

## 2022-2023 Mid-Year Budget Review

### STATUS OF GENERAL FUND REVENUES

#### OVERVIEW

General Fund revenues through December totaled \$788.7 million, or 45.7% of the budgeted estimate. A comprehensive review of all General Fund revenue accounts has been performed based on activity through the first six months of the year. Based on the available data through December, General Fund revenues have outperformed expectations and are anticipated to end the year approximately \$30 million (variance of approximately 2% when excluding the Beginning Fund Balance) above budgeted levels due to strong growth in several revenue categories. Revenues that are performing significantly above anticipated levels include Property Tax, Utility Tax, Use of Money/Property, Sales Tax, and Transient Occupancy Tax. Partially offsetting these revenue growths is lower than anticipated Business Taxes and Fees, Rates and Charges, which is primarily due to lower than anticipated activity levels for the Cannabis Business Tax and departmental fee revenue. Revenue adjustments are included in the Mid-Year Budget Review to align several of the budgeted estimates with anticipated receipts, which are further described on the following pages. The following table details actual 2022-2023 General Fund revenue collections through December as compared with budgeted revenue estimates and 2021-2022 actual collections for the same time period in the previous year. Also included are changes to each category that are recommended as part of this report.

#### 2022-2023 General Fund Revenue Status through December (\$ in Thousands)

Category	Budget Estimate	YTD Actual	% of Estimate	2021-2022 % of Actual	Proposed Changes
<b>General Revenue</b>					
Property Tax \$	427,000	\$ 103,745	24.3%	13.5%	\$ 10,000
Sales Tax	331,000	116,212	35.1%	35.8%	-
Telephone Line Tax	20,000	7,260	36.3%	33.2%	-
Transient Occupancy Tax	11,000	5,841	53.1%	31.3%	-
Real Property Transfer Tax	65,000	32,137	49.4%	49.6%	-
Franchise Fees	49,168	19,316	39.3%	37.2%	-
Utility Tax	107,450	51,794	48.2%	35.8%	7,000
Business Taxes	86,000	42,892	49.9%	48.6%	-
Licenses and Permits	20,778	14,044	67.6%	77.2%	-
Fines, Forfeitures, and Penalties	12,232	7,598	62.1%	44.4%	-
Revenue from Use of Money and Property	8,779	6,568	74.8%	39.3%	4,500
Revenue from Local Agencies	19,987	4,115	20.6%	13.9%	28
Revenue from the State of California	30,486	2,005	6.6%	10.5%	514
Revenue from Federal Government	11,018	844	7.7%	-45.2%	582
Fees, Rates, and Charges	23,914	9,441	39.5%	47.5%	-
Other Revenue	377,209	283,220	75.1%	91.5%	(84,076)
<b>Sub-Total General Revenue</b>	<b>1,601,021</b>	<b>707,032</b>	<b>44.2%</b>	<b>43.2%</b>	<b>(61,452)</b>
<b>Transfers and Reimbursements</b>					
Overhead Reimbursements	73,801	57,104	77.4%	74.8%	-
Transfers	32,748	19,905	60.8%	70.7%	1,762
Reimbursements for Services	16,296	4,614	28.3%	32.3%	-
<b>Sub-Total Transfers and Reimbursements</b>	<b>122,845</b>	<b>81,623</b>	<b>66.4%</b>	<b>68.7%</b>	<b>1,762</b>
<b>TOTALS \$</b>	<b>1,723,866</b>	<b>\$ 788,655</b>	<b>45.7%</b>	<b>45.7%</b>	<b>\$ (59,690)</b>

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As discussed in previous Bi-Monthly Financial Status Reports, although economic conditions remain positive on an overall basis, persistent high inflation rates, high gas prices, and high interest rates have begun to negatively impact several sectors of the economy, most notably the real estate market. Through the first half of the fiscal year, General Fund revenues are performing strong, with several categories anticipated to exceed budgeted levels. Revenue categories experiencing higher than anticipated collections include Property Tax, Utility Tax, Use of Money/Property, Sales Tax, and Transient Occupancy Tax. Partially offsetting these strong revenue collections is lower than anticipated Business Taxes and Fees, Rates and Charges, which is primarily due to lower than anticipated activity levels for the Cannabis Business Tax and departmental fee revenue. Budget adjustments to several of these revenue categories are included in this document, and are further discussed below.

Recommended Adjustments

As described below, a net downward adjustment to General Fund revenue of \$59.7 million is recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; and (2) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures.

- Implement required technical and rebalancing actions to revise revenue estimates in limited areas to bring estimates in line with revised projections (net decrease of \$61.7 million). Significant actions include:
  - Increases the Property Tax estimate by a net of \$10.0 million, from \$427.0 million to \$437.0 million, to reflect updated information provided by Santa Clara County. Recommendations include increasing the following Property Tax categories: general Secured Property Tax (\$5.0 million); SB813 Property Tax (\$3.5 million); Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax (\$1.5 million); and Aircraft Property Tax (\$500,000). Partially offsetting these increases is a decrease to the Unsecured Property Tax (\$500,000).
  - Increases the Utility Tax estimate by \$7.0 million, from \$107.5 million to \$114.5 million, to reflect higher than anticipated Electricity Utility Tax collections. The 2022-2023 Adopted Budget estimate totaled \$57.0 million for Electricity Utility Tax collections. However, based on receipts through December (\$30.4 million), it is anticipated that 2022-2023 collections will exceed the Adopted Budget estimate by approximately \$7.0 million and end the year at \$64.0 million. The significant 2022-2023 collection level is attributable to higher usage and the timing of Electricity Utility Tax payments received.
  - Increases the Use of Money/Property budgeted estimate by \$4.5 million, from \$8.8 million to \$13.3 million, to reflect higher than anticipated interest earnings on the General Fund. The 2022-2023 Adopted Budget estimate totaled \$4.2 million for interest earnings on the General Fund. However, based on receipts through December (\$4.2 million), it is anticipated 2022-2023 collections will exceed the Adopted Budget estimate by approximately \$4.5 million and end the year at \$8.7 million. The significant 2022-2023 collection level is attributable to rising interest rates and a large cash balance in the General Fund. This action offsets the increase to TRANs debt service described below.

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- Increases the estimate for Transfers and Reimbursements by a net of \$263,000, from \$122.8 million to \$123.1 million, to recognize higher transfers related to interest earnings (\$752,000), partially offset by lower transfers from the Parks Capital Construction and Conveyance (C&C) Tax Funds (\$489,000).
  - Interest earnings on various Capital and Special Funds are transferred to the General Fund. Based on activity through December, interest earnings are anticipated to exceed budgeted levels by \$752,000, totaling \$1.9 million by year-end.
  - A negative adjustment to the transfer from the Parks Capital Construction and Conveyance (C&C) Tax Funds for operating and maintenance costs is recommended. Per previous City Council direction, 15% of all the Parks C&C Tax revenue may be transferred to the General Fund for operating and maintenance costs associated with the Parks, Recreation and Neighborhood Services Department. As described later in this memorandum, the C&C revenue estimate is recommended to decrease by \$5.0 million, from \$50.0 million to \$45.0 million. As a result of the lower C&C Tax, Parks C&C Tax revenue will drop by \$3.3 million, and the transfer to the General Fund for operating and maintenance costs will decrease by \$489,000.
- Realigns estimated revenue and expenditures associated with the issuance of Tax Revenue Anticipation Notes (TRANs) through a series of actions. At its meeting on June 21, 2022, the City Council authorized a TRANs issuance of up to \$360.0 million to assist with the pre-payment of Tier 1 retirement costs. However, based on the Finance Department’s final analysis of interest rates and available cash balances, only \$275.0 million was issued on July 1, 2022. Actions are included to both reduce TRANs revenue (Other Revenue) and principal debt service by \$85.0 million. While the amount of TRANs revenue was lower than the maximum authorized amount, due to a rapidly evolving interest rate environment at the time of issuance, the estimated interest costs associated with the TRANs issuance increased to \$7.5 million (up from \$1.5 million). When the City Council authorized the TRANs in June 2022, the Administration noted that any increased debt service interest cost would be spread to various Special and Capital Funds in proportion to each fund’s share of retirement costs included in the 2022-2023 Adopted Budget. Consistent with the approach, this memorandum includes actions to transfer \$1.5 million from various Special and Capital Funds into the General Fund (Transfers and Reimbursements).
- Recognize grant, reimbursement, and/or fee related funds (\$2.0 million). Significant actions include:
  - Increase the revenue estimate for Sidewalk Repairs (\$543,000); recognize grant funding from the San Jose Public Library Foundation (\$317,349); recognize revenue from the State of California for Regional Early Action Planning (\$299,000); and recognize revenue from the federal government for the Police State Homeland Security Grant program (\$225,032).

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

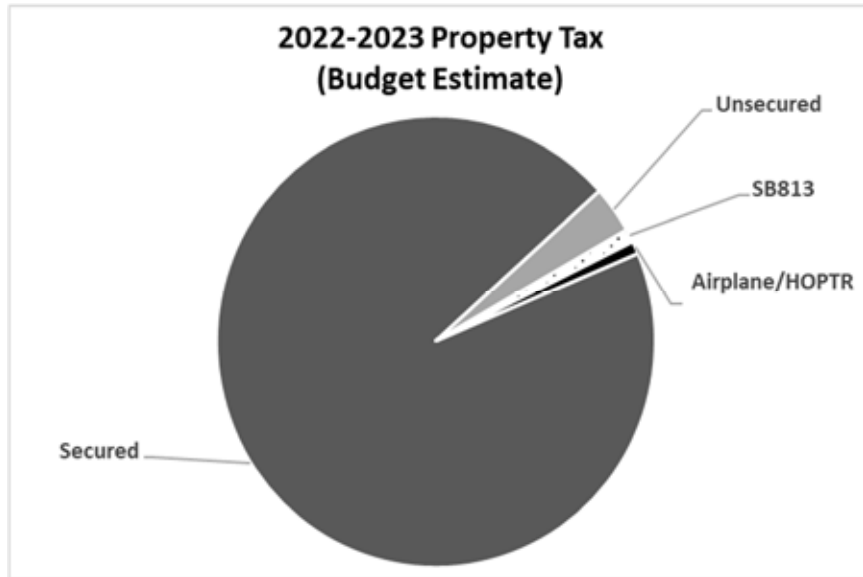
STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

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

2022-2023		2021-2022		2022-2023
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$427,000	\$103,745	24.3%	13.5%	\$10,000

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner’s Property Tax Relief. Overall, Property Tax revenues are projected to exceed the budgeted estimate by approximately \$10 million based on the most recent information received from Santa Clara County. As a result, a recommendation is included in



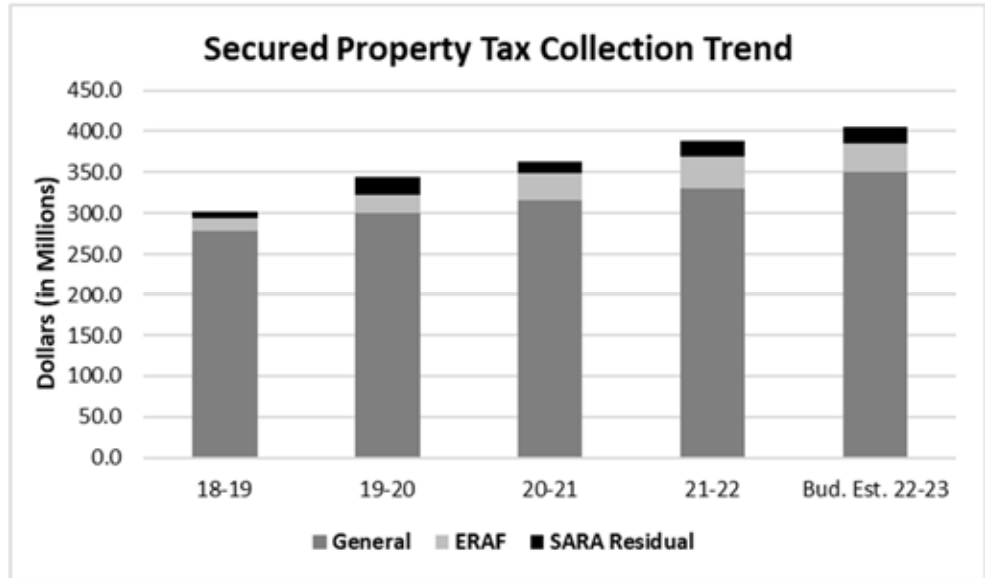
this report to increase the Property Tax revenue estimate by \$10.0 million (from \$427.0 million to \$437.0 million) to more closely align the Property Tax budget with estimated receipts. Each of the Property Tax sub-categories are further described below.

**Secured Property Taxes** represent over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax, and Educational Revenue Augmentation Fund (ERAF) revenues. The 2022-2023 Secured Property Tax budgeted estimate of \$404.6 million was built on assumed growth of 6% for general Secured Property Tax receipts (\$350.0 million), \$19.6 million for SARA revenue, and estimated revenue of \$35.0 million for ERAF receipts. However, based on the most recent information provided by Santa Clara County, Secured Property Tax revenue is anticipated to exceed budgeted levels by approximately \$6.5 million. This increase is due to higher general Secured Property Tax (\$5.0 million) and SARA Residual Property Tax revenue (\$1.5 million). To more closely align the budgeted estimate with the anticipated collection level, a recommendation is included in this report (as described in *Section III. Recommended Budget Adjustments and Clean-up Actions* to increase the Secured Property Tax estimate by \$6.5 million.

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The general Secured Property Tax budgeted estimate totals \$350.0 million in 2022-2023, which assumes growth of approximately 6% from the 2021-2022 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2% and increased valuation due to changes in



ownership or new construction of 4%. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The preliminary general Secured Property Tax estimate provided by Santa Clara County totals \$355 million, which is approximately \$5 million above the budgeted estimate. As described in *Section III. Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the general Secured Property Tax revenue by \$5.0 million (from \$350.0 million to \$355.0 million) to more closely align the revenue with the anticipated collection level.

Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State’s General Fund contributions to school districts under Proposition 98. Once there are sufficient funds in ERAF to fulfill obligations, the remainder of the funding is returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. In 2022-2023, receipts are estimated at \$35.2 million, which is slightly higher than the 2022-2023 budget estimate of \$35.0 million, but is \$3.6 million below the 2021-2022 collection level of \$38.9 million.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. In 2022-2023, receipts are estimated at \$21.1 million, which is higher than the 2022-2023 Adopted Budget estimate of \$19.6 million and the 2021-2022 collection level of \$18.3 million. Therefore, as described in *Section III. Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the SARA Residual Property Tax revenue by \$1.5 million (from \$19.6 million to \$21.1 million) to more closely align the revenue with the anticipated collection level.

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The **Unsecured Property Tax** category refers to property that can be relocated and is not real estate. The most common forms of unsecured property include boats, business personal property, and undeveloped land. The 2022-2023 Unsecured Property Tax budgeted estimate totals \$14.5 million, which allows for a 2% drop from the 2021-2022 collection level. However, based on information provided by Santa Clara County, revenue is declining slightly sharper than anticipated and will end the year \$500,000 below the budgeted estimate. Therefore, as described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, a recommendation is included in this report to decrease the Unsecured Property Tax revenue by \$500,000 (from \$14.5 million to \$14.0 million) to more closely align the revenue with the anticipated collection level.

The **SB 813 Property Tax** category represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Santa Clara County Assessor formally revalues the property. receipts reflect retroactive collections back to the point of sale for reassessments of value due to property resales. The 2022-2023 Adopted Budget estimate of \$4.0 million is well below the 2021-2022 actual collection level of \$7.5 million and the estimate from Santa Clara County of \$7.5 million. Therefore, as described in *Section III. Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the SB813 Property Tax revenue by \$3.5 million (from \$4.0 million to \$7.5 million) to more closely align the revenue with the anticipated collection level.

In the **Aircraft Property Tax** category, the largest payment is typically received in October of each year. Based on collections received through the first half of the year (\$3.1 million) and information provided by Santa Clara County, 2022-2023 receipts are anticipated to end the year at approximately \$3.5 million, which is \$500,000 above the budgeted estimate of \$3.0 million. Therefore, as described in *Section III. Recommended Budget Adjustments and Clean-up Action*, a recommendation is included in this report to increase the Aircraft Property Tax revenue by \$500,000 (from \$3.0 million to \$3.5 million) to more closely align the revenue with the anticipated collection level.

In the **Homeowners Property Tax Relief** category, revenues in 2022-2023 are expected to be at the budgeted estimate of \$900,000, which is consistent with the 2021-2022 collection level.

STATUS OF GENERAL FUND REVENUES

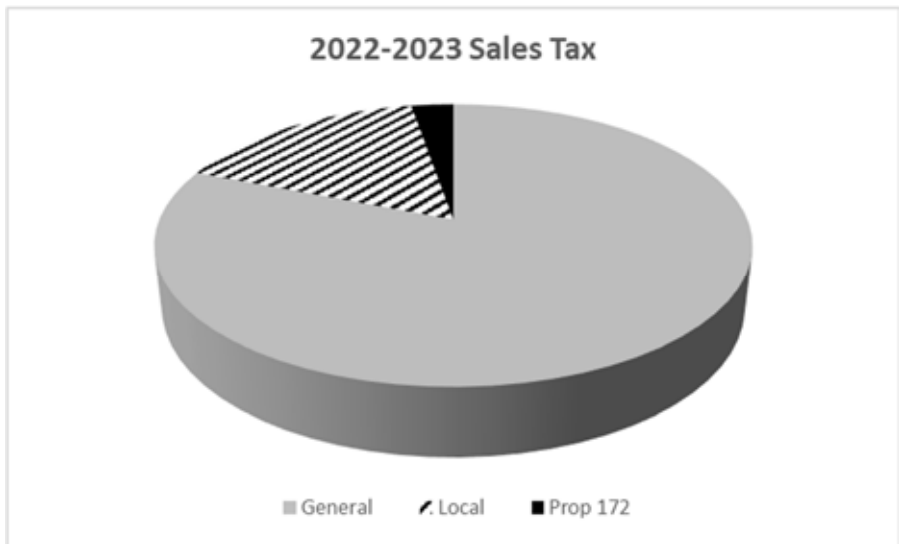
SALES TAX

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

2022-2023		2021-2022		2022-2023
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$331,000	\$116,212	35.1%	35.8%	\$0

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. The 2022-2023 Budget estimate totals \$331.0 million, which is 2.4% above the 2021-2022 receipts of \$323.1 million.

Information related to Sales Tax payments is distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity), February (representing October-December activity), May (representing January-March activity), and August (representing April-June activity). The first Sales Tax payment for 2022-2023 was received in November 2022 and reflects growth of approximately 10% from the prior year, which is consistent with the assumptions used in development of the 2022-2023 budgeted estimate. Based on information known through the first half of the fiscal year, Sales Tax revenue is anticipated to end the year close to the budgeted estimate of \$331.0 million, as the high level of year-over-year growth is expected to significantly moderate in the second half of 2022-2023. However, as only one payment has been received, Sales Tax collections will continue to be analyzed as updated information is received from the CDTFA. Additional information about each of the Sales Tax sub-categories is provided below.



The first Sales Tax payment for 2022-2023 was received in November 2022 and reflects growth of approximately 10% from the prior year, which is consistent with the assumptions used in development of the 2022-2023 budgeted estimate. Based on information known through the first half of the fiscal year, Sales Tax revenue is anticipated to end the year close to the budgeted estimate of \$331.0 million, as the high level of year-over-year growth is expected to significantly moderate in the second half of 2022-2023. However, as only one payment has been received, Sales Tax collections will continue to be analyzed as updated information is received from the CDTFA. Additional information about each of the Sales Tax sub-categories is provided below.

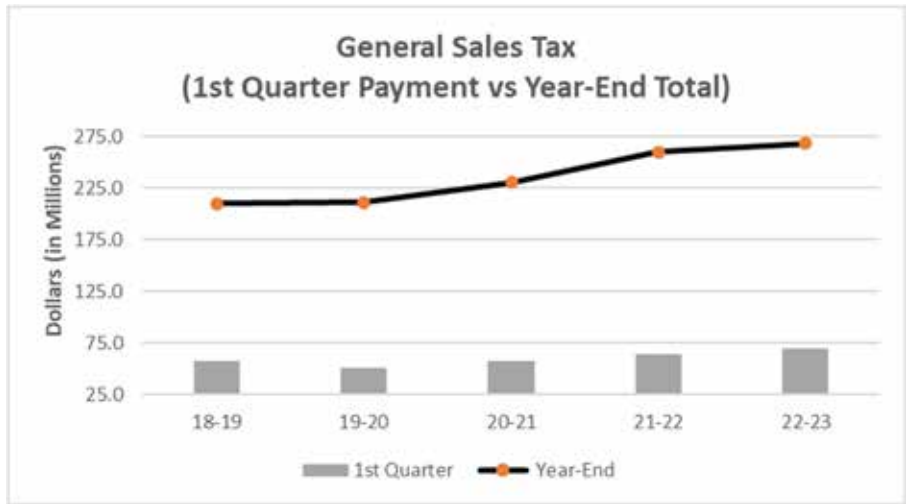
**General Sales Tax** is the largest driver of the Sales Tax category and accounts for over 80% of all Sales Tax receipts. The 2022-2023 General Sales Tax estimate was built on the assumption that 2021-2022 receipts would total \$261.0 million and grow to \$268.0 million in 2022-2023. This estimate assumed moderate growth of 3% in 2022-2023. A slower rate of growth for Sales Tax is anticipated in 2022-2023 due to high inflation that is continuing to persist, increased interest rates that will limit economic growth, and a gradual change in consumer behavior away from taxable goods to non-taxable items such as services and travel. As mentioned above, the first Sales Tax payment was received from the CDTFA

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in November 2022 and appear to reflect growth of approximately 10% from the prior year, this growth rate is expected to significantly moderate over the remainder of the fiscal year.

The City’s Sales Tax consultant, Avenu Insights & Analytics, has provided performance data for General Sales Tax revenue, as displayed on the chart below.



This analysis measures the first quarter General Sales Tax receipts for 2021-2022 and 2022-2023, excluding Sales Tax associated with the Revenue Capture Agreement.

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

Category	2022-2023 % of Total Revenue	2021-2022 % of Total Revenue	% Change of Revenue Received by Category
Transportation	18.4%	18.9%	8.7%
Business-to-Business	18.4%	16.0%	28.4%
General Retail	17.5%	18.2%	6.9%
Food Products	13.1%	13.0%	12.1%
Construction	9.9%	9.8%	13.2%
Miscellaneous	0.6%	0.7%	0.6%
<b>County Pool</b>			
	22.1%	23.4%	5.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

As can be seen in the table above, all categories have experienced year-over-year growth, the largest of which include Transportation, Business-to-Business, General Retail (apparel stores, department stores, furniture/appliance stores, drug stores, recreation products, and florists/nurseries), Food Products, and Construction.

In addition, the County Pool, which is where the majority of online transactions are captured, has continued to grow (5% increase from 2021-2022 to 2022-2023). 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 has been fueled by online purchases during the pandemic and 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



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**SALES TAX**

General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 45% - 50% of the total County Pool. In 2022-2023, it is anticipated the County Pool receipts will continue to remain strong.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 45% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts.

The 2022-2023 Local Sales Tax estimate was built on the assumption that 2021-2022 receipts would total \$52.0 million and grow to \$54.0 million in 2022-2023. When that estimate was developed, Local Sales Tax receipts for only the first and second quarter had been received (sales tax activity from October-December). However, third quarter and fourth quarter receipts were subsequently received, which had stronger than anticipated growth. As a result, 2021-2022 Local Sales Tax collections totaled \$54.9 million; therefore allowing 2022-2023 collections to drop by 1.6% to meet the budgeted estimate. As mentioned above, the first Sales Tax payment was received from CDTFA in November 2022 and appear to reflect growth of approximately 10% from the first quarter payment in the prior year. Based on information known through the first half of the fiscal year, Local Sales Tax revenue is anticipated to end the year close to the budgeted estimate of \$54.0 million. However, as only one payment has been received, Local Sales Tax collections will continue to be analyzed as updated information is received from the CDTFA.

**Proposition 172 Sales Tax** collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. The 2022-2023 budgeted estimate of \$9.0 million requires growth of 7.6% from the 2021-2022 collection level of \$8.4 million. Based on collections through the first half of the fiscal year, it is anticipated that collections will end the year close to the budgeted estimate.

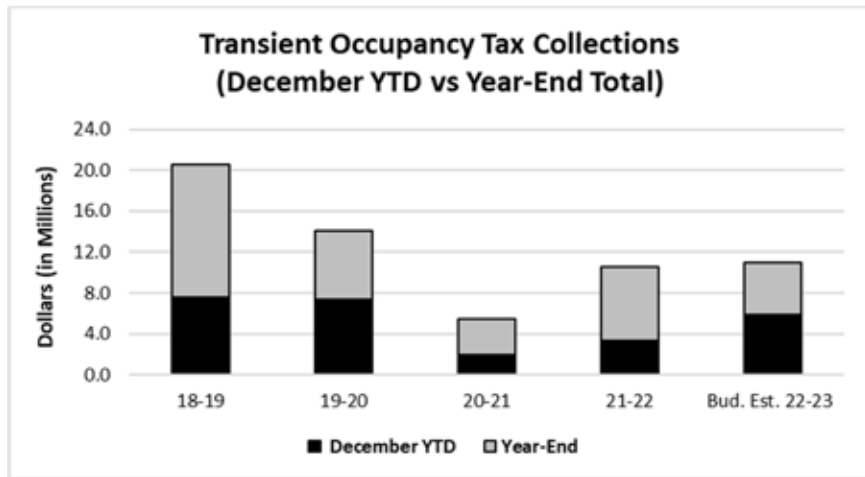
STATUS OF GENERAL FUND REVENUES

TRANSIENT OCCUPANCY TAX

Revenue Status (\$ in Thousands)

2022-2023		2021-2022		2022-2023
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$11,000	\$5,841	53.1%	31.3%	\$0

The 2022-2023 budget estimate for the General Fund **Transient Occupancy Tax (TOT)** allocation (40% of the total tax) is \$11.0 million. When the 2022-2023 Adopted Budget was developed, it was anticipated that 2021-2022 collections would total \$9.0 million and conservatively estimated growth of 22% to \$11.0 million in 2022-2023. However, 2021-2022 ended the year at \$10.5 million,



due to stronger than anticipated year-end hotel activity. As a result, 2022-2023 collections require growth of only 4.6% in 2022-2023 to meet the budgeted estimate. Through December 2022, TOT receipts total \$5.8 million, which is 77.5% above the prior year collection level of \$3.3 million. This growth level is indicative of an increase in demand for hotel rooms following the unprecedented impacts from the pandemic. Based on the preliminary information known at this early point in the year, receipts are anticipated to meet or exceed the budgeted estimate by year- end.

Overall room demand and revenues exhibited consistent, incremental gains throughout 2021-2022, with typical seasonal contraction over the holidays and winter months. Cumulative average occupancy peaked as of June 2022 at 58%, along with the average room rate of \$132.01. This growth pattern has continued into 2022-2023, with occupancy and room rates peaking at 68.81% and \$160.77 in August 2022 – the second highest monthly performance levels to date since April 2020 and the height of the pandemic’s impacts, only surpassed by June 2022 performance of 72.35% and \$162.92. Performance has since declined in November and December, following the normal holiday and seasonal pattern, after which rebounds are typically experienced into late winter/early spring (February - March). As of December 2022, cumulative average occupancy was 64.01%, the room rate was \$158.67, and revenue per available room (RevPAR) was \$101.57.

Reported gross hotel revenue performance for the first half of 2022-2023 highlights a consistent growth pattern, building on the gains seen during 2021-2022. However, the potential for resurgent impacts from COVID-19 continues to introduce uncertainty into this already volatile revenue source. In partnership with Team San Jose (the City’s operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance.

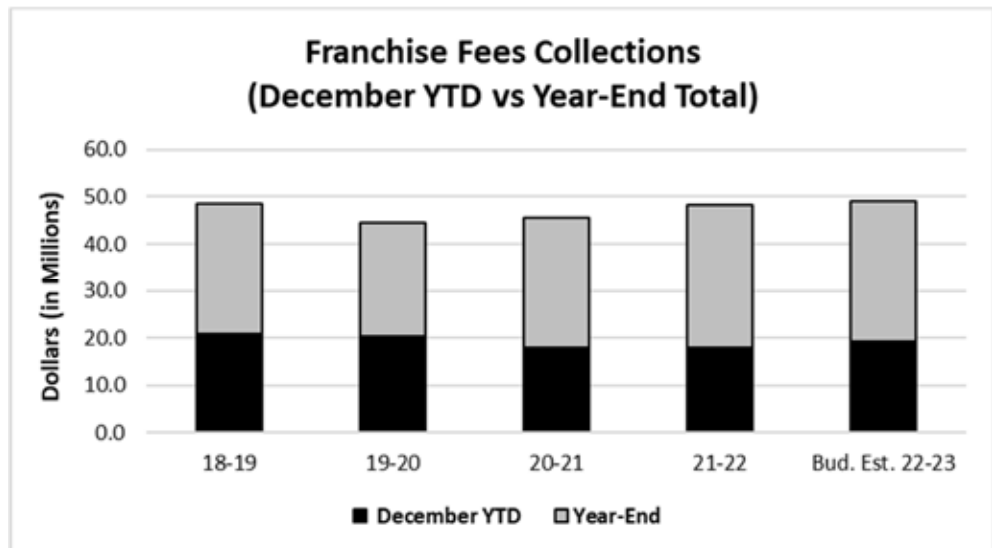
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FRANCHISE FEES

Revenue Status (\$ in Thousands)				
2022-2023		2021-2022		2022-2023
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
\$49,168	\$19,316	39.3%	37.2%	\$0

Franchise Fees are collected in the Cable Television, City Generated Tow, Commercial Solid Waste, Great Oaks Water, Nitrogen Gas Pipeline, Pacific Gas & Electric (PG&E) Electric, and PG&E Gas categories. Through December, Franchise Fee receipts of \$19.3 million are approximately 7% above the prior year collection level. As further discussed below, Electric and Gas Franchise Fees collected through December are formula driven advance amounts, with the true-up occurring in April 2023. Based on historical collection trends, Franchise Fees were previously anticipated to meet or exceed budgeted levels by year-end. However, PG&E recently notified the City that they are changing their timing of Electric and Gas Franchise Fee payments. Currently, PG&E provides 3 advance payments and then a clean-up payment for these franchise fees; however, under the new system PG&E would only provide one payment per year, based on the calendar year. As a result of this timing change, the April 2023 payment will only include a clean-up payment for the 2022 calendar year and no quarterly progress payment will be received in June 2023; instead, the next payment received by the City after April 2023 will not be until April 2024, which will be attributable to activity levels for the 2023 calendar year. The revenue impact to the City in 2022-2023 could range from \$10 million - \$13 million. The Administration will bring forward a revenue adjustment at year-end after receipt of the April 2023 clean-up payment. Each of the Franchise Fees sub-categories are further described below.

**Cable Television Franchise Fees** of \$2.0 million through December are slightly below the prior year level (\$2.1 million) and reflect one quarter’s payment. The 2022-2023 Adopted Budget estimate was built on the assumption that 2021-2022 revenues would



total \$8.3 million and remain flat in 2022-2023. Based on current collection trends and historical patterns, Cable Franchise Fees revenue is anticipated to meet the budgeted estimate by year-end.

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STATUS OF GENERAL FUND REVENUES

**FRANCHISE FEES**

The **Commercial Solid Waste (CSW) Franchise Fee** is a base fee of \$5.0 million per year for each of two geographic collection districts, plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District. CSW collections through December totaled \$5.4 million, which is 4.0% above the prior year collection level. The 2022-2023 Adopted Budget estimate was built on the assumption that 2021-2022 revenues would total \$12.4 million and grow by 4.7% in 2022-2023. Based on current collection trends and historical patterns, CSW revenue is anticipated to meet the budgeted estimate by year-end.

**Electric Franchise Fees** provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in a calendar year (revenue in 2022-2023 are based on calendar year 2022). Collections through December of \$8.9 million reflect formula driven advance amounts; true receipts will not be known until April 2023. The 2022-2023 Adopted Budget for Electric Franchise Fees (\$21.0 million) requires growth of 1.2% from the prior year collection level of \$20.8 million. Based on the current year performance of Electricity Utility Tax receipts, which generally have similar collection trends, Electric Franchise Fees were previously expected to exceed the budgeted estimate by year-end, though the anticipated impact from PG&E's decision to move from a fiscal year payment system to a calendar year payment system as previously discussed will result in lower collection levels on a one-time basis in the current year.

**Gas Franchise Fees** provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in a calendar year (revenue in 2022-2023 are based on calendar year 2022). Collections through December of \$2.9 million reflect formula driven advance amounts; true receipts will not be known until April 2023. The 2022-2023 Adopted Budget for Gas Franchise Fees (\$6.5 million) allows for a slight (2.1%) decrease from the 2021-2022 collection level of \$6.6 million. assumes revenue will be consistent with the prior year collection level. Based on the current year performance of Gas Utility Tax receipts, which generally have similar collection trends, Gas Franchise Fees were previously expected to exceed the budgeted estimate by year-end, barring the impact from PG&E's decision to move from a fiscal year payment system to a calendar year payment system as previously discussed.

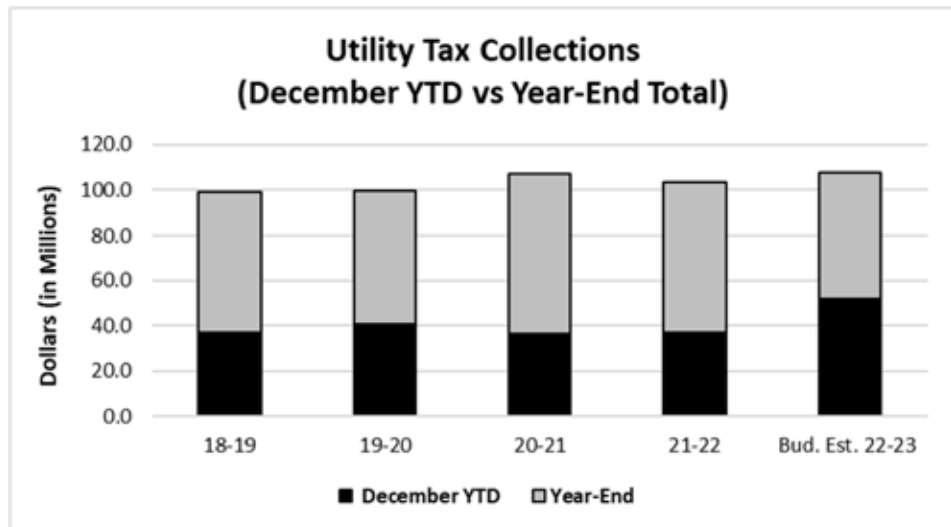
Remaining budgeted Franchise Fees include the **City Generated Tow Fees** (\$50,000), **Great Oaks Water** (\$250,000), and **Nitrogen Gas Pipeline** (\$65,000) categories. It is currently anticipated that the Great Oaks Water Fee and the Nitrogen Gas Pipeline Fee will meet the budgeted estimate by year-end. However, it is not anticipated any revenue will be received for City Generated Tow Fees in 2022-2023.

STATUS OF GENERAL FUND REVENUES

UTILITY TAX

Revenue Status (\$ in Thousands)				
2022-2023		2021-2022		2022-2023
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
\$107,450	\$51,794	48.2%	35.8%	\$7,000

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through December, Utility Tax receipts of \$51.8 million are significantly higher than the prior year collection level of \$37.0 million. The 2022-2023 Adopted Budget was built on the assumption that 2021-2022 Utility Tax revenue would end the year at \$97.7 million and increase to \$107.5 million in 2022-2023. After excluding the payment processing timing issue that occurred in 2021-2022, the Adopted Budget assumed growth of 4% in 2022-2023. However, 2021-2022 ended the year at \$103.6 million, due to stronger year-end collections. As a result, 2022-2023 collections can drop by 2% in 2022-2023 to meet the budgeted estimate. Based on historical collection trends and performance through December, overall Utility Taxes are anticipated to exceed the budgeted estimate by year end. A recommendation is included in this report to increase the Utility Tax revenue estimate by \$7.0 million (from \$107.5 million to \$114.5 million) to more closely align the Utility Tax budgeted estimate with anticipated receipts. Each of the Utility Tax sub-categories are further described below.



In the **Electricity Utility Tax** category, collections through December totaled \$30.4 million, which is approximately 44% above the prior year level. This increase is due to higher usage and the timing of Electricity Utility Tax payments received. The 2022-2022 Adopted Budget estimate totals \$57.0 million. Based on historical collection trends and performance through December, Electricity Utility Tax collections are anticipated to end the year approximately \$7 million above the budgeted estimate. As a result, a recommendation is included in this report to increase the Electricity Utility Tax revenue estimate by \$7.0 million (from \$57.0 million to \$64.0 million) to more closely align the Electricity Utility Tax budgeted estimate with anticipated receipts.

**STATUS OF GENERAL FUND REVENUES**

**UTILITY TAX**

In the **Gas Utility Tax** category, collections through December totaled \$4.6 million, which is significantly above the \$2.7 million received in the prior year. This increase is due to higher usage and the timing of Gas Utility Tax payments received. The 2022-2023 Adopted Budget estimate totals \$14.0 million. Based on historical collection trends and performance through December, Gas Utility Tax collections are anticipated to end the year approximately \$1 million above the budgeted estimate.

**Water Utility Tax** collections of \$9.3 million through December are significantly above the prior year level of \$6.5 million due to the timing of payments and higher usage. The 2022-2023 Adopted Budget estimate totals \$18.0 million. Based on historical collection trends and performance through December, Water Utility Tax collections are anticipated to end the year approximately \$1 million above the budgeted estimate.

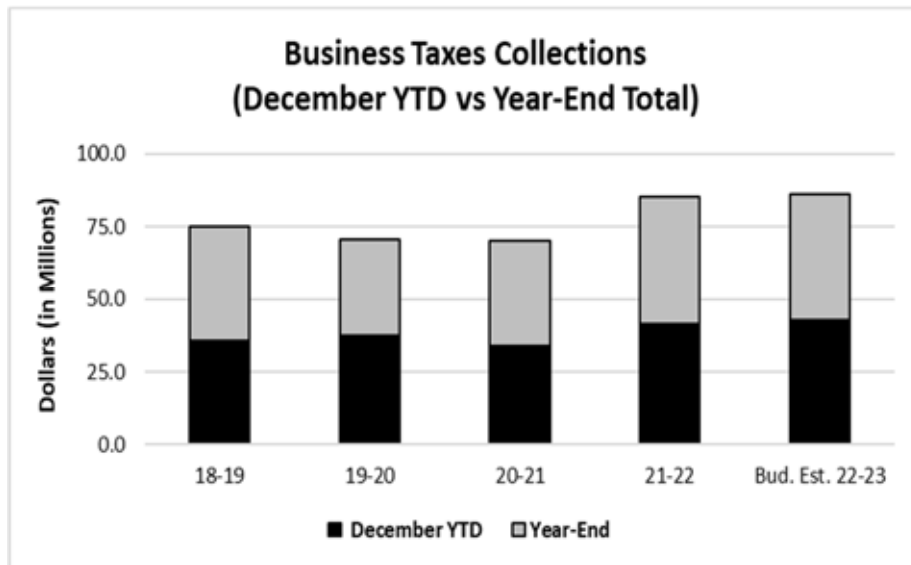
In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Through December, collections of \$7.5 million are 10% above the prior year level of \$6.8 million. The 2022-2023 Adopted Budget estimate totals \$18.5 million. Based on historical collection patterns, receipts in this category are anticipated to slightly (\$500,000) exceed the budgeted estimate by year-end.

STATUS OF GENERAL FUND REVENUES

BUSINESS TAXES

Revenue Status (\$ in Thousands)				
2022-2023		2021-2022		2022-2023
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
\$86,000	\$42,892	49.9%	48.6%	\$0

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Business Tax, Disposal Facility Tax, and General Business Tax. Through December, overall collections of \$42.9 million are 3.3% above the prior year collection levels of \$41.5 million, which reflects higher collections in all categories with the exception of the Cardroom Business Tax. The 2022-2023 Adopted Budget estimate of \$86.0 million requires growth of 1% from the 2021-2022 actual collection level. Based on overall Business Taxes performance through December, it is anticipated that receipts will meet or fall slightly below the overall budgeted level by year end. Each of the Business Taxes sub-categories are further described below.



**Cannabis Business Tax** collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Cannabis Business Tax collections began after San José voters approved Ballot Measure U on November 2, 2010, which allowed the City to tax marijuana businesses. Further, in November 2016, the California Marijuana Legalization Initiative (Proposition 64) was approved by voters, which legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at the 16 registered businesses in San José began in January 2018. Through December, receipts of \$6.2 million are 14.2% below the prior-year collection level of \$7.2 million. The 2022-2023 Modified Budget estimate for Cannabis Business Tax revenue totals \$18.0 million, which is consistent with the 2021-2022 collection level. However, based on performance levels through December, receipts may end the year \$2 - \$3 million below budgeted levels.

**STATUS OF GENERAL FUND REVENUES**

**BUSINESS TAXES**

Through December, **Cardroom Business Tax** receipts totaling \$11.9 million have been received, which are 7.1% higher than the prior year level of \$11.1 million. These collections are inclusive of the ballot measure approved by voters in November 2020 that increased taxes on cardroom operators beginning in January 2021. The 2022-2023 Modified Budget estimate for Cardroom Tax revenue totals \$29.0 million, which is consistent with the 2021-2022 actual collection level. Based on performance through December, receipts may end the year \$1 - \$2 million above budgeted levels.

**Disposal Facility Tax (DFT)** are business taxes received based on the tons of solid waste disposed of at landfills within the City. DFT revenue through December totaled \$5.6 million, which is 27.5% above the prior-year collection level of \$4.4 million. The 2022-2023 Adopted Budget estimate of \$13.0 million requires growth of 2.1% from the 2021-2022 collection level of \$12.7 million. Based on performance through December and historical collection patterns, receipts in this category may end the year \$500,000 - \$1.0 million above budgeted levels.

Through December, **General Business Tax** receipts of \$19.2 million are slightly above the prior- year collection level of \$18.8 million. The 2022-2023 Adopted Budget estimate of \$26.0 million requires growth of 1.1% from the 2021-2022 collection level of \$25.7 million. Based on the performance through December, receipts in this category are anticipated to meet the budgeted estimate by year-end.



**STATUS OF GENERAL FUND REVENUES**

**REAL PROPERTY TRANSFER TAX**

<b>Revenue Status</b> (\$ in Thousands)				
<b>2022-2023</b>		<b>2021-2022</b>		<b>2022-2023</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$65,000	\$32,137	49.4%	49.6%	\$0

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

Through December 2022, Real Property Transfer Tax collections totaled \$32.1 million, which is significantly below the prior year level of \$54.6 million. In addition, the City has received January tax receipts from Santa Clara County, which total \$4.6 million. When taking into account total receipts through December and the January remittance, total Real Property Transfer Tax receipts in 2022-2023 total \$36.8 million, compared to the prior year level of \$63.3 million. This significant variance is due to several factors. First, due to the timing of when a payment from Santa Clara County was processed, funding of \$9.7 million was reflected in 2021-2022 but was attributable to 2020-2021 activity. In addition, due to the real estate market currently being constrained, a larger amount of high-value property transfers occurred in the prior year. As this decrease in activity was anticipated, the 2022-2023 Adopted Budget estimate of \$65.0 million is significantly below the 2021-2022 collection level of \$110.0 million. Based on activity through the first half of the fiscal year, it is currently anticipated that Real Property Transfer Tax revenue will meet the budgeted level by year-end.

**STATUS OF GENERAL FUND REVENUES**

**SUMMARY**

A comprehensive review of all General Fund revenue accounts has been performed based on activity through the first six months of the year. Based on the available data through December, General Fund revenues are anticipated to end the year approximately \$30 million above budgeted levels due to extremely strong growth in several revenue categories. Revenues that are performing significantly above anticipated levels include Property Tax, Utility Tax, Use of Money/Property, Sales Tax, and Transient Occupancy Tax. Partially offsetting these revenue growths is lower than anticipated Business Taxes and Fees, Rates and Charges, which is primarily due to lower than anticipated activity levels for the Cannabis Business Tax and departmental fee revenue.

In total, a net decrease of \$59.7 million to the General Fund Sources is recommended in this document. This decrease reflects a net downward adjustment of \$61.7 million related to technical and rebalancing items to more closely align the budgeted estimates with the current anticipated collection levels: Property Tax, \$10.0 million; Utility Tax, \$7.0 million; Revenue from the Use of Money/Property, \$4.5 million; Transfers and Reimbursements, \$1.8 million; and Other Revenue, -\$85.0 million (TRANS Proceeds). In addition, recommendations are included in this report to recognize an additional \$2.0 million for grants reimbursements and fees adjustments. Further information regarding these adjustments can be found in *Section III. Recommended Budget Adjustments and Clean-up Actions*.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2024-2028 General Fund Forecast, due to be released on February 28, 2023, as well as the 2023-2024 Proposed Budget, due to be released on May 1, 2023. As always, staff will continue to closely monitor the City's current year financial status and report to the City Council any significant developments through the Bi-Monthly Financial Reports. The January/February Bi-Monthly Financial Report will be brought to the Public Safety, Finance and Strategic Support Committee in April 2023.