

Memorandum

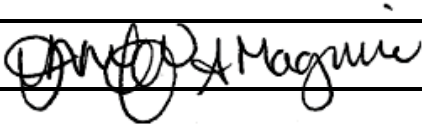
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Shannon

SUBJECT: 2022-2023 MID-YEAR
BUDGET REVIEW REPORT

DATE: January 31, 2023

Approved



Date 1/31/23

RECOMMENDATIONS

- a) Approve the 2022-2023 Mid-Year Budget Review Report.
- b) Adopt related Appropriation Ordinance and Funding Sources Resolution amendments in various funds as detailed in Section III (Recommended Budget Adjustments and Clean-Up Actions) of the 2022-2023 Mid-Year Budget Review Report.

OUTCOME

The Mid-Year Budget Review Report provides an assessment of the City's budget condition in the current fiscal year as compared to the 2022-2023 Modified Budget based on actual performance during the first six months of 2022-2023. Based on this analysis, budget revisions are recommended to: address one urgent fiscal/program need to strengthen the City's recruitment efforts given the challenging labor market; implement required technical/rebalancing actions to align existing revenue estimates and expenditure budgets with the most current tracking information; implement City Council direction, or reallocate funding among appropriations based on updated needs; implement a number of technical and net-zero adjustments between revenue categories and expenditure appropriations; account for new or adjusted grants, reimbursements, or fees; and fund a limited number of new and urgent projects in Special and Capital funds.

EXECUTIVE SUMMARY

The 2022-2023 Adopted Operating and Capital Budgets for the City of San José totaled \$6.0 billion. With this funding, the City continues delivering a wide range of services to the City's residents and businesses. Based on a forecast that included – for the first time in many years – increasing revenues and decreasing retirement contributions, additional focus was placed on the highest needs of our community and the City worked to identify sustainable ongoing funding for important programs and services previously funded on a one-time basis.

The Administration is closely monitoring the City's budget ensuring that current year revenues and expenditures are meeting expectations, which is necessary to maintain budget stability and avoid service disruptions in any given year. Through the first six months of 2022-2023, economic conditions and revenue collections are performing generally at or above expectations and overall expenditures are tracking at or below authorized levels.

Mid-Year Budget Review Highlights

General Fund

- Based on current collection trends and information, General Fund revenues are anticipated to end the year approximately \$30 million, or 2%, above budgeted levels. Overall, General Fund expenditures are tracking slightly below authorized levels and are expected to generate savings of at least \$15 million (1%). The City's budget development process always assumes that a combination of excess revenues and expenditure savings in the current year, and the liquidation of prior year carryover encumbrances, will serve as an ongoing funding source for the following year. Actions included in this report establish the 2022-2023 Ending Fund Balance Reserve at \$9.4 million, approximately 30% of the preliminarily projected \$30 million, that will be used as a funding source in the 2024-2028 Five-Year General Fund Forecast and 2023-2024 Proposed Operating Budget. The remaining balance will be available and placed in a reserve by year-end.
- At this time, a number of Mid-Year Budget Review actions are recommended based on actual performance through December and projected activity through the remainder of the year. Major actions include the following:
 - **Urgent Fiscal/Program Needs:** Several net-zero actions are recommended to leverage departmental vacancy savings to advance organization-wide recruitment efforts: increasing the Human Resources Department Personal Services appropriation by \$375,000 to temporarily increase recruitment staffing levels within the Human Resources Department and provide management capacity to consolidate and assist recruitment efforts within the Parks, Recreation and Neighborhood Services, Planning, Building and Code Enforcement, and Housing Departments, and then set aside an additional \$1.125 million in a reserve to continue to these efforts through 2023-2024. These actions are offset by reductions to corresponding departmental personal services appropriations due to position vacancy savings.
 - **Required Technical/Rebalancing Actions:** Downward net revenue adjustments of \$61.7 million and offsetting downward net expenditure adjustments of \$61.7 million are recommended to align with the most current tracking information, implement prior City Council direction, or reallocate funding among appropriations based on updated needs. Notable revenue-related actions include recognizing projected additional receipts from: Property Tax (\$10.0 million), Utility Tax (\$7.0 million), Revenue from Use of Money/Property (\$4.5 million), and Transfers and Reimbursements (net increase of \$263,000) to recognize higher transfers of \$752,000 related to interest earnings in various

Special and Capital Funds and a lower transfer of \$489,000 from the Parks Capital Construction & Conveyance Tax Funds due to anticipated lower revenue performance. A series of adjustments are recommended for Tax Revenue Anticipation Notes (TRANs) used to assist with the pre-payment of Tier 1 retirement costs. Actions are included to both reduce TRANs revenue and principal debt service by \$85.0 million to align with the TRANs revenue received. However, elevated interest rates require increasing the debt service for interest by \$6.0 million. The increased interest cost in the General Fund is offset by a transfer of \$1.5 million from various Special and Capital Funds into the General Fund, along with the recognition of \$4.5 million of additional interest earnings. The balance of remaining actions are primarily allocated toward: establishment of the 2022-2023 Ending Fund Balance Reserve (\$9.4 million); a Transfer to the Emergency Reserve Fund to support 2022-2023 Storm Response and Recovery (\$5.0 million); increases to the Public Works Department Non-Personal/Equipment appropriation (\$700,000) to support janitorial services for Animal Care and Services and Sunday services at branch libraries; matching funds for the Hazard Mitigation Grant Program (\$481,000); and additional funding in response to Workers' Compensation State License (\$446,000) rate increases effective for 2022-2023. In addition, net-zero adjustments are recommended to support Storm Evacuee Transition Facilities (\$2.0 million) offset by a reduction to Measure E – 15% Homeless Support Programs Reserve, and to transfer a portion of the FEMA Non-Reimbursable Expenses Reserve (\$3.0 million) to the Emergency Reserve Fund to cover an anticipated gap in funding (\$3.0 million) based on recent applications for reimbursement to FEMA.

- **Grants/Reimbursements/Fees:** Several net-zero actions are recommended to recognize new or supplemental grant funding, reimbursements for activities undertaken by the City, and adjustments to estimated revenues from fee-supported activities. Recommended actions provide for \$2.0 million of revenue-supported spending and include adjustments for: Sidewalk Repairs coordinated by the Department of Transportation (\$543,000); Regional Early Action Planning – Housing and Community Development Grant (\$299,000); San José Public Library Foundation grants (\$251,500); State Homeland Security Grant Program – Police 2022; Law Enforcement Mental Health and Wellness Act Project grant (\$156,000); and, increased support for San José BEST and Safe Summer Initiative Programs (\$103,000).
- **Clean-Up Actions:** A variety of net-zero adjustments are recommended to reallocate funds among existing appropriations, adjust previously rebudgeted funding for final 2021-2022 activity, and to shift funding among departments to reflect service delivery responsibility. These actions primarily include: the allocation of \$15.5 million of salary and benefits program adjustments to respective departmental appropriations from the Salaries and Benefits Reserve; the reallocation of funding between respective Measure E reserves to align allocations with policy changes determined as retroactive for the 2021-2022 fiscal year; and, the reallocation of budgeted funds for Mayor and City Council Office appropriations (January – June) for those assuming office in January.

Special/Capital Funds

- Overall, the City's Special and Capital funds are generally performing within expected levels through December, with some notable exceptions. Budget adjustments are recommended in several funds to adjust for revised revenue and cost estimates, to address critical current year funding needs, and to recognize various grants and reimbursements. Some of the highlights and major recommended adjustments are described below.
 - Through December, the Airport has enplaned and deplaned 6.3 million passengers, an increase of 31.9% compared to the same period last fiscal year (4.8 million passengers). Passenger airline operations (takeoffs and landings) are also up at 25.9% above last year. Total passengers in calendar year 2022 of 11.3 million were up 54.0% from passengers served in calendar year 2021, but still 27.6% below the peak of 15.7 million passengers in calendar year 2019. Last year in response to the pandemic's impact, the Airport worked with concessionaires, airlines, and other tenants to help mitigate the negative economic condition by providing financial relief; the agreements were approved by City Council through December 31, 2023. The Airport has available federal American Rescue Plan Act (ARPA) funding of \$28.9 million that is intended to partially offset decreased revenue in 2022-2023 in comparison to pre-pandemic levels. If fully collected, Airport will have \$20.0 million remaining of ARPA available to use if needed before 2025.
 - The status of the San José Clean Energy (SJCE) Fund continues to improve. While market energy prices remain high – resulting from pipeline restraints, low gas storage, and energy plant downtime for required maintenance – and load demand has increased, the City Council-approved rate package allows for increased revenues to offset increased costs while still building reserve levels. As a result, actions are included to repay \$20 million of the outstanding \$60 million of Commercial Paper debt in 2022-2023, with the remaining \$40 million expected to be repaid in 2023-2024. Rates for 2023 rates are estimated to be slightly lower than Pacific Gas & Electric (PG&E) rates (1-3%) and SJCE operating reserves are expected to reach 180 days by the end of 2023.
 - The Building and Structure Construction Tax and the Construction Excise Tax revenues, the two largest construction-related revenues, are tracking to end the year above and below, respectively, their Adopted Budget estimates, reflecting higher than anticipated development permit activity for commercial and industrial land use categories, and lower activity levels for residential permits. Based on collections through December, tax receipts from the Building and Structure Construction Tax are expected to end the year approximately \$1.0 million above the budgeted estimate of \$19.0 million (5%; \$19.0 million to \$20.0 million) and Construction Excise Tax receipts are expected to end the year approximately \$2.0 million below the budgeted estimate of \$16.0 million (11%; from \$16.0 million to \$14.0 million).
 - Construction and Conveyance (C&C) Tax receipts are the largest source of revenue for the C&C Tax Funds. Through December 2022, C&C Tax collections totaled \$18.9 million, which represents approximately 38% of the 2022-2023 Adopted Budget estimate of

\$50.0 million. The 2022-2023 Adopted Budget assumed tax revenue would drop 22% in 2022-2023 compared to 2021-2022 collections due to the tightening of the local real estate market, which is the primary driver of this revenue source. However, based on collections through the first half of the fiscal year, C&C Tax revenue is now anticipated to fall short of the budgeted revenue estimate by \$5.0 million. Therefore, a recommendation to decrease the 2022-2023 C&C Tax estimate from \$50.0 million to \$45.0 million is included in this report, which represents a 30% drop from 2021-2022 collections.

Looking forward, the Administration is scheduled to release the 2024-2028 General Fund Five-Year Forecast on February 28, 2023, and the 2023-2024 Proposed Capital and Operating Budgets on April 26, 2023 and May 1, 2023 respectively. Analysis from this Mid-Year Budget Review will be factored into both the Forecast and Proposed Budgets, as appropriate.

BACKGROUND

The annual Adopted Budget is a financial plan predicated on the best information available at the time it is prepared. As with any budget, however, changing conditions create the need to modify the original plan. Through its budget policies, the City Council has designated mid-year as the appropriate time to perform a comprehensive review of the current year's budget, and the Mid-Year Budget Review as the appropriate vehicle for consideration of any revisions to the budget. This Mid-Year Budget Review Report complies with that policy. It contains a comprehensive review of the status of the City's 2022-2023 Operating and Capital Budgets as modified through December 2022.

The Mid-Year Budget Review Report includes the following sections:

- **Transmittal Memorandum** – An overall summary of the contents of the Mid-Year Budget Review Report.
- **Section I: General Fund Status Report** – A review of the General Fund revenues and expenditures through Mid-Year.
- **Section II: Selected Special/Capital Funds Status Report** – A review of selected special and capital funds that have revenue and/or expenditure variances from the Modified Budget or other issues of interest.
- **Section III: Recommended Budget Adjustments and Clean-up/Rebudget Actions** – The Recommended Budget Adjustments detail the proposed budget augmentations/reductions in the General Fund and Special/Capital funds. The Clean-up Actions detail the technical appropriation and revenue estimate adjustments for the General Fund and Special/Capital funds.
- **Section IV: Appendix** – This section includes the financial results, prepared by the Finance Department, for all budgeted fund groups for the first six months of the year.

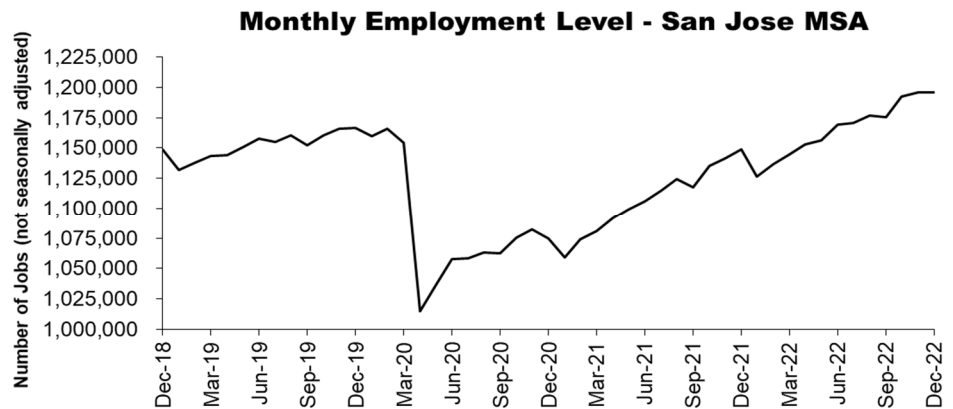
ANALYSIS

The Analysis section includes the following: an overview of the current economic environment; a discussion of General Fund performance through December; a summary of recommended General Fund budget adjustments included in the Mid-Year Budget Review Report; and a status report on selected Special and Capital funds.

ECONOMIC ENVIRONMENT

Despite recent well-publicized layoff notices in the technology sector that is a potential indicator of future economic weakening, Silicon Valley continues to show overall positive economic performance through the first half of the fiscal year. Key economic areas remain strong, including robust employment figures, rebounding hotel occupancy rates, and growing sales tax activity levels. However, while many local economic indicators remain positive, the local real estate market has continued to falter.

The December 2022 employment level of 1.20 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 47,100 jobs, or 4.1%, from the December 2021 level of 1.15



million. This increase includes professional and business services adding 12,200 jobs; private educational and health services growing by 9,800 jobs; leisure and hospitality increasing by 8,600 jobs; and the information sector adding 6,800 jobs.¹

Unemployment Rate (Unadjusted)			
	Dec. 2021	Nov. 2022	Dec. 2022**
San José Metropolitan Statistical Area*	2.9%	2.4%	2.1%
State of California	4.8%	4.0%	3.7%
United States	3.7%	3.4%	3.3%
* San Benito and Santa Clara Counties Source: California Employment Development Department. ** December 2022 estimates are preliminary and may be updated.			

The local unemployment rate for December 2022 was 2.1%, which is slightly lower than the November 2022 rate of 2.4% and is below the prior year unemployment rate of 2.9%. Additionally, the December 2022 San José Metropolitan Statistical Area unemployment rate continues to be lower than the unadjusted unemployment rate for the State (3.7%) and the nation (3.3%).

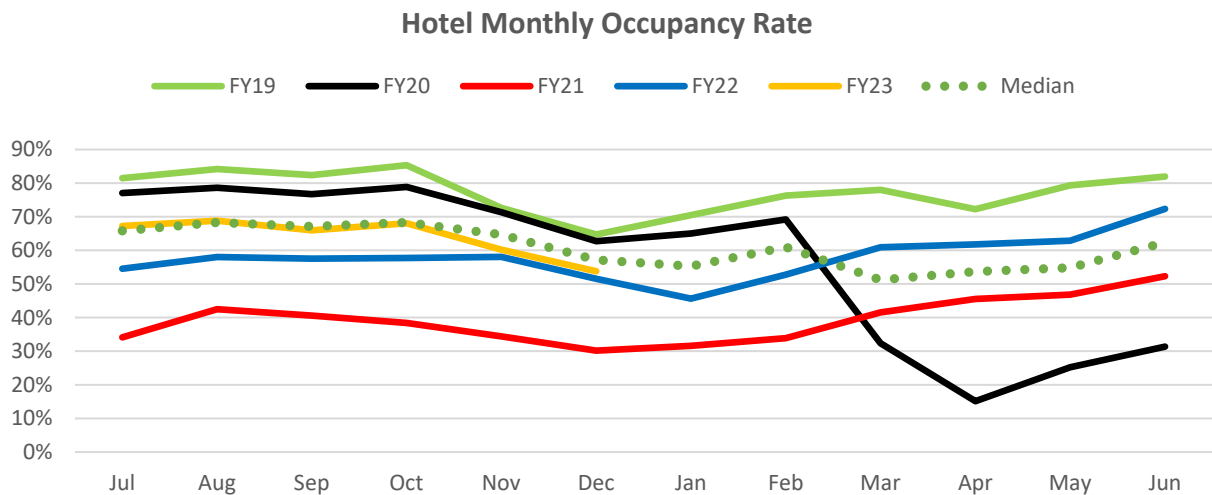
¹ State of California Employment Development: Labor Market Information Division Press Release, January 20, 2023

Overall construction activity through December 2022 increased 22.2% from prior-year levels, primarily due to activity for the commercial and industrial land use categories. The 2022-2023 Adopted Budget was developed with the expectation that development activity would increase slightly from the levels experienced in 2021-2022. If current trends continue, construction activity would moderately outperform the activity projected by the Planning, Building and Code Enforcement Department in the 2023-2027 Five-Year Forecast, which was released in February 2022. The Planning, Building and Code Enforcement Department will update its outlook on future development activity as part of the 2024-2028 Five-Year Forecast scheduled for release at the end of February 2023.

Through December, residential permit valuation has decreased 18.6% from prior-year levels (\$121.4 million in 2022-2023 from \$149.2 million in 2021-2022). Residential activity through December included 461 multi-family units and 216 units of single-family construction for a total of 677 units. Commercial valuation through December 2022 was 54.2% higher than the 2021-2022 level (\$363.6 million in 2022-2023 from \$235.8 million in 2021-2022). New construction accounted for almost 75% of the commercial activity for November and December (\$133.1 million) due to an especially high value of commercial permits in December (\$98.3 million). A notable project for November and December includes a permit issued for the finished interior of a 199,125 square foot office building located on Orchard Parkway.

Industrial construction valuation through December was 13.3% higher than prior-year levels, with receipts totaling \$184.7 million in 2022-2023 and \$163.1 million in 2021-2022. Alterations accounted for almost 50% of all the industrial activity in November and all the activity in December. A notable project for November and December includes a permit issued for a new 225,000 square foot warehouse located on King Road.

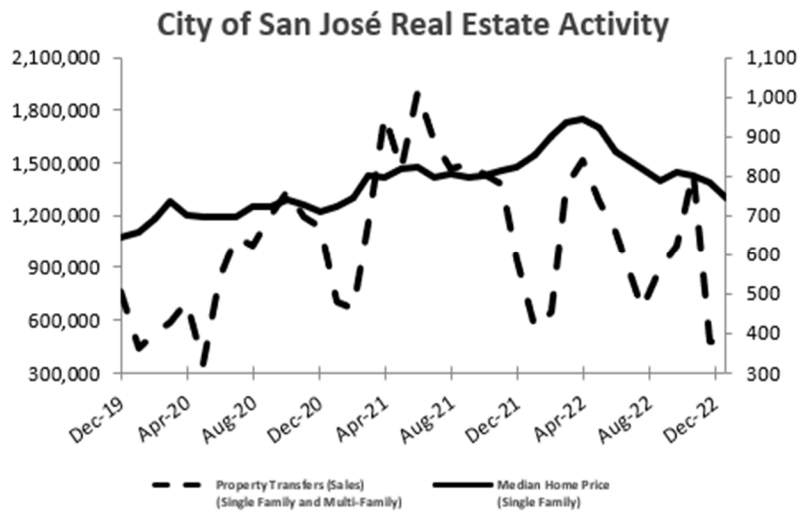
Private Sector Construction Activity (Valuation in \$ Millions)			
	YTD December 2021	YTD December 2022	% Increase
Residential	\$ 149.2	\$ 121.4	(18.6%)
Commercial	\$ 235.8	\$ 363.6	54.2%
Industrial	\$ 163.1	\$ 184.7	13.3%
	\$ 548.1	\$ 669.8	22.2%



Short-term lodging activity, which drives Transient Occupancy Tax and Convention Center Facility District Special Tax revenues, continue to build upon the rebounds experienced in 2021-2022, and following the historic lows experienced in 2020-2021 due to the pandemic’s impacts on the events and hospitality sector. Revenue performance to date is outpacing the forecast used for development of the 2022-2023 Adopted Budget and is approximately 77% higher than collections for the same period in 2021-2022.

Overall room demand and revenue exhibited consistent 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. 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). For the 2022-2023 fiscal year (as of December 2022), cumulative average occupancy was 64.01%, the room rate was \$158.67, and revenue per available room was \$101.57.

According to data from the Santa Clara County Association of Realtors, in December 2022, the median single-family home price totaled \$1.3 million, which is 11.9% lower than the December 2021 price of \$1.5 million. Homes are also staying on the market for longer periods of time before selling: the average days-on-market through December 2022 totaled 25 days, which is significantly above the average of 16 days experienced year-to-date through December 2021. In



addition, property sales activity has been declining. Property sales for the first half of the fiscal year dropped almost 32% compared to the prior-year sales. Local real estate activity will continue to be closely monitored with updates being provided in future bi-monthly financial reports.

On a national level, consumer confidence increased in December after experiencing back-to-back monthly declines. According to Lynn Franco, Senior Director of Economic Indicators at The Conference Board, “Consumer confidence bounced back in December, reversing consecutive declines in October and November to reach its highest level since April 2022. The Present Situation Index (consumers’ assessment of current business and labor market conditions) improved due to consumers’ more favorable view regarding the economy and jobs. Inflation expectations retreated in December to their lowest level since September 2021, with recent declines in gas prices

a major impetus. Vacation intentions improved but plans to purchase homes and big-ticket appliances cooled further.”²

Economic conditions will continue to be closely monitored and factored into the 2024-2028 General Fund Five-Year Forecast, scheduled to be released on February 28, 2023, and the upcoming releases of both the Proposed Capital and Operating Budgets, scheduled to be released on April 26, 2023 and May 1, 2023, respectively.

GENERAL FUND PERFORMANCE

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, as well as Franchise Fees, which are estimated to be lower in the current year on a one-time basis due to the timing of Electric and Gas Franchise Fee payments from PG&E.

In this document, an overall net decrease of \$59.7 million to General Fund Sources is recommended. This reflects required technical and rebalancing actions (\$61.7 million net decrease) and the recognition of grants, reimbursements, and/or fee related funds (\$2.0 million net increase). Budget adjustments are recommended in this report for several revenue categories to align the budgeted estimate with anticipated receipts. These adjustments include increasing the revenue estimates for Property Tax (\$10.0 million), Utility Taxes (\$7.0 million) and Use of Money/Property (\$4.5 million). Offsetting these increases is a recommendation to reduce the revenue estimate for TRANs proceeds (\$85.0 million).

General Fund expenditures through December totaled \$627.4 million, or 26.9% of the total 2022-2023 Modified Budget. This expenditure level represents a slight increase of \$9.2 million, or 1.5%, from the December 2021 level. General Fund encumbrances through December totaled \$83.2 million, which are \$16.8 million below the December 2021 level, which is primarily due to lower Capital Contribution encumbrances. In total, expenditures and encumbrances through December totaled \$710.6 million, which constitutes 30.4% of the total Modified Budget (including reserves) of \$2.3 billion. When excluding reserves of \$383.6 million, expenditures and encumbrances through December constituted 36.4% of the total Modified Budget. Expenditure adjustments totaling \$59.7 million are recommended in this report to accomplish the following: (1) implement one net-zero urgent fiscal/program need related to employee recruitment efforts; (2) implement required technical/rebalancing adjustments; (3) account for new grants,

² The Conference Board, Consumer Confidence Survey, December 2022

reimbursements, and fees; and (4) complete clean-up actions. These recommended revenue and expenditure adjustments are described in further detail on the following pages.

The revenue and expenditure adjustments are summarized below and described in more detail in Section III, *Recommended Budget Adjustments and Clean-Up Actions* of this report. A more detailed discussion of both the General Fund revenue and expenditure performance is also provided in Section I, *General Fund Status Report*.

RECOMMENDED GENERAL FUND BUDGET ADJUSTMENTS

As previously stated, the budget actions recommended in the Mid-Year Budget Review result in a decrease of \$59.7 million to General Fund revenues and expenditures as summarized below.

**2022-2023 MID-YEAR BUDGET REVIEW
 RECOMMENDED GENERAL FUND BUDGET ACTIONS**

BUDGET CATEGORY	Source of Funds (\$ in Millions)	Use of Funds (\$ in Millions)
Urgent Fiscal/Program Needs		
Recruitment Centralization Pilot Program	0.000	0.000
Total Urgent Fiscal/Program Needs	\$0.000	\$0.000
Required Technical/Rebalancing Actions		
Property Tax Revenue	10.000	-
Utility Tax Revenue	7.000	-
Revenue from the Use of Money/Property	4.500	-
Transfers and Reimbursements	0.263	-
Other Revenue/Transfers from Other Funds/TRANs Debt Service	(83.501)	(79.000)
2022-2023 Ending Fund Balance Reserve	-	9.400
2022-2023 Storm Response and Recovery (Transfer to the Emergency Reserve Fund)	-	5.000
Pandemic Response Non-Reimbursable Expenses (Transfer to the Emergency Reserve Fund)	-	3.000
FEMA Non-Reimbursable Expenses Reserve		(3.000)
Storm Evacuee Transition Facilities	-	2.000
Measure E - 15% Homelessness Programs Support Reserve		(2.000)
Janitorial Services	-	0.700
Hazard Mitigation Grant Program (Local Match)	-	0.481
Workers' Compensation State License	-	0.446
Veterinary Services	-	0.225
Sanitary Sewer Fees	-	0.202
Library Security Services	-	0.166
Animal Care and Services Truck Replacement (Transfer to Vehicle Maintenance and Operations Fund)	-	0.160
Other Miscellaneous Adjustments	0.016	0.498
Other Net-Zero Adjustments	-	-
Total Required Technical/Rebalancing Actions	(\$61.722)	(\$61.722)
Grants/Reimbursements/Fees		
Various Grants/Reimbursements/Fee Adjustments	\$2.032	\$2.032
Total Grants/Reimbursements/Fees	\$2.032	\$2.032
Clean-Up Actions		
Various Clean-Up Adjustments	0.000	0.000
Total Clean-Up Actions	\$0.000	\$0.000
Total Recommended Adjustments	(\$59.690)	(\$59.690)

Following is a brief description of the General Fund revenue and expenditure adjustments recommended in this report. Additional information on these adjustments is provided in Section III. Recommended Budget Adjustments and Clean-Up Actions, of this report.

URGENT FISCAL/PROGRAM NEEDS

- ***Recruitment Centralization Pilot Program (Net-Zero):*** A series of actions are recommended to leverage departmental vacancy savings to build upon the multi-year effort that began in 2021-2022 to pilot strategies to advance recruitment efforts in the City and reduce the organization’s vacancy rate. The Human Resources Department has been developing and implementing strategies in multiple areas in the Employment Division to modernize and streamline the hiring process, prepare for a new employment software platform, and advance efforts toward a more proactive recruiting model. The Recruitment Centralization Pilot Program is recommended as an 18-month pilot and will add six temporary positions (two Program Manager, three Analyst, and one Staff Specialist).

Five positions will centralize the recruiting efforts in the Human Resources Department for three departments with high vacancy rates – all recruitment and hiring functions for Parks, Recreation and Neighborhood Services, Housing, and the Planning, Building and Code Enforcement’s Code Enforcement Division will be directed by the Human Resources Department supplemented with one Program Manager and three Analyst positions. This change in approach will add capacity to achieve a goal of an additional 20-25 positions filled every month. The Staff Specialist position will provide administrative support to the team and add capacity for strategic marketing and posting of hard-to-fill positions using LinkedIn, social media, and unique or specialized recruiting venues. The position will also test ways to better support and relieve hiring managers of administrative responsibilities in the recruitment process. The second Program Manager position will focus on the development and implementation of operational process improvements and the deployment of a new employment software application to improve user and hiring manager experience, as well as enhance the capability to track recruitment progress. While the software application was previously funded, an additional staffing resource is necessary for a successful implementation.

Recommended actions include increasing the Human Resources Department Personal Services (\$375,000) appropriation to fund the six temporary positions through June 30, 2023, and setting aside an additional \$1.1 million to continue funding for these positions in 2023-2024. These actions are fully offset by reductions to Personal Services appropriations to the Parks, Recreation and Neighborhood Services Department (\$1.0 million), Planning, Building, and Code Enforcement Department (\$250,000), and Information Technology Department (\$250,000) as a result of vacancy savings. It is important to note that the time spent recruiting for Housing positions will be charged to various Housing Funds, as appropriate.

REQUIRED TECHNICAL/REBALANCING ACTIONS

- ***Property Tax Revenue (\$10.0 million):*** 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: 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).
- ***Utility Tax Revenue (\$7.0 million):*** 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.
- ***Revenue from the Use of Money/Property (\$4.5 million):*** 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 in 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.
- ***Transfers and Reimbursements (\$263,000):*** 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 Special and Capital 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. Partially offsetting the higher transfer related to interest earnings is a negative adjustment to the transfer from the Parks Capital C&C Tax Funds for operating and maintenance costs. 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 Tax 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 corresponding transfer to the General Fund for operating and maintenance costs will decrease by \$489,000.

- ***Other Revenue/Transfers from Other Funds/TRANs Debt Service (-\$83.5 million revenue; -\$79.0 million expenditure)***: Realigns estimated revenue and expenditures associated with the issuance of 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 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 the \$5.2 million anticipated in June 2022 and the early estimate set in February 2022 of \$1.5 million included in the 2022-2023 General Fund Base Budget. 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 this approach, the additional debt service interest cost of \$6.0 million is partially offset by a transfer of \$1.5 million from various Special and Capital Funds into the General Fund. The remaining \$4.5 million of additional debt service interest cost attributable to the General Fund is offset by the additional \$4.5 million of interest earnings described earlier in this memorandum.
- ***2022-2023 Ending Fund Balance Reserve (\$9.4 million)***: Establishes the 2022-2023 Ending Fund Balance Reserve in the amount of \$9.4 million, reflecting additional projected Property Tax, Utility Tax, Revenue from the Use of Money/Property, and Transfers and Reimbursements revenues, as well as the balance of the other General Fund adjustments recommended in this report. When developing the annual budget each year, it is assumed that a combination of excess revenues, expenditure savings, and the liquidation of carryover encumbrances will generate ending fund balance in the current year that will be available as an ongoing funding source for the upcoming fiscal year. The 2023-2027 Five-Year General Fund Forecast issued in February 2022 assumed that approximately \$24 million in fund balance would be available at the end of 2022-2023 for use in 2023-2024. The 2024-2028 Five-Year Forecast that will be issued at the end of February and the 2023-2024 Proposed Operating Budget that will be issued on May 1, 2023 will incorporate fund balance as a funding source. The Administration preliminarily anticipates an ending fund balance estimate for the 2024-2028 Five-Year General Fund Forecast of approximately \$30 million. This action sets aside a portion of the ending fund balance that is expected to be generated in 2022-2023. Subsequent action will be brought forward as part of the year-end clean-up process in June 2023 to set-aside additional revenues, expenditure savings, and the liquidation of carryover encumbrances that are anticipated to be realized by year-end.
- ***2022-2023 Storm Response and Recovery (\$5.0 million)***: Establishes a Transfer to the Emergency Reserve Fund in the amount of \$5.0 million for the 2022-2023 Storm Response and Recovery. The atmospheric river weather events at the end of December 2022 and early January 2023 necessitated continuous emergency response, and an evacuation order was issued to unhoused persons living within or otherwise located along the banks of San José creeks and waterways. While the preparations and actions by the City's Emergency Operations Center

were critical to help ensure the safety of the unhoused persons and other vulnerable community members, and worked to mitigate the impacts of the atmospheric river, the storms' magnitude caused significant damage and impacts. The City's preliminary cost estimate for debris removal, emergency measures – such as standing up 24-hour emergency evacuation centers and warming centers – repairs to infrastructure such as parks and recreation facilities (with significant damages at Alum Rock Park), roads and bridges, public buildings and equipment exceeds \$40 million. Making this \$5.0 million available now ensures the City has access to sufficient funding for the most urgent repairs and recovery efforts. The Administration anticipates returning to the City Council in the coming weeks to access the City's Commercial Paper Program to help provide funding for the extensive repair costs in advance of potential reimbursements from the Federal Emergency Management Agency (FEMA) and contemplated insurance claims proceeds.

- ***Pandemic Response Non-Reimbursable Expenses (\$3.0 million)***: Establishes a Transfer to the Emergency Reserve Fund in the amount of \$3.0 million to align available funding with estimated reimbursements from FEMA for expenditures incurred since the inception of the City's response to the COVID-19 pandemic, beginning in 2019-2020 and continuing through 2022-2023. The potential for non-reimbursable costs was previously anticipated, with funding set aside in the General Fund in the FEMA Non-Reimbursable Expenses Reserve (\$5.0 million) pending a thorough City review of documentation of eligible costs and subsequent application to FEMA for reimbursement. To offset this action, a corresponding decrease of \$3.0 million to the FEMA Non-Reimbursable Expenses Reserve is also recommended in this report. Additional adjustments are recommended in the Emergency Reserve Fund elsewhere in this report to align estimated Revenue from Federal Government.
- ***FEMA Non-Reimbursable Expenses Reserve (-\$3.0 million)***: Decreases the FEMA Non-Reimbursable Expenses Reserve appropriation by \$3.0 million, from \$5.0 million to \$2.0 million, to transfer funds to the Emergency Reserve Fund, aligning available funding with estimated reimbursements from FEMA for expenditures incurred since the inception of the City's response to the COVID-19 pandemic.
- ***Storm Evacuee Transition Facilities (\$2.0 million)***: This action establishes the Storm Evacuee Transition Facilities (ETF) appropriation in the amount of \$2.0 million, with a corresponding decrease from the Measure E – 15% Homeless Support Programs Reserve. Funding will be used to relocate unhoused storm evacuees from 24-hour Emergency Evacuation Centers to transitional facilities through June 30, 2023. The ETFs are located inside the perimeter of the Emergency Interim Housing (EIH) and Bridge Housing Communities (BHC) sites. The ETF initiative is designed to provide safe, temporary spaces with support services, and a priority referral to connect unhoused resident evacuees with a transitional site that will allow a longer stay, or support accessing other stable housing opportunities within two to six months. Although 132 was the maximum potential tent capacity at the various sites, approximately 93 tents and storage units were built to accommodate single adults and couples based on the number of evacuees interested in moving to an ETF. Onsite handwashing stations, bathroom facilities, seating areas, food, shower, laundry, and wraparound supportive services will be provided. The estimated cost range is \$3.0 - \$5.0 million; however, only \$2.0 million

is recommended to be allocated at this time for setup costs, sanitation, and security, with the remainder of the costs expected to be allocated when the Housing Department seeks City Council approval to provide sufficient contract authority for wraparound supportive services.

- **Measure E – 15% Homelessness Programs Support Reserve (-\$2.0 million):** Decreases the Measure E - 15% Homeless Support Programs Reserve by \$2.0 million, from \$33.7 million to \$31.7 million, to offset the establishment of the Measure E - Storm Evacuee Transition Facilities (15% HSP) appropriation in the same amount.
- **Janitorial Services (\$700,000):** Increases the Public Works Department’s Non-Personal/Equipment appropriation by a combined \$700,000 to fund janitorial services for 1) dog kennel cleanings at the Animal Care Center (\$500,000) and 2) for the 16 library branches with Sunday operations (\$200,000). The additional funding allocated for Animal Care Services supports a total of seven full-time janitors to ensure that dog kennels are cleaned once a day for the seven-day operations, including holidays, along with laundry and other cleaning services throughout the facility through the fiscal year. The Animal Care Center has reached 90% of capacity and is averaging between 400-500 animals in the shelter daily, which includes more than 200 dogs in the system. The number of dogs has doubled compared to previous years and is anticipated to remain at these elevated levels over the next few years. Due to the increase of animals, Animal Care Attendants do not have the capacity to support dog kennel cleanings while also assisting in other areas of the shelter; this has required the use of contracted janitorial services to assist with dog kennels cleanings and other cleaning services. The additional funding allocated for branch libraries will provide for services such as garbage collection, restroom cleaning, and floor cleaning in high traffic areas at all branches with Sunday hours. The increased costs associated with the expansion of Sunday hours was inadvertently omitted from the 2022-2023 Adopted Operating Budget. The ongoing costs associated with both baseline service levels will be incorporated into the 2023-2024 Base Budget.
- **Hazard Mitigation Grant Program (Local Match) (\$481,000):** Increases the Hazard Mitigation Grant Program City-Wide Expenses appropriation in the amount of \$481,014, from \$1.4 million to \$1.9 million, for the new Seismic Retrofit Program - Phase I, which includes developing a practical retrofit program, including possible incentives that would provide an option for the redevelopment of soft story buildings into quality affordable apartments, while minimizing displacement. The funding will provide for developing and designing the program and means of implementation, and identifying and locating parcels. The program is a joint collaboration between the City Manager’s Office of Emergency Management, the Housing Department, and the Planning, Building and Code Enforcement Department. The total projected cost for Phase I is \$1.9 million, \$1.4 million of which is funded by a grant from the Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant Program. As this grant is on a reimbursement basis, requiring a 25% City match, subsequent budget actions will be recommended to recognize and appropriate the remaining grant revenue and City match as part of a future budget process. It is important to note that the General Fund was previously intended to serve as the local match as part of the 2021-2022 Mid-Year Budget Review, but the match was subsequently reallocated to the Community Development Block Grant (CDBG)

Fund. However, upon further analysis, CDBG Funding is not eligible for this planning phase and the General Fund must, again, serve as the local match source.

- ***Workers' Compensation State License (\$446,000):*** Increases the Workers' Compensation State License appropriation by \$446,000, from \$844,000 to \$1.3 million, due to higher invoiced costs from the State of California resulting from an increase in indemnity claims, primarily COVID-19 illness, and in the assessment factor. These costs provide funding to the State to cover the State's costs of the administration of the workers' compensation, health and safety, and labor standards enforcement programs.
- ***Veterinary Services (\$225,000):*** Increases the Public Works Department's Non-Personal/Equipment appropriation by \$225,000 to provide funding for contracted veterinarian services. The City of San José uses contracted veterinarian services to support the in-house medical service team for surgeries, emergencies, and the care of animals outside of normal business hours. The Animal Care Center has reached 90% of capacity and is averaging between 400-500 animals in the shelter daily. The increase of animals under the care has resulted in an increased reliance on the veterinarian services contract. This funding will ensure critical medical services will continue through the fiscal year, and the ongoing costs will be incorporated into the 2023-2024 Base Budget.
- ***Sanitary Sewer Fees (\$202,000):*** Increases the Sanitary Sewer Fees appropriation by \$201,905, from \$595,000 to \$796,905. The fee is based on prior year water consumption and now that City facilities are largely back to pre-pandemic occupancy and activity, water consumption has grown and the sanitary rates have increased.
- ***Library Security Services Adjustments (\$166,000):*** Increases the Library Department's Non-Personal/Equipment appropriation by \$166,000 to provide funding for contractual security services. The 2022-2023 Adopted Operating Budget included the addition of two positions for security and public safety at branch library facilities. Because of delays in hiring for those new positions, vacancy savings will be recognized and is recommended to be reallocated to fund contractual security services.
- ***Animal Care and Services Truck Replacement (\$160,000):*** Increases the Transfer to the Vehicle Maintenance and Operations Fund by \$160,000, from \$1.5 million to \$1.66 million, to fund the replacement of an Animal Care and Services truck that caught fire and was destroyed. Field officers use specially equipped trucks to respond to various calls for service. The unit responds to over 20,000 calls annually across the San José and as part of a contract for services in the Cities of Cupertino, Saratoga, Milpitas, and the Town of Los Gatos. Replacing the Animal Care and Services truck will ensure officers can respond in a timely manner and provide services to the residents and animals of these communities.
- ***Other Miscellaneous Adjustments (\$497,000 expenditure):*** Includes several miscellaneous actions to adjust budgets with projected levels, the largest of which are:

- *Library Non-Personal/Equipment (Cost Sharing Agreement with SJSU) (\$136,093)*: Increases the Library Department's Non-Personal/Equipment appropriation by \$136,093 to support additional costs associated with the operation and maintenance of Dr. Martin Luther King, Jr. Library (MLK Jr. Library). The MLK Jr. Library is a joint facility between the City of San José and San José State University (SJSU). Because of this relationship, the Library Department provides funding to SJSU for operations and maintenance costs. In December 2022, the costs for the library were recalculated resulting in an increase in the payment amount. This increase is driven primarily by a 7.0% compensation increase, along with one-time bonuses for SJSU staff.
- *Energy Services Company Debt Service (\$120,000)*: Increases the Energy Services Company Debt Service appropriation by \$120,000, from \$909,000 to \$1.0 million, in anticipation of rising interest rates. The assumed interest rate for 2022-2023 was forecasted in the fall and winter of 2021 and has increased significantly since then, resulting in a large increase in the debt payment.
- *Multi-Department Personal Services (Vacancy Savings) (\$827,320)*: Decreases Personal Services appropriations to Parks, Recreation and Neighborhood Services (\$300,000), Library (\$166,000), Human Resources (\$150,000), Fire (\$116,120), and Finance (\$95,200) departments to recognize vacancy savings and reallocate resources for required activities to be funded through their respective Non-Personal/Equipment appropriations.
- ***Other Net-Zero Adjustments (\$15,362 revenue; \$15,362 expense)***: Includes several net-zero adjustments to reallocate funding among appropriations based on current need and to accurately categorize planned expenditures. These actions include:
 - Measure E – 10% Homeless Prevention and Rental Assistance Reserve (-\$300,000); Measure E - Guadalupe River Park Housing Support (10% HPRA) (\$300,000); Measure E - 15% Homeless Support Programs Reserve (\$300,000); Measure E – Homeless Outreach and Engagement (15% HSP) (\$500,000); Measure E – Supportive Services and Operations (15% HSP) (-\$800,000); Bulletproof Vest Partnership 2022/Revenue from Federal Government (\$15,362 revenue; \$30,724 expense); Police Non-Personal/Equipment (Bulletproof Vest Partnership) (-\$15,362); Transportation Personal Services (Red Light Running Program Temporary Staffing) (\$117,800); Transportation Non-Personal/Equipment (Red Light Running Program) (-\$117,800).

GRANTS/REIMBURSEMENTS/FEES

- Several net-zero actions are recommended to recognize new or supplemental grant funding, reimbursements for activities undertaken by the City, and adjustments to estimated revenues from fee-supported activities. Recommended actions provide for \$2.0 million in additional revenues and corresponding expenses. The largest adjustments in this category include actions to recognize and appropriate funding for the following: Sidewalk Repairs coordinated by the Transportation Department (\$543,000); Regional Early Action Planning – Housing and Community Development Grant (\$299,000); San José Public Library Foundation grants

(\$251,500); State Homeland Security Grant Program – Police 2022 (\$225,032); Law Enforcement Mental Health and Wellness Act Project grant (\$156,000); and, increased support for San José BEST and Safe Summer Initiative Programs (\$103,000).

CLEAN-UP ACTIONS

- ***Salary and Benefits Program (Net-Zero):*** Several actions are recommended to increase various department Personal Services appropriations to fund the negotiated general wage increase for the Police Officers’ Association and International Association of Firefighters; for Management Pay for Performance Program implementation; and for health benefit increases. Adjustments were included for those departments that are not able to absorb these additional costs (\$15.0 million all funds; \$14.3 million General Fund). In addition, a Side Letter Agreement with the International Union of Operating Engineers, Local No. 3 was approved by the City and bargaining unit on May 17, 2022 to amend the City of San José Pay Plan to increase the annual salary range for the Maintenance Worker series, which resulted in additional costs (\$826,000 all funds; \$41,000 General Fund) for the departments that are not able to absorb these costs. Lastly, a Side Letter Agreement with the Municipal Employees’ Federation, AFSCME, Local 101 was approved by the City and bargaining unit on June 7, 2022 to amend the City of San José Pay Plan to increase the annual salary range for the Animal Care Attendant and Animal Health Technician classifications which resulted in additional costs of \$333,000 in the General Fund. The negotiated agreements were reached after the adoption of the budget. To offset these augmentations, this report includes recommendations to partially decrease the Salaries and Benefits Reserve allocation in the General Fund, and to reduce the Ending Fund Balances in the Special Funds as appropriate.
- ***Miscellaneous Adjustments (Net-Zero):*** A variety of net-zero adjustments are recommended to reallocate funds among existing appropriations and adjust funding to reflect final 2021-2022 activity and policy changes. These actions include the: reallocation of funding between respective Measure E reserves to align allocations with policy changes determined as retroactive for the 2021-2022 fiscal year; reallocation of budgeted funds for Mayor and City Council Office appropriations (January – June) for those assuming office in January; reallocation of funding between the Human Resources Department’s Personal Services and Non-Personal/Equipment appropriations for temporary staffing costs; and, reallocation of funding from the Climate Smart San Jose Plan Implementation City-Wide Expenses appropriation and the Environmental Services Department’s Non-Personal/Equipment appropriation.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

A comprehensive review of the Special and Capital funds as well as the capital projects is conducted as part of the 2022-2023 Mid-Year Budget Review. Overall, the Special and Capital funds are generally tracking within estimated levels through December, with some exceptions as described below. Section II of this report contains the status of selected Special and Capital funds with issues of interest or variances.

Special Funds

Airport Funds

Through December, the Airport has enplaned and deplaned 6.3 million passengers, an increase of 31.9% compared to the same period last fiscal year (4.8 million passengers). Passenger airline operations (takeoffs and landings) are also up at 25.9% above last year. Passenger totals in calendar year 2022 of 11.3 million were up 54.0% from passengers served in calendar year 2021, but still 27.6% below the peak of 15.7 million passengers in calendar year 2019.

Terminal Concessions, Parking and Roadway, and General and Non-Aviation revenues are up. Parking and Roadway revenues have been fueled by higher than anticipated public parking, Transportation Network Companies or app-based transportation options, and rental car concession revenues. Landing Fees and Airfield revenues, which are associated with the number of flights rather than the number of passengers, are tracking at budgeted levels. Terminal Rental revenues on the other hand are tracking very slightly below budgeted levels at 96.2% of the budgeted estimate due to lower than anticipated use of common gates and ticket counters. Passenger activity continues to recover from the effects the pandemic has had on the aviation industry. Last year in response, the Airport worked with concessionaires, airlines, and other tenants to help mitigate the negative economic impacts by providing financial relief; the agreements were approved by City Council through December 31, 2023. The total 2022-2023 budgeted revenue estimate of \$208.5 million includes \$28.9 million of federal ARPA funding to partially offset the reduced revenue resulting from reduced passenger levels. If the \$28.9 million is fully collected, the Airport will have \$20.0 million remaining of ARPA available to use if needed before 2025.

San José Clean Energy Fund

The City Council-approved SJCE rate package for 2022 set rates for GreenSource standard service at 8% above PG&E's rates – inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge – based on a PG&E rate increase of 33% that was approved by the California Public Utilities Commission in February 2022. The increase in energy rates and lower PCIA in 2022 have created a favorable financial environment for SJCE, which is a marked improvement from 2021.

In 2021, SJCE's financials projected a cash flow shortage for which City Council approved a total Commercial Paper Notes authorization of up to \$95.0 million; a total of \$60.0 million was drawn. SJCE's improved financial position in 2022 will enable SJCE to begin to repay Commercial Paper debt and attain 90 days of operating expenses in reserve in 2022-2023. Further, the upcoming 2023 change in SJCE's rate-setting methodology should continue to improve SJCE's financial condition. The 2023 rates are estimated to be slightly lower than PG&E rates (1-3%) and SJCE operating reserves are expected to reach 180 days by the end of 2023.

Market energy prices remain high – resulting from pipeline restraints, low gas storage, and energy plant downtime for required maintenance – and load demand has increased. As a result, actions are recommended in this report to increase the Cost of Energy appropriation by \$71.7 million, from \$293.3 million to \$365.0 million, and increase the Sale of Energy revenue estimate by

\$94.0 million, from \$411.9 million to \$505.9 million. The net gain to the SJCE Fund allows for the repayment of a portion of the outstanding Commercial Paper debt (\$20.0 million); the remaining balance is expected to be paid off in 2023-2024.

Capital Funds

Following is a discussion of the major revenues that support the capital program and the major capital program expenditure revisions recommended in this report.

Construction-Related Revenues

Private sector construction activity continues to be a significant source of tax revenues that are reinvested back into the City's transportation system infrastructure. As described in the "Economic Environment" section of this message, overall year-to-date development activity overall is 22% higher than the prior fiscal year, though residential activity is nearly 19% lower. The following is a discussion of the performance for the Building and Structure Construction Tax and Construction Excise Tax, the two largest construction-related revenue sources that also provide the majority of the City's local contributions to the Traffic Capital Program. These taxes are also an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

- ***Building and Structure Construction Tax*** – Building and Structure Construction Tax receipts totaled \$9.4 million through December, which is 50.0% of the 202-2023 Adopted Budget estimate of \$19.0 million, reflecting higher than anticipated development permit activity in the commercial and industrial land use categories, and lower activity levels for residential permits. This collection level is above prior year collections (\$2.6 million or 38.4%) of \$6.9 million for the same period. Based on collections through December, tax receipts are expected to meet the budgeted estimate of \$19.0 by the end of the year.
- ***Construction Excise Tax*** – Construction Excise Tax receipts totaled \$4.9 million through December, 30.9% of the 2022-2023 Adopted Budget estimate of \$16.0 million, reflecting lower than anticipated residential development permit activity that is partially offset by higher commercial activity. This collection level is 18.5% below prior year collections of \$6.1 million for the same period. Based on collections through December and a look at projects in the pipeline for the remainder of the fiscal year, tax receipts are expected to end the year approximately \$2.0 million below the budget estimate of \$16.0 million.

Construction and Conveyance Taxes

A total of 17 C&C Tax Funds are budgeted throughout the Capital Budget. Most of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety Capital Program, Library Capital Program, Service Yards Capital Program, and Communications Capital Program.

Nearly 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. Through December 2022, C&C Tax collections totaled \$18.9 million, which represents approximately 38% of the 2022-2023 Adopted Budget estimate of \$50.0 million. The 2022-2023 Adopted Capital Budget was built on the assumption that C&C Tax receipts would total \$60.0 million in 2021-2022 and drop to \$50.0 million in 2022-2023. This drop was due to the uncertainty of how the economic environment would impact the local real estate market's performance, which is the primary driver of this revenue source. However, 2021-2022 C&C Tax receipts ended the year at \$64.5 million, therefore, in 2022-2023 receipts can drop by 22.4% and meet the budgeted estimate.

Due to anticipated declining sales activity in the local real estate market through the first half of the fiscal year, collections in 2022-2023 are anticipated to fall below budgeted estimates. Therefore, a recommendation is included in this report to decrease the C&C Tax estimate by \$5.0 million, from \$50.0 million to \$45.0 million. The \$5.0 million decrease to the C&C Tax estimate would be distributed as follows: Parks C&C Tax allocation (\$3.2 million), Library C&C Tax allocation (\$711,000), Service Yards Tax allocation (\$439,000), Fire C&C Tax allocation (\$420,000), Communications C&C Tax allocation (\$170,000), and Park Yards C&C Tax allocation (\$60,000).

Major Capital Program Expenditure Revisions

A series of recommended Appropriation Ordinance and Funding Sources Resolution amendments to the Adopted Capital Budget are included in *Section III, Recommended Budget Adjustments and Clean-up Action of this report*. Following is a summary of the most significant adjustments:

- ***Airport Capital Program*** – A recommendation is included to increase the Advanced Planning appropriation in the amount of \$500,000 to fund the Environmental Impact Report (EIR) for the Coleman Commercial Development project. The Airport is considering development of an area for commercial enterprises on Coleman Avenue in the Guadalupe Gardens area. Before development can occur, an EIR must be completed.
- ***Traffic Capital Program*** – A recommendation is included to increase the Bicycle and Pedestrian Facilities project in the amount of \$700,000 to recognize Transportation Development Act grant funds that were awarded in August that will be used primarily for the 10th and 11th Street Transit Boarding Islands that should be completed in 2022-2023. Additional recommendations to recognize revenue from various transportation planning grants for multiple projects, including the North San José Multimodal Transportation Improvement Plan (\$250,000) and the San José Decision Support System (\$100,000). New grant revenue from the Office of Traffic Safety in the amount of \$125,000 is recognized for bicycle and pedestrian safety activities related to the Vision Zero Program. A recommendation is included to establish the Vision Zero: Senter Road and Balfour Drive Safety Improvements appropriation in the amount of \$300,000 that will be used to fund project management staff, material, and installation of street light retrofits on Senter Road. This funding is part of a larger project in the amount of \$10.0 million funded by a state allocation from the California Department of Transportation. It is anticipated that the additional \$9.7 million will be

programmed in the 2024-2028 Capital Improvement Program as a final agreement is brought forward to City Council later this fiscal year.

- ***Parks Capital Programs*** – Recommendations are included to increase the Trail: Coyote Creek (Mabury Road to Empire Street) project in the amount of \$9.8 million. Allocating funding for this project in this report will ensure that the City can receive reimbursement through a Federal Active Transportation Program grant, which has a deadline of May 2023 for a bid contract to be awarded for this project. Additional recommendations include an increase to the Agnews Property Development project in the amount of \$350,000 for demolition of the buildings closest to the school campus and for design review and inspection costs related to site preparation and an increase to the Hanchett Park Development project to partially fund design and soft costs associated with the development of a future park at Hanchett Avenue and The Alameda.

Status on City Council Referrals

The discussion below provides a response to direction from the City Council resulting from their approval of the Mayor’s June Budget Message for Fiscal Year 2022-2023 and other City Council meeting items.

- **Mobile Home Park Land Use Designation Work** (Item 8.3, 10/18/22 – Councilmembers Esparza, Foley, Jimenez, Peralez and Cohen) –Actions are included to increase funding in the General Fund by \$75,000, from \$30,000 to \$105,000, for the 13 mobile home parks identified to be the most at risk of redevelopment. Funding allocated in the Mayor’s June Budget Message for Fiscal Year 2022-2023 allocated funding for five parks; this action provides full funding for all 13 parks.
- **California State Library for the Building Forward Library Infrastructure Grants: Alviso Branch** (Councilmember Cohen, Item 7.1, 10/25/2022) – The referral requests analysis of funding necessary to augment the grant project scope to include new finishes, furnishings, fixtures, and equipment (FF&E) at the Alviso Branch. Per the Library’s [report](#)³, the California State Library announced initial awards in the Building Forward Library Infrastructure Grant program, and the Alviso Branch is intended to receive a portion of this grant. With a local match leveraging existing funding with the Library Capital Improvement Program, \$1.2 million will address infrastructure backlog and critical safety systems/items at the Alviso Branch, including:

³ Item 7.1, October 25, 2022: <https://sanjose.legistar.com/View.ashx?M=F&ID=11337020&GUID=2A1FA633-3554-4FC2-97A7-2B882A359695>

State Building Forward Grant Awarded Critical Safety/Infrastructure – Alviso	Estimated Cost	Local Match	Grant Funding
Replace Security Cameras/ Install Additional Security Cameras	\$45,000	\$22,500	\$22,500
HVAC Replacements AC-1, and AC-2, 4	\$300,000	\$150,000	\$150,000
Replace Roof and Building Envelope	\$420,000	\$210,000	\$210,000
Replacement of Entrance Doors to Improve Accessibility	\$220,000	\$110,000	\$110,000
Lighting Improvements Throughout	\$100,000	\$50,000	\$50,000
Project Contingency (incl. permits, fees, administration)	\$143,748	\$71,874	\$71,874
Total	\$1,228,748	\$614,374	\$614,374

In response to City Council direction, staff has identified the following opportunities that may serve to improve the Alviso Branch spaces and customer experience, compared with the more modern improvements that exist in other branch libraries. These options are provided in the table below. The potential inclusion of this additional scope to the Alviso Branch, in consideration of other library system capital needs, will be considered in the 2023-2024 Proposed Capital Budget and 2024-2028 Capital Improvement Program.

Furniture/Furnishings/Equipment - highest priorities	Estimated Cost	Included in 2022-2023 Adopted Budget	Not Currently Budgeted
Community Room Furniture Replace 50-60 chairs	\$55,000	\$15,000	\$40,000
Library Public Space Furniture Refresh (seating, tables/desks, furnishings, shelving)	\$75,000	\$0	\$75,000
Public Technology/Equipment Updates/Replacements	\$20,000	\$0	\$20,000
Flooring/Carpet Replacement	\$300,000	\$0	\$300,000
Interior Paint Refresh	\$210,000	\$0	\$210,000
Exterior Building Paint	\$60,000	\$0	\$60,000
Update Building Signage / Marquee	\$135,000	\$0	\$135,000
PA System Install	\$12,000	\$0	\$12,000
AV System/Projector Install - Community Room	\$10,000	\$0	\$10,000
Total	\$877,000	\$15,000	\$862,000

- **Parks, Recreation and Neighborhood Services Fee Cost Recovery Levels** (2022-2023 June Budget Message – Councilmember Carrasco, Arenas, and Esparza, Item 3.3, 6/14/2022) – No further budget actions are necessary in the Mid-Year Budget Review related to Parks, Recreation and Neighborhood Services fee cost-recovery levels since the cost recovery levels in the 2022-2023 Adopted Fees and Charges Report are consistent with the fee categories as revised by City Council’s approval of the Mayor’s June Budget Message for Fiscal Year 2022-2023. However, other actions in this report leverage existing current year savings to allow for full scholarships for eligible families for a variety of camps throughout the summer. This will allow families to enroll in full-day childcare recreation programs at no cost for 8-10 weeks and will enable eligible families to continue working without the additional cost of a daycare or leaving their children home unattended. Savings identified in Child and Youth Services allocation in the American Rescue Plan Fund (\$800,000) and PRNS vacancy savings (\$300,000) will be used to offset the estimated \$1.1 million cost. This action is included in the Mid-Year Budget Review because summer registration begins in February. Continuation of the scholarship program beyond Summer 2023 will be evaluated in the 2023-2024 Proposed Budget development process, in consideration of the City’s budgetary position and other critical City Council priorities.
- **Blight Busters 2.0** (2022-2023 June Budget Message, Item 3.3, 6/14/2022) – Staff launched the Blight Buster 2.0 Pilot Program on January 12, 2023. The program will allow volunteers to identify blight in their neighborhoods and report it directly to Code Enforcement to address the complaint. The scope of the pilot will be limited to volunteers in District 5. Staff plans to run the pilot through June 2023 and will assess whether the program will be scaled to other Council Districts in 2023-2024 or be concluded.
- **Illegal Dumping in Alleyways of Guadalupe Washington** (Councilmember Peralez, 2022-2023 June Budget Message, Item 3.3, 6/14/2022) – Additional funding of \$35,000 is necessary to install four solar power streetlights and No Dumping signage in the alleyway. CDBG funding for this project will increase by \$35,000, from \$100,000 to \$135,000, to ensure funding is sufficient to complete the project. Design is anticipated to be finished this Spring and construction expected to be done in the Fall.
- **Permit Fee Schedule for Taxicabs** (Mayor Liccardo, Item 2.1, 08/23/2022) – Based on the implementation of a new online permitting system, the Police Department is reviewing the tasks associated with the issuance of a taxicab driver permit. The Department has identified several areas of improved efficiencies and removed outdated tasks. A full-time task analysis for taxicab driver and renewal permits is underway, with the new cost calculations expected to be completed in February. Any updates to the permit fee will be considered as part of the development of the 2023-2024 Proposed Fees and Charges Report.

PUBLIC OUTREACH/INTEREST

This report is posted on the City’s website for the February 14, 2023 City Council meeting.

COORDINATION

This report was coordinated with the various City Departments and City Council Appointees.

COMMISSION RECOMMENDATION/INPUT

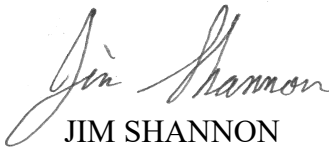
This report was not coordinated with any board or commission.

CONCLUSION

Through December, the City's over 135 operating and capital funds are generally performing within expected levels. As part of the Mid-Year Budget Review, budget adjustments are recommended in the General Fund and Special and Capital funds to bring projected revenues and expenditures into closer alignment based on performance through the first half of the fiscal year, to account for updated cost projections, to implement technical adjustments, to recognize various grants, reimbursements, and fees, and to add funding for a limited number of new projects.

The adjustments brought forward in this report reflect the Administration's best estimate of the financial performance of the City's funds based on activity through the first half of the fiscal year. However, as economic conditions are anticipated in the coming, the City will need to remain prepared to adjust further if necessary.

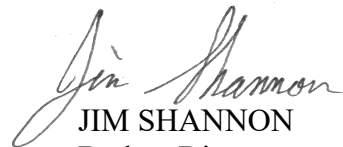
The Administration will continue to closely monitor performance and provide status reports on the City's budget through the Bi-Monthly Financial Reports. These reports will highlight any significant developments as well as identify any potential budget actions necessary to ensure the City's funds remain in balance by year-end. Diligent monitoring, continued budgetary discipline, and timely actions are critical components to maintaining the City's fiscal health.


JIM SHANNON
Budget Director

Certification of Funds

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in fiscal year 2022-2023 monies in excess of those heretofore appropriated therefrom:

Benefit Funds – Benefit Fund	35,000
Benefit Funds – Life Insurance Fund	25,000
Building and Structure Construction Tax Fund	550,000
Community Development Block Grant Fund	782,489
Convention and Cultural Affairs Capital Fund	100,000
Convention Center Facilities District Capital Fund	100,000
Convention Center Facilities District Revenue Fund	1,692
Improvement District Fund	20,133
Library Construction and Conveyance Tax Fund	282,000
Multi-Source Housing Fund	112,452
Public Works Program Support Fund	18,975
Residential Construction Tax Contribution Fund	23,000
San Jose Clean Energy Operating Fund	94,774,174
Vehicle Maintenance and Operations Fund	188,000
Workforce Development Fund	7,500


JIM SHANNON
Budget Director