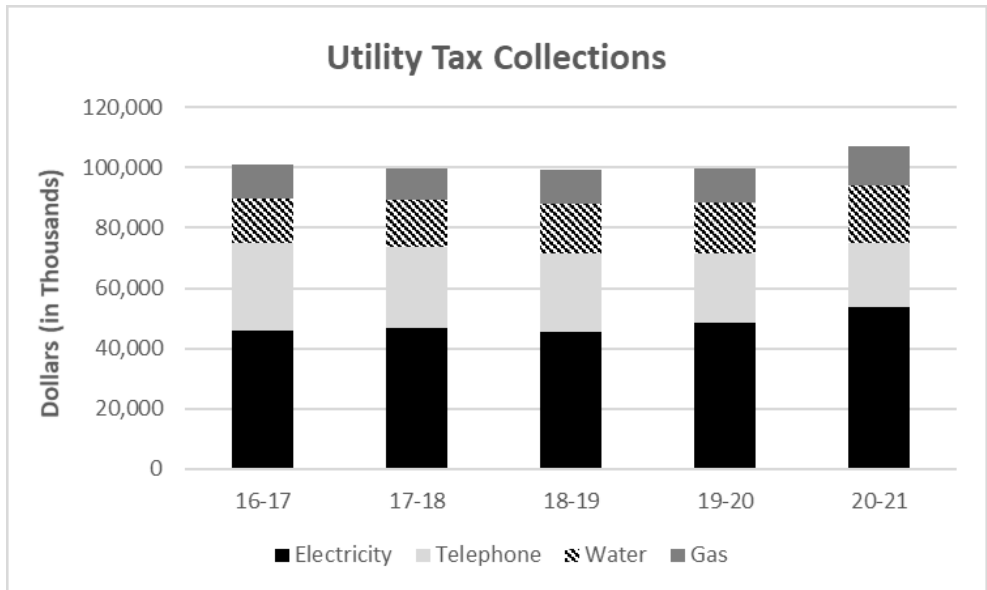
GENERAL FUND REVENUE PERFORMANCE

Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$107.0 million were \$11.2 million, or 11.7%, above the 2020-2021 Modified Budget level, and were 7.5% above the 2019-2020 collection level of \$99.5 million.

Receipts in the **Electricity Utility Tax** category of \$53.7 million were 15.3% above the 2020-2021 Modified Budget level of \$46.6 million. In addition, the 2020-2021 collection level was \$5.1 million, or 10.4%, above the 2019-2020 collection level. This increase in revenue primarily reflects higher consumption and increased Pacific Gas & Electric rates. When the 2020-2021 Electricity Utility Tax was being developed, it was anticipated remote working would decrease slightly during the late spring months, which would result in lower residential electricity usage. However, the actual collection level likely exceeded the budgeted estimate due to businesses re-opening, while a large portion of remote-workers did not return to the office, which may have led to higher business and residential consumption. A portion of this revenue increase is also attributable to San José Clean Energy rates that were increased in May 2021 to address increased power supply costs.

Receipts in the **Telephone Utility Tax** category of \$21.3 million ended the year slightly (0.5%) below the budgeted estimate and \$1.4 million, or 6.2%, below the 2019-2020 collection level. Revenues in this category have been consistently declining in recent years as a result of wireless consumers shifting to less expensive prepaid



wireless plans, competition with cellular companies that keep prices down, and the shifting of wireless communications to increase reliance on data plans, which are not taxable.

Gas Utility Tax receipts of \$12.9 million were \$1.6 million (14.1%) above the budgeted estimate and \$1.7 million (14.8%) above 2019-2020 receipts. The increase in revenue primarily reflects increased consumption levels, which is likely due to a large portion of the population working from home. This category can also vary significantly from year to year based on weather conditions.

Receipts in the **Water Utility Tax** category of \$19.1 million were \$2.6 million (15.5%) above the budgeted estimate and \$2.2 million (12.7%) above the prior year collection level. The higher collection level is primarily due to the water rate increases and increased consumption levels.

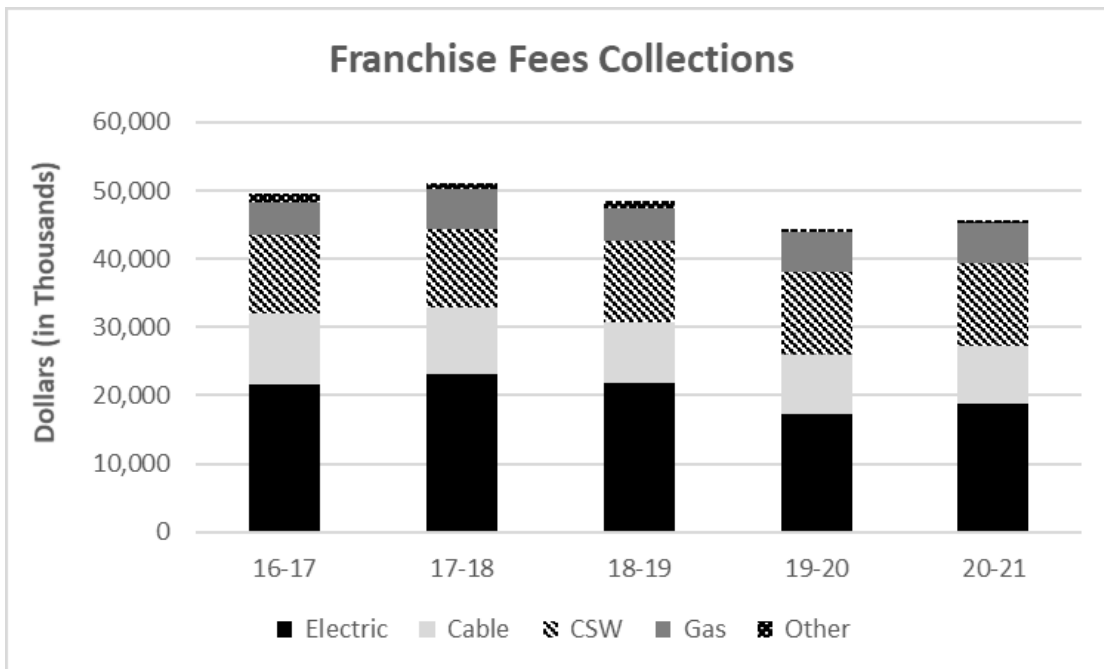
II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Franchise Fees

Franchise Fees	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Electric Franchise Fee	20,000,000	18,846,499	(1,153,501)	(5.8%)
Commercial Solid Waste Franchise Fee	11,646,096	12,248,093	601,997	5.2%
Cable Franchise Fee	8,100,000	8,292,362	192,362	2.4%
Gas Franchise Fee	5,700,000	5,942,336	242,336	4.3%
Tow Franchise Fee	150,000	0	(150,000)	(100.0%)
Great Oaks Water Franchise Fee	260,000	232,301	(27,699)	(10.7%)
Nitrogen and Jet Fuel	65,000	66,698	1,698	2.6%
Total	45,921,096	45,628,289	(292,807)	(0.6%)

Franchise Fee collections of \$45.6 million were slightly (0.6%) below the 2020-2021 Modified Budget level of \$45.9 million, but were \$1.2 million (2.7%) above the 2019-2020 collection level. The lower than budgeted collections is primarily attributable to lower Electric Franchise Fee revenue (\$1.2 million below the budgeted estimate), partially offset by higher Commercial Solid Waste Franchise Fee collections (\$602,000 above the budgeted estimate), Gas Franchise Fees (\$242,000 above the budgeted estimate), and Cable Franchise Fees (\$192,000 above the budgeted estimate). In addition, it is important to note that Tow Franchise Fees were not collected in 2020-2021 due to the pandemic's impact on the City Tow program.



II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Real Property Transfer Tax

Real Property Transfer Tax	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Real Property Transfer Tax	50,000,000	50,530,828	530,828	1.1%
Total	50,000,000	50,530,828	530,828	1.1%

On March 3, 2020, San José voters approved Measure E, the Real Property Transfer Tax. This new tax, which became effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. In 2020-2021 collections totaled \$50.5 million, which is \$531,000 (1.1%) above the budgeted estimate of \$50.0 million. In accordance with City Council Policy 1-18, Section 22, these revenues are allocated for homelessness prevention efforts and the development of new affordable housing. As described in *Section IV – Recommended Budget Adjustments and Clean-up/ Rebudget Actions* there is a recommendation to allocate the additional revenue (\$531,000) to Measure E Earmarked Reserves.

Fees, Rates, and Charges

Fees, Rates, and Charges	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
PRNS Fees	1,075,004	2,069,246	994,242	92.5%
Transportation Fees	2,324,550	1,094,478	(1,230,072)	(52.9%)
Police Fees	1,186,622	976,466	(210,156)	(17.7%)
Library Fees	224,000	34,807	(189,193)	(84.5%)
Miscellaneous Fees	3,940,526	3,267,176	(673,350)	(17.1%)
Total	8,750,702	7,442,173	(1,308,529)	(15.0%)

Revenues in the Fees, Rates, and Charges category include various fees and charges levied to recover costs of services provided by the several City departments. Historically, a significant portion of the revenue captured in this category were associated with Planning and Public Works development-related fees. However, beginning in 2020-2021, all revenue and expenditures related to the Development Fee Programs were no longer captured in the General Fund, and were instead allocated to specific Development Fee Program Funds. Overall, Fees, Rates, and Charges collections of \$7.4 million were 15.0% (\$1.3 million) below the 2020-2021 Modified Budget level of \$8.8 million, and \$41.1 million (84.7%) below the 2019-2020 collection level. However, after removing the Development Fee Program revenue from 2019-2020, the year-over-year decline between 2019-2020 and 2020-2021 is reduced to \$15.3 million (-67.3%). This reduction in revenue is due to the pandemic's impact on fee-related activity, primarily within the Parks, Recreation and Neighborhood Services (PRNS) Department, which is further described on the following page.

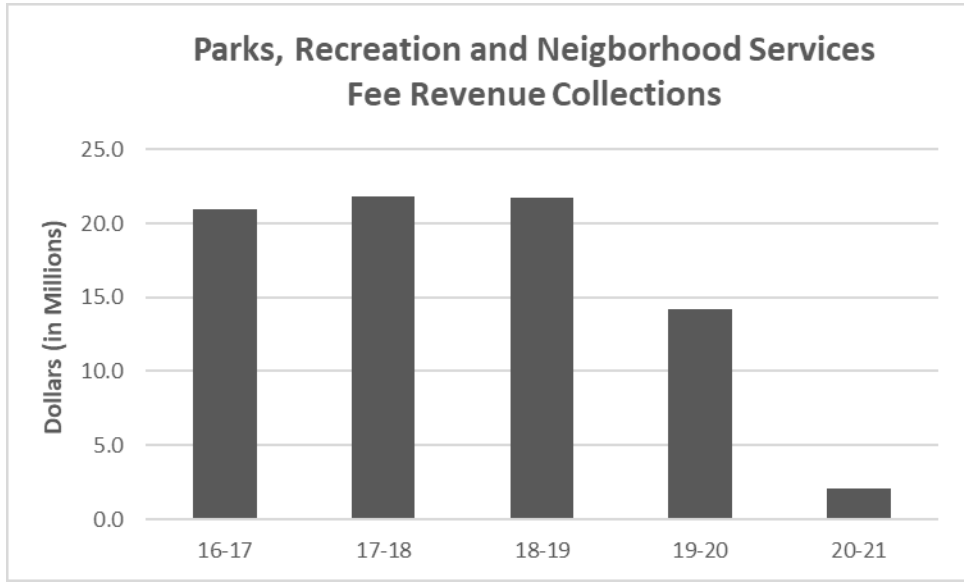
II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Fees, Rates, and Charges

PRNS Departmental Fee revenue ended the year at \$2.1 million, which is \$994,000 above the 2020-2021 Modified Budget estimate of \$1.1 million, but significantly below the 2019-2020 collection level of \$14.2 million. PRNS

fee revenue has been deeply impacted by pandemic-related health orders. PRNS program delivery and revenue generation has experienced large declines 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. In 2021-2022, as vaccine rates increase and health orders continue to ease, PRNS fee revenue is anticipated to grow to \$8.8 million. This revenue category will continue to be closely monitored and updated information will be included, as necessary, in future bi-monthly financial reports and the 2021-2022 Mid-Year Budget Review, which will be released in January 2022.

Remaining collections in the Fees, Rates, and Charges category include **Transportation Fees, Police Fees, Library Fees, and Miscellaneous Fees**. All departmental revenue ended the year below budgeted levels (ranging from \$189,000 to \$1.2 million) due to the pandemic's impact on fee-related activity. Overall, in 2021-2022 revenue collections are anticipated to grow, and will continue to be closely monitored.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Fines, Forfeitures and Penalties

Fines, Forfeitures and Penalties	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Parking Fines	6,008,100	5,692,545	(315,555)	(5.3%)
Vehicle Code Fines	1,400,000	856,309	(543,691)	(38.8%)
Business License Penalties	1,000,000	1,428,673	428,673	42.9%
Administrative Citation Fines	625,000	776,370	151,370	24.2%
Other Fines and Penalties	697,000	1,006,430	309,430	44.4%
Total	9,730,100	9,760,327	30,227	0.3%

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. Collections of \$9.8 million in this category were \$30,000, or 0.3%, above the 2020-2021 Modified Budget estimate of \$9.7 million, but were \$4.6 million (32.1%) below the prior year collection level. The significant decrease in year-over-year revenue is primarily due to Parking Fines, which is further described below.

Parking Fines, the largest component of this revenue category, ended the year at \$5.7 million, which is \$316,000 (5.3%) below the 2020-2021 Modified Budget estimate of \$6.0 million and \$4.4 million below 2019-2020 collections. In addition, these collection levels are far below historical Parking Fine collections of approximately \$11 million to \$12 million annually. The majority of pre-pandemic parking citation issuance was related to violations pertaining to the support of street sweeping operations, parking turnover (meters), and Residential Permit Parking areas. At the onset of the pandemic, parking citations were not issued for approximately five months, during which time a Parking Citation Fee Amnesty Program was instituted. Limited parking citation issuance resumed in mid-August 2020, and as of September 2021, parking citations are being issued for safety related and street sweeping violations city-wide, and parking meter related violations within the Downtown core are also being enforced. With the return of paid on-street parking at meters outside the Downtown core beginning in October 2021, citation issuance for parking meter related violations will resume city-wide. Additionally, in August 2021 DOT began the process of reinstating Residential Permit Parking (RPP) Zones. As more RPP zones are brought back online, parking citation issuance will be further expanded to address RPP related violations (historically, 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.

Business License Penalties of \$1.4 million exceeded the budgeted estimate of \$1.0 million, but was \$400,000 below the 2019-2020 collection level. **Vehicle Code Fines** ended the year at \$856,000, which was \$544,000 below the budgeted estimate, and was \$192,000 below the prior year collections. The **Administrative Citation Fines** and other remaining categories ended the year at \$1.8 million, which was \$461,000 above the budgeted level and \$362,000 above the prior year collection level.

II. GENERAL FUND BUDGET PERFORMANCE

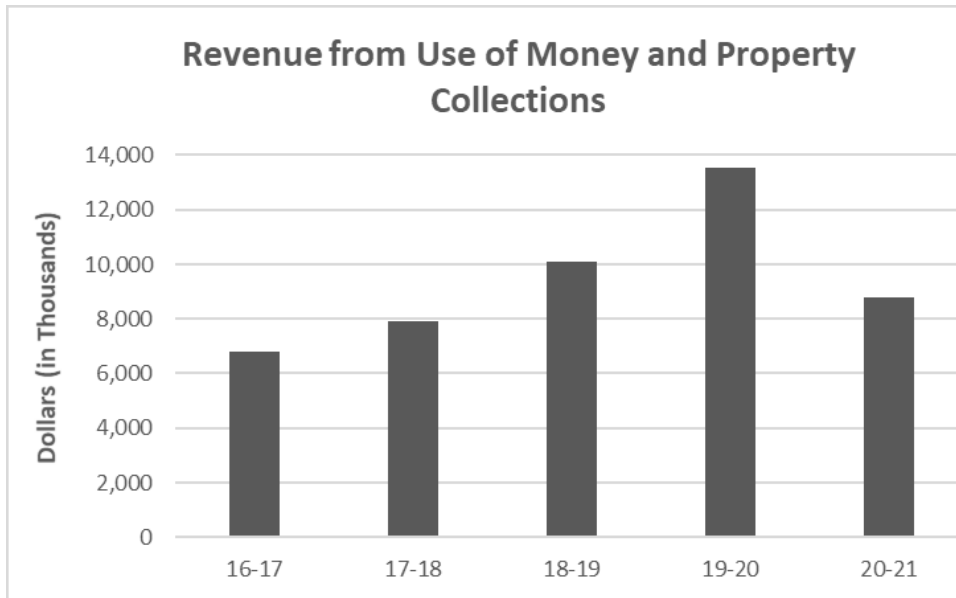
GENERAL FUND REVENUE PERFORMANCE

Revenue from Use of Money and Property

Use of Money and Property	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Interest Earnings on the General Fund	5,927,000	3,773,759	(2,153,241)	(36.3%)
City-Owned Property Rentals	2,944,800	2,432,140	(512,660)	(17.4%)
Digital Inclusion Program	1,955,000	1,459,375	(495,625)	(25.4%)
Subrogation Recovery	500,000	763,688	263,688	52.7%
Other Use of Money and Property	443,000	349,339	(93,661)	(21.1%)
Total	11,769,800	8,778,301	(2,991,499)	(25.4%)

The Use of Money and Property category primarily consists of interest income earned on the General Fund, rental income from various City properties, and subrogation recovery revenues. Collections of \$8.8 million ended the year 25.4% below the 2020-2021 budgeted estimate and 35.1% (\$4.7 million) below the 2019-2020 collection level. The lower than budgeted collection level and the decrease in year-over-year revenue is primarily attributable to lower interest earnings on the General Fund, which is the largest component of this revenue category.

Interest income of \$3.8 million was 36.3% below the budgeted level of \$5.9 million, and 52.0% below



the prior year collection of \$7.9 million. This decrease is primarily due to due to lower assumed cash balances as the City returned to pre-funding City retirement contributions in 2020-2021 and will do so again in 2021-2022, as well as lower interest earning rates.

Remaining collections in this category include **City-Owned Property**

Rentals, which ended the year \$513,000 below budgeted levels as many tenants were unable to pay rent. **Digital Inclusion Program** revenue of \$1.5 million was \$496,000 below the budgeted estimate, which reflects lower lease revenue received for City-owned light poles from wireless carriers. **Subrogation Recovery** and **Other Uses of Money and Property** ended the year \$170,000 above the budgeted levels.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Revenue from Local Agencies

Revenue from Local Agencies	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Central Fire District	8,240,000	8,136,455	(103,545)	(1.3%)
Paramedic Program	2,800,000	3,783,011	983,011	35.1%
Police BART Reimbursement	2,246,184	2,320,912	74,728	3.3%
Other Local Agency Payments	10,005,555	6,171,596	(3,833,959)	(38.3%)
Total	23,291,739	20,411,974	(2,879,765)	(12.4%)

The Revenue from Local Agencies category contains revenue received from a variety of other local government agencies. The largest sources of revenue are the Central Fire District for fire services provided to County residents by the San José Fire Department, County of Santa Clara for the Paramedic Program, and the Valley Transportation Authority (VTA) reimbursement for police services at the Berryessa Bay Area Rapid Transit (BART) station.

Revenue collections of \$20.4 million ended the year 12.4% (\$2.9 million) below the budgeted estimate of \$23.3 million, which was primarily due to the timing of grant revenue payments. Additionally, 2020-2021 local agency revenue was \$4.8 million, or 30.3%, above the 2019-2020 collection level. The year-over-year increase in revenue is primarily attributable to the VTA reimbursement for police services at the Berryessa BART station (\$2.3 million), which was not received in 2019-2020.

In 2020-2021, the **Central Fire District** payment of \$8.1 million ended the year slightly (1.3%) below the budgeted level; however, revenue was 2.3% above the prior year collection level of \$7.95 million. These payments represent property taxes collected by the Central Fire District for areas of the County served by the San José Fire Department. The year-over-year increase of payments is due to the change in Property Tax valuation in those areas.

Reimbursement from the County of Santa Clara for the first responder advanced life support program (**Paramedic Program**) of \$3.8 million was 35.1% above the budgeted level, and 30.2% above the 2019-2020 collection level of \$2.9 million. The 2020-2021 receipts included the equipment reimbursement component (Annex B, Category A; \$1.45 million) and service-related component (Annex B, Category B; \$2.35 million) and are reflective of the Fire Department’s improved response times for emergency medical service calls.

The 2021-2022 Adopted Budget included the rebudget of revenues for various local grants and reimbursements in the amount of \$809,000. In addition, rebudget and clean-up adjustments totaling \$2.1 million are recommended in this report to account for revenues that were not received 2020-2021, but are now anticipated to be received in 2021-2022. Additional information on the rebudget and clean-up of local agency revenue, as well as budget actions to recognize new grants and reimbursements are described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Revenue from the State of California

Revenue from State of California	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Tobacco Settlement	10,200,000	11,488,518	1,288,518	12.6%
Motor Vehicle In-Lieu Tax	500,000	769,511	269,511	53.9%
State Grants	3,781,879	1,800,092	(1,981,787)	(52.4%)
Other State Revenue	6,098,276	6,676,569	578,293	9.5%
Total	20,580,155	20,734,690	154,535	0.8%

The Revenue from the State of California category contains Tobacco Settlement Revenue, State Grants, and Other State Revenue. In 2020-2021, Revenue from the State of California totaled \$20.7 million, which is slightly (0.8%) above the 2020-2021 Modified Budget estimate of \$20.6 million.

The Tobacco Settlement revenue, which is the largest revenue source in this category, totaled \$11.5 million in 2020-2021, which is approximately 13% above the budgeted estimate and the prior year collection level. State grants and other reimbursements totaled \$9.2 million; \$1.1 million below the 2020-2021 Modified Budget level, which was the result of a timing difference of many grants (and their associated expenditures).

The 2021-2022 Adopted Budget included the rebudget of revenues and associated expenditures for various State grants in the amount of \$1.1 million. In addition, rebudget and clean-up adjustments totaling \$174,000 are recommended in this report to account for revenues that were not received 2020-2021, but are now anticipated to be received in 2021-2022. Additional information on the rebudget and clean-up of State grants, as well as budget actions to recognize new grants and reimbursements are described in *Section IV - Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Revenue from the Federal Government

Revenue from Federal Government	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
Federal Grants	8,022,531	3,733,619	(4,288,912)	(53.5%)
Total	8,022,531	3,733,619	(4,288,912)	(53.5%)

The Revenue from the Federal Government category contains various federal grants and reimbursements. In 2020-2021, Revenue from the Federal Government of \$3.7 million was \$4.3 million (53.5%) below the budgeted estimate of \$8.0 million. The negative variance from the 2020-2021 Modified Budget estimate was primarily the result of the timing of various grants (and their associated expenditures) where the work was not yet completed in 2020-2021.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Revenue from the Federal Government

The 2021-2022 Adopted Budget included the rebudget of revenues and associated expenditures for various Federal grants in the amount of \$3.3 million. In addition, rebudget and clean-up adjustments totaling \$511,000 are recommended in this report to account for revenues that were not received 2020-2021, but are now anticipated to be received in 2021-2022. Additional information on the rebudget and clean-up of Federal grants, as well as budget actions to recognize new grants and reimbursements are described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Other Revenue

Other Revenue	2020-2021 Budget (\$)	2020-2021 Actuals (\$)	2020-2021 Variance (\$)	2020-2021 Variance (%)
TRANS Proceeds	130,000,000	130,000,000	-	0.0%
Commercial Paper (Fire Training/EOC)	23,400,000	0	(23,400,000)	(100.0%)
City Hall Refunding	17,777,000	17,776,852	(148)	(0.0%)
Other Revenue	22,105,508	19,094,766	(3,010,742)	(13.6%)
Total	193,282,508	166,871,618	(26,410,890)	(13.7%)

The Other Revenue category contains a number of unrelated revenue sources and totaled \$166.9 million in 2020-2021, which was 13.7% below the Modified Budget estimate of \$193.3 million. The 2020-2021 collection level primarily fell short of the budgeted estimate due to the Fire Training Center and Emergency Operations Center (EOC) projects not requiring proceeds from commercial paper in 2020-2021, which is further described below.

The 2020-2021 Modified Budget included revenue of \$23.4 million related to commercial paper proceeds for the Fire Training Center and EOC projects. The Fire Training Center and EOC projects were approved by the City Council in 2020-2021 with a known shortfall of funding in the amount of \$23.4 million. This shortfall was to be funded through \$15 million of a new general obligation bond (2021A Lease Revenue Bonds) issuance, \$4.2 million of Public Safety and Infrastructure Bonds (Measure T) issuance, and \$4.2 million of property sale proceeds from Google for the existing Fire Training Center. Due to the project timelines, the 2020-2021 Modified Budget included revenue of \$23.4 million related to commercial paper proceeds to ensure sufficient funding was available for these projects in advance of the bond issuances and receipt of additional revenue that are anticipated to occur in 2021-2022. However, while the \$23.4 million Commercial Paper authorization was required to encumber the construction contract in 2020-2021, the pace of actual booked expenses did not require the use of Commercial Paper proceeds in 2020-2021. Actions are recommended in this report to rebudget the \$23.4 million of commercial paper proceeds from 2020-2021 to 2021-2022, as well as exchange the commercial paper revenue for the 2021A Lease Revenue Bond proceeds (\$15.0 million), and reallocate expenses to the Measure T Fund (\$4.2 million). Further information regarding these transactions, as well as the recognition of new grant revenues and their associated expenditures, are described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND REVENUE PERFORMANCE

Summary

In 2020-2021, total revenue received in the General Fund was \$1.36 billion. This collection level was within 0.9%, or \$12.6 million, of the 2020-2021 Modified Budget. After adjusting for reconciling items, rebudgets, and other clean-up actions, revenues ended the year \$41.7 million (3.1%) above the Modified Budget estimate. This is an extremely small variance given the diversity of over 450 City revenues, the overall size of the General Fund, the uncertainty created by the pandemic.

The 2020-2021 collection level of \$1.36 billion was \$150.7 million, or 12.5%, above the actual 2019-2020 collections of \$1.20 billion. This year-over-year increase is primarily attributable to the City receiving Tax and Revenue Anticipation Notes (TRANs) in 2020-2021 (\$130.0 million) to facilitate the pre-payment of a portion of the City's 2020-2021 retirement contributions; retirement pre-payment did not occur in 2019-2020. Additionally, the Real Property Transfer Tax did not begin until July 2020, therefore no revenue was received in 2019-2020, compared to \$50.5 million collected in 2020-2021. Partially offsetting the higher revenues is a significant year-over-year decrease related to the Development Fee Program. Revenue totaling \$71.1 million was received in 2019-2020; however, revenue was not captured in the General Fund in 2020-2021 as these revenues (and associated expenditures) were moved out of the General Fund and into specific Development Fee Program funds. After adjusting for these significant variances, revenue in 2020-2021 increased approximately \$41.2 million (3.6%) from the prior year.

As a result of the pandemic and the necessary response to protect community health and safety, economic activity was severely restricted beginning in March 2020. The immediate halt of much of daily economic activity as a result of the shelter-in-place mandate significantly impacted General Fund revenue performance for the remainder of 2019-2020. These impacts continued into 2020-2021; however, as vaccination rates increased and state and local restrictions began to ease, the local economy began to rebound, and accelerated toward the end of the fiscal year, resulting in most 2020-2021 General Fund revenue categories exceeding 2019-2020 levels.

Due to continued uncertainty regarding the long-term impacts the pandemic will have on the local economy, the Administration will continue to actively monitor economic indicators and revenues in 2021-2022 through the Bi-Monthly Financial Report and the Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions, if necessary.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2020-2021 is discussed in detail in this section. This includes an overview of the General Fund expenditure performance, a discussion of significant departmental variances, and highlights of the non-departmental expenditures.

Overview

TABLE B
2020-2021 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
2020-2021

Category	Modified Budget*	2020-2021 Actual**	Variance	% Variance
Personal Services	\$ 878,284,373	\$ 871,751,515	\$ (6,532,858)	(0.7%)
Non-Personal/Equipment/Other ¹	175,324,867	151,741,786	(23,583,081)	(13.5%)
City-Wide Expenses	328,350,544	274,241,519	(54,109,025)	(16.5%)
Capital Contributions	130,568,593	54,892,934	(75,675,659)	(58.0%)
Transfers	80,825,604	80,825,604	0	0.0%
Reserves	196,233,945	0	(196,233,945)	(100.0%)
TOTAL GENERAL FUND	\$ 1,789,587,926	\$ 1,433,453,358	\$ (356,134,568)	(19.9%)

* 2020-2021 appropriations as modified by Council through June 30, 2021, and 2019-2020 carryover encumbrances.

** Actual 2020-2021 expenses plus encumbrances.

As shown in Table B, General Fund expenditures and encumbrances through June 30, 2021 of \$1.43 billion were \$356.1 million, or 19.9%, below the modified budget total of \$1.79 billion. Approximately 55% of this savings was generated from unspent reserves (\$196.2 million), with the remaining savings generated from expenditure appropriations. Total 2020-2021 expenditures and encumbrances were \$217.6 million, or 17.9%, above the 2019-2020 level of \$1.2 billion. This variance is due to higher City-Wide Expenses (\$179.2 million), Transfers (\$31.9 million), Personal Services (\$11.1 million), and Capital Contributions (\$1.3 million), partially offset by lower Non-Personal/Equipment/Other (\$5.9 million).

¹ The “Other” category expenditures are primarily comprised of budgets for the Mayor and City Council as well as the Parks, Recreation and Neighborhood Services fee activities program.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Overview

As shown in Table C, the actual General Fund expenditures of \$1.4 billion were approximately \$36.3 million (2.5%) below the estimate used in the development of the 2021-2022 Adopted Budget. A portion of these savings (\$4.6 million) was carried over to 2021-2022 with the accompanying revenue for grant or reimbursement-related projects and programs, bringing the variance down to \$31.7 million. In addition, actions totaling \$12.2 million are recommended in this report to reflect clean-up adjustments. After accounting for these technical actions, the remaining General Fund expenditures savings totaled \$19.5 million, or 1.1% of the modified budget.

**TABLE C
2020-2021 EXPENDITURE ESTIMATE TO ACTUAL VARIANCES**

	2020-2021 Estimate	2020-2021 Actual	\$ Variance	% Variance
Expenditures	\$1,469,756,872	\$1,433,453,358	\$(36,303,514)	(2.5%)

These net expenditure savings, when combined with the net variance associated with the General Fund revenues and higher than anticipated liquidation of prior year encumbrances, represent the additional ending fund balance that is available for allocation in 2021-2022. Specifically, as discussed earlier in this report, in 2021-2022, a total of \$61.6 million in additional fund balance is available, which is comprised of higher than estimated revenues of \$41.7 million (3.1%), net expenditure savings of \$19.5 million (1.1%), and higher than estimated liquidation of prior year encumbrances (\$458,000). Recommendations on the allocation of these additional funds are provided elsewhere in this report.

Following is a review of the General Fund expenditure categories, including a discussion of variances to the modified budget as well as a comparison to the prior year.

Personal Services expenditures of \$871.8 million ended the year \$6.5 million (0.7%) below budgeted levels, but \$11.1 million (1.3%) above the 2019-2020 expenditure levels of \$860.6 million. Expenditures in both years ended the year below the budget primarily as the result of position vacancy savings throughout the organization. Departments with the highest variances in 2020-2021 include the following: Police Department (\$1.9 million), Planning, Building and Code Enforcement Department (\$1.3 million); Information Technology Department (\$1.2 million), and Parks, Recreation and Neighborhood Services Department (\$1.0 million).

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Overview

Non-Personal/Equipment/Other expenditures of \$151.7 million ended the year \$23.6 million (13.5%) below budgeted levels, and \$5.9 million (3.7%) below the 2019-2020 expenditure level of \$157.6 million. The departments with the largest Non-Personal/Equipment/Other variances included: Parks, Recreation and Neighborhood Services Department (\$3.3 million, including Fee Activities); Police Department (\$2.8 million); City Manager's Office (\$2.5 million); and Information Technology Department (\$2.0 million). The Mayor and City Council appropriations also ended the year \$5.0 million below the modified budget. The majority of the Non-Personal/Equipment/Other savings were rebudgeted to 2020-2021 as part of the 2021-2022 Adopted Budget (\$13.3 million) or are recommended to be rebudgeted in the Annual Report (\$872,000), resulting in net savings of \$9.4 million.

In the City-Wide Expenses category, expenditures and encumbrances of \$274.2 million ended the year \$54.1 million below the budgeted level of \$328.4 million. Of this amount, \$35.4 million was assumed as savings in 2020-2021 and rebudgeted to 2021-2022, including \$4.5 million that was offset by revenue sources. Of the remaining balance of \$18.7 million, rebudget adjustments totaling \$7.7 million are recommended in this report, and if approved, would result in net savings of \$11.0 million in this category, a 3.4% variance from the budgeted level. The 2020-2021 City-Wide Expenses were \$179.2 million above the 2019-2020 expenditure level of \$95.0 million, which is primarily due to the Tax and Revenue Anticipation Notes (TRANs) Debt Service payment that totaled \$131.6 million in 2020-2021, but was not included in 2019-2020 as the prefunding of employer retirement contributions did not occur that year.

In the Capital Contributions category, expenditures of \$54.9 million ended the year \$75.7 million below the budgeted level of \$130.6 million. A total of \$73.1 million was rebudgeted to 2021-2022 in the Adopted Budget, with a remaining savings amount available of \$2.6 million. As part of this report, additional rebudget adjustments totaling \$1.6 million are recommended, reducing the Capital balance to \$991,000. The 2020-2021 expenditure level of \$54.9 million was \$1.3 million above the 2019-2020 level of \$53.6 million.

The Transfers category expenditures of \$80.8 million ended the year at the budgeted amount.

The largest single category of remaining funding available in 2020-2021, as planned, is the Reserves category (\$196.2 million), including Earmarked Reserves (\$137.9 million), the 2020-2021 Ending Fund Balance Reserve (\$18.4 million), and the Contingency Reserve (\$40.0 million). No reductions to the \$40.0 million Contingency Reserve occurred in 2020-2021.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Review of General Fund Expenditure Performance

This section provides more detailed information on the departmental and non-departmental performance, including a discussion of significant variances.

Departmental expenditures (\$1.0 billion) represented over 70% of the total 2020-2021 General Fund expenditures. As can be seen in Table D on the following page, all departments with the exception of the

Independent Police Auditor remained within their total budget allocation and expended a cumulative 97.1% of their budgets, generating overall savings of \$30.1 million (2.9%). Of this amount, \$14.5 million was rebudgeted in the 2021-2022 Adopted Budget; and additional rebudgets of \$1.2 million are recommended in this report, leaving a balance of \$14.4 million. Of this balance amount, \$5.6 million was assumed as savings in the development of the 2021-2022 Ending Fund Balance estimate, resulting in a balance of \$8.8 million.

Of the 19 City departments/offices, 15 had expenditure savings of less than \$1.0 million or 10.0% of their budget. The remaining four departments/offices had expenditure savings in excess of \$1 million and 10% of their budget in 2020-2021, and included the following: City Manager; Information Technology; Mayor and City Council; and Planning, Building and Code Enforcement. Those departments with General Fund expenditure variances of over 10.0% and \$1.0 million are discussed in detail in the following section. In addition, the year-end status of expenditures for both the Police and Fire Departments is also summarized.

Non-Departmental expenditures totaled \$410.0 million, or approximately 29% of the total 2021-2022 General Fund expenditures. The unexpended balance at year-end totaled \$326.0 million; reserves of \$196.2 million represent the largest portion of unexpended funds and were almost entirely carried over or used in the 2021-2022 Adopted Budget as planned. Excluding reserves, a balance of \$129.8 million remained in this category at year-end. In the 2021-2022 Adopted Budget, \$108.4 million was rebudgeted in the City-Wide Expenses and Capital Contributions categories. Additional rebudget adjustments in these categories totaling \$9.3 million are recommended in the 2020-2021 Annual Report, resulting in total unexpended funds of \$12.0 million.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Review of General Fund Expenditure Performance

**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2020-2021 Modified Budget	2020-2021 Expenditures	\$ Variance	% Variance
City Attorney	\$ 18,170,297	\$ 17,933,550	\$ (236,747)	(1.3%)
City Auditor	2,277,982	2,257,868	(20,114)	(0.9%)
City Clerk	3,005,495	2,895,748	(109,747)	(3.7%)
City Manager	20,355,005	17,595,816	(2,759,189)	(13.6%)
Economic Development	7,081,382	6,178,892	(902,490)	(12.7%)
Environmental Services	4,625,430	4,318,068	(307,362)	(6.6%)
Finance	20,331,979	18,696,904	(1,635,075)	(8.0%)
Fire	241,900,508	241,031,662	(868,846)	(0.4%)
Housing	860,033	366,125	(493,908)	(57.4%)
Human Resources	10,399,296	10,044,043	(355,253)	(3.4%)
Independent Police Auditor	1,512,602	1,514,990	2,388	0.2%
Information Technology	27,944,044	24,740,821	(3,203,223)	(11.5%)
Library	36,386,377	35,883,249	(503,128)	(1.4%)
Mayor and City Council	18,787,276	13,788,431	(4,998,845)	(26.6%)
Parks, Recreation & Neighborhood Services	77,439,628	73,081,314	(4,358,314)	(5.6%)
Planning, Building & Code Enforcement	17,092,158	14,755,558	(2,336,600)	(13.7%)
Police	470,357,548	465,689,595	(4,667,953)	(1.0%)
Public Works	37,146,675	37,084,003	(62,672)	(0.2%)
Transportation	37,935,525	35,636,664	(2,298,861)	(6.1%)
Subtotal	1,053,609,240	1,023,493,301	(30,115,939)	(2.9%)
<hr/>				
Non-Departmental				
City-Wide Expenses	328,350,544	274,241,519	(54,109,025)	(16.5%)
Capital Contributions	130,568,593	54,892,934	(75,675,659)	(58.0%)
Transfers	80,825,604	80,825,604	-	0.0%
Earmarked Reserves	137,858,945	-	(137,858,945)	(100.0%)
Contingency Reserve	40,000,000	-	(40,000,000)	(100.0%)
Ending Fund Balance Reserve	18,375,000	-	(18,375,000)	(100.0%)
Subtotal	735,978,686	409,960,057	(326,018,629)	(44.3%)
TOTALS	\$ 1,789,587,926	\$ 1,433,453,358	\$ (356,134,568)	(19.9%)

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

Following is a discussion of those departments with significant variances and a summary of the performance in the City's two largest General Fund departments, Police and Fire.

Police Department

On an overall basis, Police Department expenditures totaled 465.7 million, or 99.0% of its General Fund budget of \$470.4 million, including encumbrances, resulting in savings of \$4.7 million. Of this savings, a large portion (\$2.4 million) was rebudgeted as part of the 2021-2022 Adopted Budget.

Personal Services expenditures totaled \$432.7 million (99.6% expended) with a savings of \$1.6 million after accounting for rebudgets, which closely aligned to year-end estimates and budget actions to increase Personal Services funding by \$12.0 million. Prior to these adjustments, Personal Services expenditures were estimated to exceed budgeted levels by 2-3% due to: lower than anticipated vacancies and relatively strong recruit academies; costs associated with the recently approved San Jose Police Officers' Association (SJPOA) bargaining unit agreement; and, elevated overtime usage and payouts.

The Department continued to experience elevated sworn overtime usage and payouts during 2020-2021, with expenditures of \$44.5 million accounting for 112.8% of the Police Department's 2020-2021 Modified Budget for overtime of \$39.4 million. Overtime expenditures exceeded the budget primarily due to the backfilling of vacant sworn street-ready positions with existing staff. However, year-to-date expenditures were 2.2% below 2019-2020 levels, indicating incremental year-over-year progress with efforts to moderate the use of overtime. The Police Department's cost containment measures for overtime use are discussed in greater below.

A total of \$33.0 million (92.1%) of the Police Department's Non-Personal/Equipment budget (including encumbrances) was expended, generating savings of \$2.8 million. Excluding the remaining balances for centrally-determined details (\$1.1 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance and replacement, the Police Department ended the year with approximately \$1.7 million, or 4.7%, of its Non-Personal/Equipment appropriation remaining, with the entirety of this balance rebudgeted as part of the Adopted Budget for activities continuing into 2021-2022.

Overtime consists of overtime expenditures and compensatory time. The Memorandum of Agreement (MOA) with the Police Officer's Association (POA) limits how much overtime can be earned for pay versus compensatory time. The Police Department continues to diligently work to fill vacancies in both sworn and civilian positions, using vacancy savings and the \$6.75 million in one-time funding from the Sworn Hire Ahead Program to pay for Police Academy Recruits; however, academy and field training of new recruits takes 10-12 months, necessitating overtime to backfill until the new recruits are ready to serve as solo beat officers. Vacancy levels have also contributed to the build-up of compensatory time balances for sworn personnel, for which there is a limit of 480 hours after which sworn personnel are paid in overtime for any additional hours worked.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

The compensatory time balance at the end of June 2021 was 356,155 hours for sworn personnel (\$27.1 million). This represents an increase of 20,994 hours or 6.3%, compared to the June 2020 balance of 335,160.

As of June 2021, out of 1,010 street-ready sworn officers, 448 sworn personnel had reached the 480-hour limit, an increase of 6.4% compared to 421 sworn personnel as of June 2020 – all overtime worked by these employees is paid as overtime. A total of 271 sworn personnel were between 240 hours and 480 hours, compared to the 254 sworn personnel as of June 2020, an increase of 6.7%.

Year-to-date overtime expenses attributable to staff that reached the 480-hour compensatory accrual limit through June 2021 was \$19.9 million (268,275 hours), compared to \$16.6 million in June 2020 (221,923 hours), a 20% increase in expenditures. This increase was largely driven by the backfilling of recruits, unplanned overtime in response to protests, response to wildfires in the summer of 2020, preparations for demonstrations surrounding the contentious presidential election, increased investigations, and side show enforcement.

The Police Department is enforcing compensatory time controls by requiring all sworn staff, outside of the Bureau of Field Operations (BFO), to reduce compensatory time balances by the end of the calendar year, or to submit a request for an extension, per the MOA. In addition, the Police Department has implemented overtime and compensatory time approvals to slow, and eventually reduce, compensatory time balance growth, including revisions for BFO approvals to the extent possible.

As an example, the Chief of Police issued a department-wide memorandum in May 2021 to place additional controls on the use of overtime and compensatory time that included, but were not limited to: clarifying the definition of mandatory overtime as limited to work that must be completed immediately and cannot be done on an employee's regular shift or their next work shift; prohibiting the use of discretionary overtime unless approved by a Captain/Division Manager or higher rank; requiring that report-writing and follow-up overtime be approved by a Lieutenant or above and only when the action cannot be completed on duty or on the employee's next shift; and requiring Captains/Division Managers to submit a quarterly memorandum to the Department's Executive Officer justifying the use of overtime in their divisions.

Finally, an internal working group will be established – comprised of varying ranks of sworn personnel, fiscal personnel, and other civilian staff – tasked with identifying approaches to further increase the controls surrounding compensatory time liability. These actions, as well as the other recommendations included in the *Police Staffing, Expenditures, and Workload* audit report are intended to address, slow, and reverse the growth of overtime and compensatory time use.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

The table below provides a summary of sworn staffing vacancies and street-ready officers. While the sworn positions are almost filled, there is still a significant gap between filled positions and street-ready officers, with the Sworn Hire Ahead program squarely aimed at closing this gap and mitigating expected vacancies due to retirements and other separations. Of the 1,159 authorized sworn staff, 75 were in training (6.5%) as of June 2021, leaving 1,085 street ready sworn positions available (this includes sworn employees on disability/modified duty/other leaves) when also accounting for vacancies as shown in the chart below. Excluding sworn employees on disability/modified duty/other leaves, 1,009 sworn officers were actively deployed as of June 25, 2021.

	2019-2020 (as of 06/26/2020)	2020-2021 (as of 06/25/2021)
Authorized Sworn Positions	1,151	1,159
Vacancies	(15)	(0)
Filled Sworn Positions	1,136	1,160¹
Field Training Officer/Recruits	(109)	(75)
Street-Ready Sworn Officers Available	1,027	1,085
Disability/Modified Duty/Other Leaves	(73)	(76)
Street-Ready Sworn Officers Working	954	1,009

The Police Department completed or began several academies over the past year, including February/June 2020 (55 recruits), October 2020 (51 recruits) and February 2021 (42 recruits). Due to the pandemic, the February 2020 Academy was suspended in March 2020 and resumed in late June. This academy graduated in February 2021 and the October 2020 academy graduated in May 2021. The February 2021 academy is anticipated to graduate in September 2021 (42 recruits). To fill the vacant sworn positions and put more Police Officers back on patrol, the Department conducted an additional Police Recruit Academy in 2020-2021, with the June 2021 academy consisting of 32 recruits.

Fire Department

Overall, the Fire Department expended \$241.0 million (99.6%) of its 2020-2021 General Fund budget (\$241.9 million), resulting in minimal savings of \$863,000. The Fire Department's Personal Services appropriation of \$231.5 million ended the year \$648,168 over-budget due to an extremely active fire season in the summer and fall of 2020 and overtime to backfill sworn absences on the line due to the pandemic (approximately \$1.1 million). The costs incurred from mutual aid, Strike Team, and Task Force 3 deployments is being reimbursed by the State of California and Federal Emergency Management Agency (approximately \$5.4 million). The Fire Department's Non-Personal/Equipment allocation of \$10.9 million was 88.83% expended or encumbered through the end of the year.

¹ Due to the Hire Ahead Program, as of June 25, 2021, the Police Department temporarily exceeded the budgeted sworn staffing.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

The Department's Personal Services coverage was included in the Adoption of an Ordinance Ratifying Final Expenditures in Various Appropriations for 2020-2021 and Adoption of the Associated Appropriation Ordinance and Funding Sources Resolution Amendments in 2020-2021 memorandum that was approved by the City Council on September 28, 2021. As part of this memorandum, revenue from the State of California for the reimbursement for mutual aid and Strike Team deployments was recognized and the Fire Department's Personal Services Budget was increased accordingly.

Overall, the average sworn vacancy rate of 3.68% through June 2021 is slightly higher than the vacancy rate of 3.66% experienced this time last year, and above the budgeted rate of 2.5%. The current fire fighter academy for 2020-2021 began in April 2021 and will conclude in September 2021 with total of 22 graduates.

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

Fire Department's Annual Vacancy and Absence Rates and Their Impact on Overtime

Since the release of a 2001 Overtime Audit, information is provided on the Fire Department's annual vacancy and absence rates and their impact on overtime usage. Through 2011-2012, this information was reported to the Public Safety, Finance and Strategic Support (PSFSS) Committee. The Administration's recommendation to incorporate the Fire Department's annual vacancy and absence rates and their impact on overtime into the Annual Report was approved by the PSFSS Committee on March 21, 2013.

Overtime funding and relief staffing levels are reviewed annually to ensure they are appropriately measured, funded, and managed for sworn minimum staffing requirements. Understanding absence and vacancy rates is important as absence rates are a major personal services cost driver and the associated impact on overtime requires close departmental management.

In 2020-2021, the Department maintained 186 daily minimum line positions to staff all fire companies at 33 operating fire stations. Daily absences and/or vacant positions are backfilled by available relief personnel or off-duty personnel are called in to work (on overtime). Maintaining this daily minimum staffing level optimized operational effectiveness and was in conformance with the Memorandum of Agreement between the City of San José and International Association of Firefighters (IAFF), Local 230.

Total absence hours of 383,071 in 2020-2021 increased by approximately 17.0% from 327,335 in 2019-2020.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

There was an overall increase in each type of absence that consists of vacation, sick leave, disability, modified duty, and administrative leave due to COVID-19 (13.4% - vacation, 7.8% - sick leave, 19.4% - disability, 74.5% - modified duty). Vacancy hours continue to decrease from 77,952 in 2019-2020 to 76,832 in 2020-2021 with the total vacancy rate remaining steady at 3.9%. In 2020-2021, the combined absence and vacancy rates were 23.6%, requiring 459,722 hours of backfill².

City Manager

With 2020-2021 expenditures of \$16.9 million, including encumbrances, the City Manager's Office (CMO) expended 91.7% of their \$18.4 million General Fund budget, resulting in savings of \$1.5 million. Personal services expenditures were 98.4% expended with savings of \$235,000, which is primarily attributable to several vacancies over the course of the year in the Office of Racial Equity (ORE) and Office of Emergency Management (OEM). It is important to note that ORE is fully staffed. Active recruitments for some of these positions were put on hold due to the City's COVID-19 response, but recruitments for the ORE positions have resumed in 2021-2022. The estimated remaining savings in personal services (\$300,000) was rebudgeted as part of the 2021-2022 Adopted Budget for temporary staffing support in the Office of Administration, Policy and Intergovernmental Relations and Office of Racial Equity. However, the rebudget exceeded the remaining balance for 2020-2021; therefore, to accurately rebudget the actual remaining balance, a negative rebudget of \$65,000 is included in this report.

Non-personal/equipment expenditures ended the year 62.8% or \$1.3 million below the budgeted level of \$3.5 million, including encumbrances. A large portion of the non-personal/equipment savings (\$1.0 million) was rebudgeted as part of the 2021-2022 Adopted Budget for projects currently underway in ORE, OEM, and the Office of Civic Innovation. Of the \$1.0 million rebudgeted, \$80,000 was reallocated to the Office of the City Clerk to support interpretation costs at City Council and Committee meetings. A total of \$298,845 of non-personal/equipment savings is recommended to be rebudgeted to personal services as part of this report to help support the transition of the City Manager and for OEM positions funded by the Urban Areas Security Initiative Grant.

Information Technology

Information Technology Department (ITD) expenditures, including encumbrances, totaled \$24.7 million in 2020-2021. This expenditure level is \$3.2 million, or 11.5%, below the budgeted level of \$27.9 million. Personal services expenditure savings (including fee activity) totaled \$1.2 million in 2020-2021, which was due to vacancies throughout the department.

² In 2018-2019, combined impact of absence and vacancy hours required 414,507 hours of backfill.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

At the end of 2020-2021, 15 of the Department’s 88 budgeted positions were vacant. Non-personal/equipment expenditures and encumbrances totaling \$10.7 million ended the year \$2.0 million below the budgeted level; the savings were the result of lower spending across several categories, including technology projects, upgrades, and inventory replenishment. A portion of these savings (\$1.0 million) were rebudgeted as part of the 2021-2022 Adopted Budget for the Cybersecurity Roadmap, Windows 10 Enterprise and PC’s Upgrade, and IT Project Management projects. After accounting for the rebudgets captured in the 2021-2022 Adopted Budget, remaining non-personal/equipment savings totaled \$1.0 million.

Mayor and City Council

With total expenditures and encumbrances of \$13.8 million, the Mayor’s Office, the City Council Offices, and Council General expended 73% of their total General Fund budgets of \$18.8 million, resulting in savings of \$5.0 million at year-end. Of the total savings, \$3.6 million was realized in the City Council Offices, \$1.4 million was realized in the Mayor’s Office, and \$2,900 was realized in Council General as outlined on the following page:

2020-2021 Actual Expenditure Performance

	2020-2021 Modified Budget	2020-2021 Actuals	Variance
Council District 1	\$ 1,330,573	\$ 872,257	\$ 458,316
Council District 2	980,302	920,555	\$ 59,747
Council District 3	1,000,638	904,713	\$ 95,925
Council District 4	2,096,408	1,384,019	\$ 712,389
Council District 5	1,343,809	834,581	\$ 509,228
Council District 6	1,257,242	736,589	\$ 520,653
Council District 7	1,156,929	775,141	\$ 381,788
Council District 8	1,024,097	883,210	\$ 140,887
Council District 9	1,305,178	814,079	\$ 491,099
Council District 10	1,077,502	821,633	\$ 255,869
Mayor’s Office	6,142,973	4,772,928	\$ 1,370,045
Council General	71,625	68,726	\$ 2,899
	\$ 18,787,276	\$ 13,788,431	\$ 4,999,844

In the 2021-2022 Adopted Budget, anticipated 2020-2021 savings of \$4.6 million (\$3.4 million in the City Council Offices, \$1.2 million in the Mayor’s Office) were rebudgeted. Actual year-end savings, however, exceeded these estimates. Based on year-end performance, additional rebudgets totaling \$442,000 are recommended in this document.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

Planning, Building and Code Enforcement

The Planning, Building and Code Enforcement Department (PBCE) ended the year at \$14.7 million, which is \$2.3 million below the 2020-2021 Modified Budget level of \$17.0 million. After accounting for rebudgets included in the 2020-2021 Adopted Operating Budget (\$539,600), the resulting net variance for the department totals \$1.2 million.

Personal services expenditures in 2020-2021 totaled \$12.9 million, which represents 91.1% of the 2020-2021 Modified Budget level of \$14.1 million. This savings is primarily the result of vacant Code Enforcement Inspector positions in the Multiple Housing and Solid Waste Code Enforcement Programs. During 2020-2021, PBCE experienced vacancy rates ranging from 15% to 20% throughout the year as the Department continued to face challenges to attract and retain qualified candidates.

The Non-Personal/Equipment 2020-2021 expenditures totaled \$1.9 million, which is \$1.0 million below the 2020-2021 Modified Budget of \$2.9 million. Approximately \$539,400 was anticipated and rebudgeted as part of the 2021-2022 Adopted Budget, bringing the variance down to \$500,000. This non-personal/equipment savings is primarily due to policy and program work that was delayed due to the County of Santa Clara's public health orders in response to the COVID-19 pandemic. The remaining savings is due, in part, to contractual services, software license and maintenance, and consultant services. A rebudget of \$200,000 is included in this report for the code enforcement consultant study, resulting in a net variance of \$300,000.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

The non-departmental categories consist of City-Wide Expenses, Capital Contributions, Transfers, Earmarked Reserves, Contingency Reserve, and the Ending Fund Balance Reserve. An overview of the expenditure performance in these categories is provided below:

TABLE E
2020-2021 NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)

Category	2020-2021 Modified Budget	2020-2021 Actual	Variance	% Variance
City-Wide Expenses	\$ 328,350,544	\$ 274,241,519	\$ (54,109,025)	(16.5%)
Capital Contributions	130,568,593	54,892,934	(75,675,659)	(58.0%)
Transfers	80,825,604	80,825,604	-	0.0%
Earmarked Reserves	137,858,945	-	(137,858,945)	(100.0%)
Contingency Reserve	40,000,000	-	(40,000,000)	(100.0%)
Ending Fund Balance Reserve	18,375,000	-	(18,375,000)	(100.0%)
TOTAL	\$ 735,978,686	\$ 409,960,057	\$ (326,018,629)	(44.3%)

City-Wide Expenses

The City-Wide Expenses category consists of funding that is related to more than one department or that is not directly associated with a department's ongoing operations. Committed expenditures in this category totaled \$274.2 million, or 84% of the 2020-2021 Modified Budget, resulting in savings of \$54.1 million. Of this amount, \$35.4 million was assumed as savings in 2020-2021 and rebudgeted to 2021-2022, including \$4.5 million that was offset by revenue sources. Of the remaining balance of \$18.7 million, rebudget adjustments totaling \$7.7 million are recommended in this report, and if approved, would result in net savings of \$11.0 million in this category, a 3.4% variance from the budgeted level.

The major ongoing expenditures in the City-Wide Expenses category are detailed below.

- TRANs Debt Service payments of \$131.6 million were completed to repay the short-term note that was issued for cash flow purposes necessitated by the pre-funding of employer retirement contributions.
- The Food and Necessities expenditures of \$19.6 million ended the year \$760,000, or 3.7% below the 2020-2021 Modified Budget of \$20.4 million. Funding was allocated as part of the Fiscal Recovery Update and Coronavirus Relief Fund Rebalancing actions approved by City Council on December 8, 2020 to continue to provide needed services through June 30, 2021.

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- Total Workers' Compensation Claims payments of \$18.6 million were \$97,000, or just 0.52%, below the 2020-2021 Modified Budget of \$18.7 million. This spending level compares favorably to the prior year, where total payments were \$19.4 million, which are \$766,000, or 4.0%, above 2020-2021 actual payments. Workers' Compensation Claims appropriations for Parks, Recreation and Neighborhood Services and Fire Department were exceeded slightly (by 101.9% and 101.3% respectively.) However, the remaining workers' compensation claims' appropriations for Police, Transportation, Public Works and other Departments were within budgeted levels. Separate actions to ratify the PRNS and Fire Departments' Workers' Compensation Claims appropriations was approved by City Council on September 28, 2021 as part of the Adoption of an Ordinance Ratifying Final Expenditures in Various Appropriations for 2020-2021.
- The Local Assistance expenditures of \$6.4 million ended the year \$2.4 million, or 27.0% below the 2020-2021 Modified Budget of \$8.8 million. Funding was allocated as part of the Fiscal Recovery Update and Coronavirus Relief Fund Rebalancing actions approved by City Council on December 8, 2020 to continue to provide needed services through June 30, 2021. This report recommends a rebudget of \$2.1 million to continue to provide support services, bringing the total available funding in 2021-2022 to \$2.1 million.
- San José BEST and Safe Summer Initiative Programs expenditures of \$6.2 million were \$1.2 million, or 15.7% below the 2020-2021 Modified Budget of \$7.4 million, but above the 2019-2020 level of \$5.5 million by 11.5%. As part of the development of the 2021-2022 Adopted Budget, an estimated \$440,000 in savings were rebudgeted, for a total 2021-2022 Adopted Budget amount of \$6.7 million. This report recommends an additional rebudget of \$215,000 to continue certain program work into 2021-2022.
- Expenditures for Homeless Rapid Rehousing of \$4.0 million and the Homeless Response Team of \$1.7 million totaled \$5.2 million and ended the year \$490,000 below budgeted levels across both appropriations. This spending level is below the prior year level of \$6.9 million total for both appropriations. A rebudget of \$70,000 of project savings is recommended in this report.
- Sick Leave Payments Upon Retirement expenditures of \$3.9 million ended the year 22.2% below the annual allocation of \$5.0 million, though 13.5% above the 2019-2020 level of \$3.4 million.
- The Digital Inclusion Program expenditures of \$3.4 million were \$3.1 million, or 47.6%, below the Modified Budget estimate of \$6.4 million, and above expenditures in 2019-2020 of \$1.7 million. As part of the development of the 2021-2022 Adopted Budget, an estimated \$2.7 million in savings were rebudgeted, and an additional \$474,000 rebudget is recommended as part of this report.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

- Diridon Station Area Development Planning expenditures of \$3.4 million were \$542,000, or 13.7%, below the 2020-2021 Modified Budget of \$4.0 million, yet above the 2019-2020 level of \$2.9 million by 14.2%. As part of the development of the 2021-2022 Adopted Budget, estimated savings of \$610,000 were rebudgeted; however, included in this document is a recommended downward adjustment of \$68,000 due to higher than anticipated expenses that occurred in 2020-2021. Also recommended is the addition of one-time funding of \$450,000, funding received by the City's Funding and Reimbursement Agreement with Google, to continue the work related to the Downtown West development project and other Diridon Station Area planning efforts.
- Elections and Ballot Measures expenditures of \$3.2 million ended the year right at the 2020-2021 Modified Budget level of \$3.2 million, which is \$1.3 million, or 41.2% above the prior year level of \$1.7 million. The 2021-2022 Adopted Budget amount is \$2.1 million.
- General Liability Claims payments of \$2.0 million were 13.6% or \$12.5 million below the 2020-2021 Modified Budget of \$14.5 million and below 2019-2020 expenditures of \$4.7 million. The 2020-2021 savings were estimated during the development of the 2021-2022 Adopted Budget; \$12.6 million was rebudgeted into 2021-2022 and this document recommends a downward adjustment of \$70,000 due to higher than anticipated expenses that occurred in 2020-2021 for a total Adopted Budget of \$18.6 million.

Capital Projects

In 2020-2021, the General Fund provided funding totaling \$130.6 million for capital projects. Of this amount, approximately \$75.7 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	Unexpended Funds (\$000s)
Fire Training Center Relocation	\$ 30,005
Emergency Operations Center Relocation Capital Contributions	6,700
The Tech Museum Controls Module Improvements	2,929
Police Athletic League Stadium Turf Replacement	2,902
Fire Apparatus Replacement	2,372
Tech Interactive Fire Alarm System	2,270
Local Sales Tax – PAB/PAC Phase I Elevator Modernization	2,253
City Hall HVAC Control System Replacement	2,249
Unanticipated/Emergency Maintenance	1,892
RAMAC Park Turf Replacement	1,683
City Hall Campus Expansion	1,575
Emergency Power Generation for City Facilities	1,564
San Jose Stage Company	1,000
All Other Projects	16,282
Total Unexpended Capital Projects	75,676

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

Of the \$75.7 million unexpended at the end of 2020-2021, a total of \$73.1 million was rebudgeted to 2021-2022 in the Adopted Budget, leaving a balance of \$2.6 million. As part of the Annual Report, additional rebudget adjustments totaling \$1.6 million are recommended, bringing the Capital savings to \$991,000.

The recommended upward and downward rebudget adjustments as well as augmentations for various appropriations are reflected in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this document.

Transfers

In the Transfers category, expenditures of \$80.8 million ended the year at budgeted levels.

Reserves

General Fund Reserve categories include Earmarked Reserves (\$137.8), Ending Fund Balance Reserve (\$18.4 million), and the Contingency Reserve (\$40.0), which totaled \$196.2 million as of June 30, 2021. The 2021-2022 Adopted Budget assumed that \$195.9 million would be available at year-end, with reserves either re-established in 2021-2022 or used as a funding source for the 2021-2022 Adopted Budget.

Earmarked Reserves

Earmarked Reserves totaled \$137.8 million on June 30, 2021, the largest of which were the: Budget Stabilization Reserve (\$34.6 million); Measure E – 45% Extremely Low Income Reserve (\$21.7 million); 2020-2021 Ending Fund Balance Reserve (\$18.4 million); Measure E – 35% Low Income Reserve (\$17.0 million); Workers Compensation/General Liability Catastrophic Reserve (\$15.0 million); 2021-2022 Future Deficit Reserve (\$11.1 million); 2021-2022 Police Sworn Hire Ahead Program Reserve (\$7.0 million); Salaries and Benefits Reserve (\$5.4 million); Measure E – 10% Moderate Income Reserve (\$4.9 million); Sick Leave Payments Upon Retirement Reserve (\$4.0 million); Google Parking Lots Option Payment Reserve (\$2.7 million); Artificial Turf Capital Replacement Reserve (\$2.6 million); Measure E – 10% Homelessness Prevention Reserve (\$2.1 million); and, the Information Technology Sinking Fund Reserve (\$2.0 million). Most of these Earmarked Reserves were either rebudgeted or used as a funding source for development of the 2021-2022 Adopted Budget.

Ending Fund Balance Reserve

The 2020-2021 Ending Fund Balance Reserve of \$18.4 million was proactively set aside to help ensure sufficient fund balance would be available at the end of 2020-2021 to meet the budgeted estimate used for the development of the 2021-2022 Adopted Budget. Annually, as part of the development of the

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

General Fund Forecast and Adopted Budget for the following year, a certain amount of current year unrestricted ending fund balance is estimated to be available at the end of the year as a funding source for the following year's budget. This ending fund balance is expected to be generated from additional revenues above budgeted levels, expenditure savings, and the liquidation of carryover encumbrances during the year. In the 2021-2022 Adopted Budget, it was assumed that \$24.0 million would be generated from these sources. The establishment of the 2020-2021 Ending Fund Balance Reserve set aside a portion of this funding, with the assumption that the remaining amount would be realized by year-end.

Contingency Reserve

The City Council has established a budget policy of maintaining a minimum 3% Contingency Reserve in the General Fund. At the end of 2020-2021, the Contingency Reserve totaled \$40.0 million and remained unspent during the year. As part of the development of the 2021-2022 Adopted Budget, the full Contingency Reserve was rebudgeted, and actions are included in this report to increase the reserve by \$500,000 to ensure compliance with the Council Policy of maintaining a minimum 3% Contingency Reserve in the General Fund. It is important to note, however, that if this Contingency Reserve is ever needed, it is only sufficient to cover General Fund payroll expenditures for approximately two weeks in the event of an emergency.

Further reserve adjustments totaling \$56.9 million are recommended in this report, including: establishing the 2022-2023 Future Deficit Reserve (\$28.3 million); increasing the Budget Stabilization Reserve (\$12.9 million); establishing the FEMA Non-Reimbursable Expenses Reserve (\$10.0 million); establishing the Berryessa Flea Market Vendor Business Transition Fund Reserve (\$2.5 million); establishing the Pest and Turf Management Team Reserve (\$1.0 million); and, establishing the Emergency Fire Equipment Reserve (\$500,000). Additional reconciling adjustments are also recommended to the: Artificial Turf Capital Replacement Reserve (-\$410,000); Measure E – 45% Extremely Low Income Reserve (\$583,000); Measure E – 35% Low Income Reserve (\$543,000); Measure E – 10% Moderate Income Reserve (\$155,000); Measure E – 10% Homelessness Prevention Reserve (\$270,000); Code Enforcement Permit System Reserve (\$400,000); and, Solid Waste Code Enforcement Program Reserve (\$400,000). Additional smaller, select adjustments are also recommended to reserve funds for designated purposes.

Recommended expenditure adjustments and clean-up actions can be found in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this report. Adjustments are in the following categories: Required Technical/Rebalancing Actions, Grants/Reimbursements/Fees, and Urgent Fiscal/Program Needs as described in detail in the General Fund Recommended Budget Adjustments Summary. In addition, clean-up actions can also be found in this section with a detailed description of recommended actions found in the introduction of that section.