

Internal



Office of the City Manager

Date: May 14, 2024  
To: City Council/Budget and Finance Policy Committee  
From: Dee Williams-Ridley, City Manager  
Submitted by: Henry Oyekanmi, Finance Director  
Subject: Revenue Projection Report for Fiscal Year 2025-2026

**General Fund Revenue and Transfer for Nine Months for FY 2024 vs FY 2023 Comparison**

Revenue Categories	FY 2024				FY 2023				Comparison FY24 vs FY23	
	Adopted	Actual	Variance	% Received	Adopted	Actual	Variance	% Received	Amount	%
	(a)	(b)	c=(b) - (a)	(d) = (b)/(a)	(e)	(f)	g=(f) - (e)	(h) = (f)/(g)	(i) = (b) - (f)	(j) = (i)/(f)
Secured Property	\$84,725,717	\$53,314,028	(\$31,411,689)	62.93%	\$75,664,920	\$50,561,010	(\$25,103,910)	66.82%	2,753,018	5.44%
Redemptions -Regular	831,441	719,042	(112,399)	86.48%	831,441	638,419	-193,022	76.78%	80,623	12.63%
Supplemental Taxes	3,400,000	1,197,265	(2,202,735)	35.21%	2,000,000	1,229,929	-770,071	61.50%	(32,664)	-2.66%
Unsecured Property Taxes	3,806,995	4,648,038	841,043	122.09%	3,516,000	3,806,995	290,995	108.28%	841,043	22.09%
Property Transfer Tax	22,873,786	12,731,173	(10,142,613)	55.66%	34,462,172	18,953,345	-15,508,827	55.00%	(6,222,172)	-32.83%
Property Transfer Tax-Measure P (New December 21, 2018)	10,189,500	3,471,279	(6,718,221)	34.07%	14,073,750	9,086,940	-4,986,810	64.57%	(5,615,661)	-61.80%
Sales Taxes	19,654,225	14,070,779	(5,583,446)	71.59%	19,016,546	14,558,589	-4,457,957	76.56%	(487,810)	-3.35%
Soda Taxes	1,147,387	840,162	(307,225)	73.22%	990,210	875,532	-114,678	88.42%	(35,370)	-4.04%
Utility Users Taxes	17,454,320	12,753,476	(4,700,844)	73.07%	13,800,000	12,701,095	-1,098,905	92.04%	52,381	0.41%
Transient Occupancy Taxes	8,374,588	5,957,066	(2,417,522)	71.13%	5,000,000	6,247,284	1,247,284	124.95%	(290,218)	-4.65%
Less: TOT rebates owed (3)		(936,343)				(861,310)			(75,033)	8.71%
Short-term Rentals	1,400,000	1,045,648	(354,352)	74.69%	1,000,000	1,088,160	88,160	1,000,000	(42,512)	-3.91%
Business License Tax	21,560,783	21,076,289	(484,494)	97.75%	19,000,000	18,222,692	-777,308	95.91%	2,853,597	15.66%
Recreational Cannabis	1,000,000	93,121	(906,879)	9.31%	1,400,000	837,715	-562,285	59.84%	(744,594)	-88.88%
U1 Revenues	5,900,000	5,344,045	(555,955)	90.58%	4,900,000	4,853,469	-46,531	99.05%	490,576	10.11%
Other Taxes (excluding Redemptions-Regular)	2,593,129	3,046,241	453,112	117.47%	1,800,000	2,134,870	334,870	118.60%	911,371	42.69%
Vehicle In-Lieu Taxes	17,811,134	8,937,911	(8,873,223)	50.18%	15,926,168	8,329,833	-7,596,335	52.30%	608,078	7.30%
Parking Fines-Regular Collections	5,800,000	4,572,399	(1,227,601)	78.83%	4,326,450	4,470,746	144,296	103.34%	101,653	2.27%
Parking Fines-Booting Collections			0				0	#DIV/0!	-	#DIV/0!
Moving Violations	132,600	131,377	(1,223)	99.08%	132,600	106,329	-26,271	80.19%	25,048	23.56%
Ambulance Fees	5,350,779	5,735,203	384,424	107.18%	3,880,779	3,672,839	-207,940	94.64%	2,062,364	56.15%
Interest Income	8,826,211	10,145,073	1,318,862	114.94%	6,000,000	5,942,994	-57,006	99.05%	4,202,079	70.71%
Franchise Fees	1,720,056	456,610	(1,263,446)	26.55%	1,613,283	373,789	-1,239,494	23.17%	82,821	22.16%
Other Revenue	7,668,797	5,136,945	(2,531,852)	66.99%	6,729,977	6,006,684	-723,293	89.25%	(869,739)	-14.48%
IDC Reimbursement	6,104,970	4,838,582	(1,266,388)	79.26%	5,490,000	4,732,212	-757,788	86.20%	106,370	2.25%
Transfers	8,091,924	6,068,943	(2,022,981)	75.00%	17,096,148	10,731,462	-6,364,686	62.77%	(4,662,519)	-43.45%
			-				0		-	
<b>Total Revenue:</b>	<b>\$266,418,342</b>	<b>\$185,394,352</b>	<b>-\$81,023,990</b>	<b>69.59%</b>	<b>\$258,650,444</b>	<b>\$189,301,622</b>	<b>-\$69,348,822</b>	<b>73.19%</b>	<b>(\$3,907,270)</b>	<b>-2.06%</b>

Notes: (1) This statement is presented on a budgetary basis (i.e., cash).  
 (2) Current vendor no longer breaks out Regular and Booting Parking Fines Collections  
 (3) TOT (Transient Occupancy Tax) reflected on the accrual basis of accounting

**Summary of General Fund FY 2024 Nine Month Revenue Comparative Results**

General Fund revenue and transfers decreased \$3,907,270 or 2.06%, from \$189,301,622 in the nine months of FY 2023, to \$185,394,352 for the same period in FY 2024.

As staff alerted in the FY 2023 General Fund Revenue report to Council, the City General Fund has, at least for the near term, lost at least two of its three primary drivers of annual growth (Property Transfer Taxes and Measure P Property Transfer Taxes are experiencing negative growth, and that will eventually lower growth for Secured Property Taxes and Vehicle in Lieu Taxes), as they have continued to decline sharply in the nine months of FY 2024. As a result, the General Fund revenue and transfers projection for FY 2024 has been reduced by \$454,264 or .2% from \$266,418,342 to \$265,964,078. In addition, it should be noted that the City’s growth in assessed value has dropped sharply from 10.8% in FY 2023 to a preliminary estimate of 4.848% for FY 2025. This will reduce Secured Property Tax and Vehicle in Lieu revenue growth in FY 2025.

In addition, the City is starting to see weakness in two other key General Fund business categories: Sales Taxes and TOT. The City’s Sales Tax Consultant has noted softening in sales activity in several sales tax categories since the Adopted Budget was passed, and this has resulted in a reduction in the Sales Tax revenue projection of \$1,113,304, from \$19,654,225 to \$18,540,921. Also, gross TOT revenues were projected to grow by 3% in FY 2024; Instead, they declined by 4.65% from the level reported for the nine months of FY 2023.

**Notable General Fund Revenue Declines and Increases**

Notable declines during the nine months of FY 2024 were the following:

1. Property Transfer Taxes	\$ 6,222,172
2. Measure P Property Transfer Taxes	5,615,661
3. Transfers In	4,662,519
4. Sales Taxes	487,810

The decline in Transfers In was expected and due to a decline of \$6,761,901 in transfers from the American Rescue Plan Fund.

Four notable increases during the nine months of FY 2024 were Secured Property Taxes (+\$2,753,018), Business License Taxes (\$2,853,597), Ambulance Fees (+\$2,062,364), and Interest Income (+\$4,202,079). This resulted in increases in the FY 2024 revenue projections for those revenue categories.

Excluding Transfers, General Fund revenue increased \$755,244 or .4%, from \$178,570,160 in the nine months of FY 2023, to \$179,325,404 in the nine months of FY 2024.

**Continuing General Fund Revenue Challenges**

Before getting into the FY 2024 General Fund revenue details, I also want to point out that the City's General Fund revenue challenges have not ended now that the Fed's have apparently stopped raising short-term rates, for the following reasons:

1. The Fed's monetary tightening includes a program to sell \$95 billion/month (or \$1.14 trillion per year) of Agency and Mortgage-Backed securities from its Balance Sheet, which increases the supply of these securities and puts additional upward pressure on long-term rates, including mortgage rates. Prior to the monetary policy change, the Fed was the major purchaser of these long-term securities;
2. The proposed \$1.8 trillion federal budget deficit for the upcoming fiscal year will require the issuance of an additional \$1.8 trillion in Treasury Bonds to fund the deficit; and,
3. The core Personal Consumption Expenditures (PCE) index (the Fed's favored inflation index) has declined from almost 9% during the pandemic to 2.8% in March 2024, close to the Fed's 2.0% target. Despite that, the Fed is reluctant to lower short-term interest rates as soon as the market expected. The Fed's Chairman indicated at the January 31, 2024 meeting that the Fed will not start lowering interest rates until it is certain that inflation is on a sustainable path to the Fed's 2% goal (it has recently reiterated that statement).

The additional huge supply of bonds from these macroeconomic factors will probably overwhelm demand for long-term bonds and continue to put pressure on long-term interest rates, including mortgage rates. In addition to reducing consumer spending and slowing down the economy, it will keep mortgage rates high.

**FY 2024 NINE MONTHS GENERAL FUND REVENUE DETAILS****Supplemental Taxes (-\$32,664 less than FY 2023 Actual)**

During the nine months of FY 2024, Supplemental Taxes totaled \$1,197,265, which was \$32,664 or 2.7% less than the \$1,229,929 received for the same period in FY 2023

**Secured Property Tax (+\$2,753,018 more than FY 2023 Actual)**

During the nine months of FY 2024, Secured Property Tax revenues totaled \$53,314,028, which was \$2,753,018 or 5.44% more than the \$50,561,010 received for the same period in FY 2023. This result was consistent with the County's Certification of Assessed Valuation (received from the County in August 2023), which reflects growth of 7.256%. However, the FY 2024 Adopted Budget assumed a 6.895%

increase for FY 2024, so actual Secured Property Taxes are expected to be \$286,128 or .361% more than the Adopted Budget amount of \$84,725,717.

The Secured Property Tax Revenue projection was increased from \$84,725,717 to \$85,011,845.

**Unsecured Property Tax (+\$841,043 more than FY 2023 Actual)**

During the nine months of FY 2024, Unsecured Property Tax revenues totaled \$4,648,038, which was \$841,043 or 22.1% more than the amount of \$3,806,995 received for the same period in FY 2023. This amount is greater than the County's Certification of Assessed Valuation growth of 9.1% for FY 2024.

The Unsecured Property Tax Revenue projection was increased from \$3,806,995 to \$4,648,038.

**Property Transfer Tax (-\$6,222,172 less than FY 2023 Actual)**

During the nine months of FY 2024, Property Transfer Tax totaled \$12,731,173, which was \$6,222,172 or 32.8% less than the \$18,953,345 received for the same period in FY 2023.

The primary reasons for the \$6,222,172 decrease in Property Transfer Tax were the following:

- (1) The dollar value of property sales decreased by \$.517.4 billion or 37.9%, from \$1.366.8 billion in the nine months of FY 2023 to \$.849.4 billion during the same period of FY 2024, as illustrated in Table 1 below.
- (2) There were ten property sales of \$10 million or more, with total sales of \$411 million in the nine months of FY 2023 compared to five property sales of \$10 million or more, with total sales of \$89.9 million in the nine months of FY 2024; and,
- (3) The number of property sales transactions decreased by 114 or 17.8% from 640 in the nine months of FY 2023 to 526 during the same period of FY 2024, as illustrated in the Table 2 below.

This decline in real estate activity is generally attributed to high and increasing mortgage rates and a slowing economy resulting from the Federal Reserve Board's aggressive attempt to reduce the money supply and slow down the US economy in order to reduce inflation, by sharply raising interest rates and selling \$95 billion/month of Agency and Mortgage-Backed securities from its Balance Sheet.

**Table 1- Property Sales In Million \$**

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	\$129.2	\$152.5	\$99.9	\$95.7	\$95.8	\$94.4	\$667.5
FY 2023	188.9	320.0	134.6	113.9	254.9	142.4	1,154.7
Change	-59.7	-167.5	-34.7	-18.2	159.1	-48.0	-487.2
% Change	-31.6%	-52.3%	-25.8%	-16.0%	-62.4%	-33.7%	-42.2%

**Table 1- Property Sales In Million \$**

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	65.8	49.8	66.3				\$849.4
FY 2023	86.5	72.2	53.4				1,366.8
Change	-20.7	-22.4	12.9				-517.4
% Change	-23.9%	-31.0%	24.2%				-37.9%

**Table 2-Number of Property Sales Transactions**

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	79	73	64	61	67	62	406
FY 2023	113	101	108	79	74	57	532
Change	-34	-28	-44	-18	-7	5	-126
% Change	-.30.1%	-27.7%	40.7%	-22.8%	-9.5%	8.8%	-23.7%

  

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	41	34	45				526
FY 2023	40	37	31				640
Change	1	-3	14				-114
% Change	2.5%	-8.1%	45.2%				-17.8%

**Table 2-Number of Property Sales Transactions**

The Property Transfer Tax Revenue projection was decreased from \$22,873,786 to \$16,873,786.

**Measure P-Property Transfer Tax (-\$5,615,661 less than FY 2023 Actual)**

Measure P taxes totaling \$3,471,279 was collected during the nine months of FY 2024, which was \$5,615,661 or 61.8% less than the \$9,086,940 collected during the same period of FY 2023. This decrease resulted primarily from the following: (1) A decrease of 56.4% in the dollar value of property sales amount in the nine months of FY 2024 versus those in the nine months of FY 2023 as reflected in Table

3; (2) The number of property sales transactions decreased by 138 or 56.1% during the nine months of FY 2024, as illustrated in the Table 4 below; and,(3) There were only five property sales of \$10 million or more totaling \$89.9 million during this nine month period in FY 2024, compared to 10 transactions with total property sales of \$411 million for the same period in FY 2023.

**Table 3- Property Sales \$1.5 million+ In Million \$**

	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Subtotal</b>
FY 2024	\$62.8	\$87.2	\$48.5	\$51.9	\$33.6	\$42.5	\$326.5
FY 2023	114.4	271.1	84.1	63.3	203.7	99.8	836.4
Change	- 51.6	-183.9	-35.6	-11.4	-170.1	-57.3	-509.9
% Change	-45.1%	-67.8%	-42.3%	-18.0%	-83.5%	-57.4%	-61.0%

**Table 3- Property Sales \$1.5 million+ In Million \$**

	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>	<b>Total</b>
FY 2024	20.5	22.3	31.4				\$400.7
FY 2023	34.3	28.0	20.2				918.9
Change	-13.8	-5.7	11.2				-518.2
% Change	40.2%	-20.4%	55.4%				-56.4%

**Table 4- Property Transactions \$1.5 Million and Above**

	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Subtotal</b>
FY 2024	18	17	12	15	12	10	84
FY 2023	52	41	48	31	24	19	215
Change	-34	-24	-36	-16	-12	-9	-131
% Change	-.65.4%	-58.5%	-75.0%	-51.6%	-50.0%	-47.4%	-60.9%

**Table 4- Property Transactions \$1.5 Million and Above**

	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>	<b>Total</b>
FY 2024	3	8	13				108
FY 2023	12	10	9				246
Change	-9	-2	4				-138
% Change	-75.0%	-20.0%	44.4%				-56.1%

The Measure P1 Property Transfer Tax Revenue projection was decreased from \$10,189,500 to \$4,500,000.

**Sales Tax (-\$487,810 less than FY 2023 Actual)**

For the nine months of FY 2024, Sales Tax revenue totaled \$14,070,779, which was \$487,810 or 3.35% less than the \$14,558,589 received for the same period in FY 2023. The City's Sales Tax Consultant has noticed a significant softening of sales in several categories since the Adopted Budget was passed, and has revised revenue projections in the following categories:

Category	Adopted Budget	Revised Projection	Difference
General Retail	<b>\$ 4,514,430</b>	<b>\$ 4,172,849</b>	<b>(\$ 341,581)</b>
Food Products	5,584,993	5,505,807	( 79,186)
Transportation	<b>3,060,135</b>	<b>2,529,620</b>	<b>(530,515)</b>
Construction	<b>1,697,060</b>	<b>1,483,244</b>	<b>(213,816)</b>
Business to Business	1,692,394	1,795,349	102,955
Miscellaneous	211,692	597,514	385,822
County Pool	4,091,330	3,572,497	(518,833)
State Pool	9,402	7,387	(2,015)
County Sharing	(1,043,072)	(983,213)	59,859
CDTFA Administration	(164,139)	(140,131)	24,008
Total	\$ 19,654,225	\$ 18,540,921	(\$1,113,304)

Quarter-over-quarter, new auto sales were down 40.1% and 23.6% year-over-year; and, Service stations revenue declined 8.1% quarter-over-quarter and 11% year-over-year. As a result, the FY 2024 Sales Tax Revenue projection was decreased from \$19,654,225 to \$18,540,921.

**Utility Users Taxes (+\$52,381 more than FY 2023 Actual)**

Utility Users Tax revenue for the nine months of FY 2024 totaled \$12,753,476, which was \$52,381 or .41% more than the \$12,701,095 received for FY 2023.



This increase of \$52,381 resulted from increases/decreases in the following categories:

<b>FY 2024 Actual Revenues Compared to FY 2023 Actual Revenues</b>				
	<b>FY2024</b>	<b>FY 2023</b>	<b>\$ Change</b>	<b>% Change</b>
Telephone	\$ 752,930	\$ 800,870	\$ -47,940	-5.99%
Cable	710,765	751,333	- 40,567	-5.40%
Cellular	1,276,973	1,354,465	-77,492	-5.72%
Electric	7,939,912	6,623,802	1,316,110	19.87%
Gas	2,072,896	3,170,626	-1,097,730	-34.62%
<b>Total</b>	<b>\$12,753,476</b>	<b>\$12,701,095</b>	<b>\$52,381</b>	<b>.41%</b>

PG&E received an 8% increase in electricity rates in January 2022, another increase of 8.9% in March 2023, and another ranging between 1%-4.1% effective September 1, 2023.

The UUT Revenue projection was increased from \$17,454,320 to \$17,700,000.

**Transient Occupancy Tax (-\$365,251 less than FY 2023 Actual)**

Net TOT revenue for the nine months of FY 2024 totaled \$5,020,723 (after deduction of \$936,343 in rebates) compared to \$5,385,974 (after 861,310 in rebates), for a decline of \$365,251 or 6.78%.

The net TOT for the six largest hotels declined \$15,868 or .3%, so the total decline in TOT for the nine months of FY 2024 resulted from significant declines in the smaller hotels.

As a result, the FY 2024 gross TOT projection was reduced from \$9,158,071 to \$8,624,591.

**Short-Term Rentals (-\$42,512 less than FY 2023 Actual)**

Short-Term Rentals revenue for the nine months of FY 2024 totaled \$1,045,648, which was \$42,512 or 3.9% less than the \$1,088,160 received for the same period in FY 2023.

**Business License Taxes (+2,853,597 more than FY 2023 Actual)**

Business license Taxes (BLT) revenue for the nine of FY 2024 totaled \$21,076,289, which was \$2,853,597 or 15.7% more than the \$18,222,692 received for the same period in FY 2023. This increase was due to several factors: (1) Faster processing time; Finance

management implemented a new strategy-to use temporary employees throughout the Business License tax reporting period; to start offering overtime earlier; to publicize the online portal; and, to split duties to maximize efficiency among the units; and other steps. Staff renewed 11,242 as of March 31, 2024 versus 9,247 as of March 31, 2023 (2) More businesses renewed online (2,975 in FY 2024 versus 1,849 in FY 2023); and, (3) The average Business License tax renewal increased by approximately 9% in FY 2024.

As a result, the FY 2024 Business License Taxes projection was increased from \$21,560,783 to \$23,200,000, despite the Medical Cannabis exemption approved by Council.

**Recreational Cannabis Taxes -\$744,594 less than FY 2023 Actual)**

Recreational Cannabis Taxes (BLT) revenue for the nine of FY 2024 totaled \$93,121, which was \$744,594 or 88.9% less than the \$837,715 received for the same period in FY 2023. This decline was due to Council adopting a temporary exemption from the collection of taxes under BMC Chapter 9.04.136(D) from non-medical and medical cannabis businesses. This temporary exemption was retroactive to January 2023.

The FY 2024 Recreational Cannabis Taxes projection was decreased from \$1,000,000 to \$112,000.

**U1 Revenues (+\$490,576 more than FY 2023 Actual)**

U1 revenues for the nine months of FY 2024 totaled \$5,344,045, which was \$490,576 or 10.1% more than the \$4,853,469 received for the same period in FY 2023.

**Vehicle In Lieu Taxes (+\$608,078 more than FY 2023 Actual)**

Vehicle in Lieu Taxes (VLF) for the nine months of FY 2024 totaled \$8,937,911, which was \$608,078 or 7.30% more than the \$8,329,833 received for the same period in FY 2023. This result was consistent with the County's Certification of Assessed Valuation (received in August 2022), which reflects growth of 7.256%. Changes in VLF revenues are based on the growth in assessed values. However, the Adopted Budget reflects growth of 6.912%, so actual Vehicle In Lieu Taxes are expected to be \$57,356 or .3443% more than the Adopted Budget amount of \$17,811,134.

The FY 2024 Vehicle in Lieu Tax projection was increased from \$17,811,134 to \$17,868,490.

**Other Taxes (+\$911,371 more than FY 2023 Actual)**

Other Taxes (excluding Redemptions-Regular) for the nine months of FY 2024 totaled \$3,046,241 which was \$911,371 or 42.7% more than the \$2,134,870 received for the same period in FY 2023. The primary reasons for the increase were (1) an increase of \$553,928 in

Parking Lot Taxes; (2) a decline of \$285,599 in BLT penalties; (3) a decline of \$116,335 in BLT interest; and, (4) \$759,376 in Transportation Network Company User Tax (i.e., a tax on ride sharing companies enacted during the height of the COVID-19 pandemic) was recorded as Other Revenue, instead of Other Taxes in FY 2023.

After including Transportation Network Company User Taxes as Other Taxes, instead of Other Income, the FY 2024 Other Taxes projection was increased from \$2,593,129 to \$4,621,618.

**Parking Fines (+\$101,653 more than FY 2023 Actual)**

Parking Fines revenue for the nine months of FY 2024 totaled \$4,572,399, which was \$101,653 or 2.3% more than the \$4,470,746 received for the same period in FY 2023. The primary reason for the increase was the increase in ticket writing during the first five months of FY 2024.

For the nine months of FY 2024, ticket writing was flat, declining 493 or .5% from 108,498 in the nine months of FY 2023 to 108,005 in the same period in FY 2024, as follows:

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	12,303	13,829	12,885	12,779	12,472	9,304	73,572
FY 2023	10,881	11,414	12,984	12,419	12,369	10,525	70,592
Difference	1,422	2,415	-99	360	103	-1,221	4,986
% Difference	13.1%	21.2%	-.8%	2.9%	.83%	-11.6%	7.06%

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	11,001	11,415	12,017				108,005
FY 2023	12,169	12,386	13,351				108,498
Difference	-1,168	-971	-1,334				-493
% Difference	-9.6%	-7.8%	-10.0%				-.5%

Please note that there were four straight months of declines in ticket writing. These declines were due to staffing vacancies and staff injuries.

**Ambulance Fees (+\$2,062,364 more than FY 2023 Actual)**

Ambulance Fees revenue for the nine months of FY 2024 totaled \$5,735,203, which was \$2,062,364 or 56.2% more than the \$3,833,730 received for the same period in FY 2023. This increase was primarily due to (1) an increase in the number of transports by 501 or 11.6% in the nine months of FY 2024, from 4,330 to 4,831; and (2) the Public Provider Ground Emergency Medical Transportation (PPGEMT) program replaced the Quality Assurance Fee Program (QAF); The MEDI-CAL and MCAL HMO reimbursement rate increased to \$1,062 under the PPGEMT Program from \$339 under the QAF Program in FY 2023; There were additional rate increases effective April 1, 2023 and November 1, 2023.

As a result, the FY 2024 Ambulance Fee revenue projection was increased from \$5,350,779 to \$7,234,813.

**Interest Income (+\$4,202,079 more than FY 2023 Actual)**

For the nine months of FY 2024, Interest Income totaled \$10,145,073, which was \$4,202,079 or 70.7% more than the total of \$5,942,994 received for the same period in FY 2023. This increase was primarily attributable to a significant increase in average interest rates earned after the Federal Reserve raised interest rates sharply starting in March 2022. Primarily as a result of the Fed’s actions, the net interest rate earned by the City increased from a range of 1.837%-2.83% during the nine months of FY 2023, to a range of 2.84%-3.18% during the nine months of FY 2024, as reflected in the Monthly Net Interest Rate Earned table below. In addition, the increase was partially attributable to an inversion of the yield curve, where short-term rates were greater than long-term rates:

**Monthly Net Interest Rate Earned:**

FY	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
2024	3.10%	3.02%	2.95%	2.95%	2.88%	2.84%	3.18%	3.05%	3.11%
2023	1.84%	2.03%	1.97%	2.26%	2.39%	2.62%	2.74%	2.71%	2.83%

The FY 2024 Interest Income projection was increased from \$8,826,211 to \$14,000,000.

**Indirect Cost Reimbursements (+\$106,370 more than FY 2023 Actual)**

Indirect Cost Reimbursements (IDC) for the nine months of FY 2024 totaled \$4,838,582, which was \$106,370 or 2.25% more than the \$4,732,212 received for the same period in FY 2023. This increase was primarily accounted for by an increase in the indirect cost allocation base (total direct salaries and wages) by 3.9% from \$21,234,357 in the nine months of FY 2023 to \$22,068,697 in FY 2024.

The FY 2024 IDC revenue projection was being increased from \$6,104,970 to \$6,893,749.

**Transfers (-\$4,662,519 less than FY 2023 Actual)**

Transfers from other funds for the nine months of FY 2024 totaled \$6,068,943 which was \$4,662,519 or 43.5% less than the \$10,731,462 received for the same period in FY 2023. This was primarily attributable to the Transfer of \$2,441,808 from the American Rescue Plan Fund to recover from the impact of the COVID-19 pandemic in FY 2024, compared to the Transfer of \$9,203,709 from the American Rescue Plan Fund for the same period in FY 2023. In addition, there were grants receivable reimbursements erroneously included in the FY 2023 total that accounted for the remainder of the FY 2024 nine months decline.

**Other Revenues (-\$869,739 less than FY 2023 Actual)**

Other Revenues primarily consists of licenses and permits; grants; preferential parking fees; general government charges for services; public safety charges for services; health charges for services; culture and recreation charges for services; rents and royalties; and other miscellaneous revenues that are not considered major.

Other Revenues for the nine months of FY 2024 totaled \$5,136,945 which was \$869,739 or 14.5% less than the \$6,006,684 received for the same period in FY 2023. This decrease of \$869,739 was primarily attributable to (1) the inclusion of \$628,069 in TNC User Taxes as Other Income, rather than Other Taxes in the nine months of FY 2023; and (2) A premium of \$687,680 on the issuance of the Tax and Revenue Anticipation Notes (TRAN) in FY 2023 versus \$457,283 in FY 2024. The premium paid to the City was not actually revenue; it was a liability that was paid by the purchaser of the City’s Notes when the coupon interest rate was higher than the market rate when the Notes were issued. It will be used to offset the interest expense paid by the City on the Notes, rather than be recorded as revenue.

The FY 2023 total for Other Revenue was \$9,043,937, while the Adopted Budget total was \$7,668,797. The FY 2024 Other Revenue projection was increased from \$7,668,797 to \$8,468,797 as a result.

## 5 YEARS PROJECTED GENERAL FUND REVENUES

	Projected General Fund Revenue FY 2021 through FY 2025						
	FY 2024 Adopted	FY 2023 Actual	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
<b>Undesignated Revenues</b>							
Secured Property Taxes	84,725,717	79,260,689	85,011,845	89,887,496	93,033,558	96,289,733	99,659,874
Supplemental Taxes	3,400,000	3,561,752	3,400,000	3,400,000	3,400,000	3,400,000	3,400,000

City Council/Budget & Finance Policy Committee  
 Revenue Projection Report for Fiscal Year 2025-2026

Unsecured Property Taxes	3,806,995	3,830,697	4,648,038	4,648,038	4,648,038	4,648,038	4,648,038
Property Transfer Taxes	12,500,000	18,000,000	16,873,786	16,000,000	16,000,000	16,000,000	16,000,000
Property Transfer Tax - Measure P	10,189,500	10,199,580	4,500,000	6,199,580	6,509,559	6,835,037	7,176,789
Sales Taxes	19,654,225	19,194,971	18,540,921	18,884,235	19,243,357	19,601,675	19,931,426
Soda Tax	1,147,387	1,162,310	1,147,387	1,147,387	1,147,387	1,147,387	1,147,387
Utility Users Taxes	17,454,320	17,634,565	17,700,000	17,700,000	17,700,000	17,700,000	17,700,000
Transient Occupancy Taxes(TOT)	8,374,588	8,891,331	8,624,591	8,883,329	9,149,829	9,424,323	9,707,053
TOT Rebates		-1,413,420	-1,160,450	-1,195,264	-1,231,122	-1,268,055	-1,306,097
Short-term Rentals	1,400,000	1,372,439	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Business License Taxes	21,560,783	21,854,193	23,200,000	23,664,000	24,137,280	24,620,026	25,112,426
Recreational Cannabis	1,000,000	997,572	112,000	18,000	50,000	51,000	52,020
Measure U1	5,900,000	5,844,564	6,200,000	6,500,000	6,200,000	6,200,000	6,200,000
Vacancy Tax					5,000,000	5,150,000	5,304,500
Other Taxes	3,424,570	5,455,887	5,453,059	5,453,059	5,453,059	5,453,059	5,453,059
Vehicle In Lieu Taxes	17,811,134	16,659,665	17,868,490	18,851,257	19,511,051	20,193,938	20,900,726
Parking Fines - Regular Collections	5,800,000	5,875,858	5,800,000	5,800,000	5,800,000	5,800,000	5,800,000
Parking Fines - Booting Collections	-	-	-	-	-	-	-
Moving Violations	132,600	149,420	132,600	132,600	135,252	137,957	137,957
Ambulance Fees	5,350,779	5,143,120	7,234,813	7,734,813	7,234,813	7,234,813	7,234,813
Interest Income	8,826,211	12,117,025	14,000,000	13,500,000	12,500,000	12,500,000	12,500,000
Franchise Fees	1,720,056	1,822,528	1,822,528	1,822,528	1,822,528	1,822,528	1,822,528
Other Revenues	7,668,797	9,043,937	8,468,797	8,468,797	8,468,797	8,468,797	8,468,797
Indirect cost reimbursements	6,104,970	6,758,577	6,893,749	7,031,624	7,172,256	7,315,701	7,462,015
Transfers	8,091,924	16,846,585	8,091,924	4,472,621	4,562,074	4,562,074	4,562,074
<b>Total Undesignated Revenues</b>	<b>256,044,556</b>	<b>270,263,845</b>	<b>265,964,077</b>	<b>270,404,100</b>	<b>279,047,716</b>	<b>284,688,031</b>	<b>290,475,385</b>

<b>Designated Revenues</b>							
Prop. Transfer Taxes for capital improvements	<b>10,373,786</b>	<b>4,878,336</b>		<b>3,000,000</b>	<b>5,000,000</b>	<b>5,000,000</b>	<b>5,000,000</b>
<b>Total Designated Revenues</b>	<b>10,373,786</b>	<b>4,878,336</b>	<b>0</b>	<b>3,000,000</b>	<b>5,000,000</b>	<b>5,000,000</b>	<b>5,000,000</b>
<b>TOTAL REVENUES AND TRANSFERS</b>	<b>266,418,342</b>	<b>275,142,181</b>	<b>265,964,077</b>	<b>273,404,100</b>	<b>284,047,716</b>	<b>289,688,031</b>	<b>295,475,385</b>

Notes: (1) This statement is presented on a budgetary basis (i.e., cash).  
 (2) Current vendor no longer breaks out Regular and Booting Parking Fines Collections  
 (3) TOT (Transient Occupancy Tax) reflected on the accrual basis of accounting

**Secured Property Taxes**

In the FY 2024 mid-year report staff reported that, given the continued high collection rate, and the resilience of property values in the City, as well as a large volume of recent property sales in the last year (which bring assessed values to market value), staff projected that FY 2024 growth would be 7.256%. However, because Property Transfer Tax revenue has continued to decline sharply through the first nine months of FY 2024 (as discussed below in the Property Transfer Tax section below), the expectation is that FY 2025 growth in assessed values will decline to 5.74%, and to 3.5% for FY 2026 through FY 2028.

**Sales Taxes**

After getting back to pre-pandemic levels in FY 2023, Sales Tax growth was projected to decrease .1% in FY 2024, increase 2.9% in FY 2025, increase 3.6% in FY 2026, increase 3.2% in FY 2027 and increase 3.1% in FY 2028. However, the City’s Sales Tax Consultant has noticed significant softening in some categories in the first nine months FY 2024 sales activity. Therefore, current projections are a decrease of 3.4% in FY 2024, an increase of 1.85% in FY 2025, an increase 1.9% in FY 2026, an increase 1.86% in FY 2027 and an increase 1.68% in FY 2028.

**Business License Taxes**

Staff projected flat growth in FY 2024 Business License Tax revenue. However, for the nine months of FY 2024, the average Business License tax renewal increased by approximately 9%. As a result, the FY 2024 projection was increased to growth of 7.6%. Growth from FY 2025 through FY 2028 is projected at 2.0%.

**Transient Occupancy Tax**

With the addition of a new hotel, FY 2023 gross TOT revenue exceeded pre-pandemic levels, and was at 30% growth above FY 2022 levels after subtracting the TOT rebates owed. As a result, Staff projected annual gross growth (TOT revenue increase before deducting

TOT rebates owed) of 3.0% in FY 2024 and 3.0% from FY 2025 through FY 2028. However, growth has slowed: through the nine months of FY 2024, Staff noticed flat revenue growth in the large hotels, and declines in the smaller ones. As a result, Staff revised the TOT revenue projections as follows: No growth in FY 2024, and growth of 3.0% from FY 2025 through FY 2028.

### **Utility Users Tax**

UUT revenue increased 19.6 % in FY 2023 due to electricity rate increases approved by the Public Utilities Commission and higher usage due to colder-than-normal temperatures. Another small electricity rate increase was approved effective September 1, 2023. Therefore, staff is projecting flat revenue in FY 2024 through FY 2028 after the significant increase in FY 2023, due primarily to a sharp increase in electricity being offset by a sharp decrease in gas.

### **Property Transfer Tax/Measure P Supplemental Property Transfer Tax**

Given the dramatic slowdown in the real estate market in the third and fourth quarters of FY 2023, the continuation of the trend in the first nine months of FY 2024, the uncertainty regarding more increases in interest rates by the Federal Reserve Board (along with mortgage rates near 7.5%), and a slowing US economy, staff expects a decline in property values and in property sales activity in FY 2024. Staff projects a decline in Property Transfer Tax revenue of 26.0% in FY 2024 from the FY 2023 total, followed by growth of 12.6% in FY 2025, 10.5% in FY 2026, and flat revenue for FY 2027 and FY 2028, as the real estate market recovers after the Feds starts lowering rates in the fourth quarter of FY 2024.

Over the 5 years prior to the pandemic, transfer tax revenues grew 6% per year on average, but the high level of mortgage rates and tighter credit standards will make potential buyers and sellers reluctant to be involved in real estate transactions; this will continue to negatively impact sales prices and volumes somewhat in the next few years. After the sharp decline in FY 2023 (50.5%) and FY 2024 (55.9%), staff expects growth in revenues from Measure P supplemental tax on high value property transfers to recover in FY 2025 through FY 2028, as the Feds begins lowering interest rates in the fourth quarter of FY 2024 and stops (or reduces) selling of Mortgage-backed bonds from its Balance Sheet.

### **Ambulance Fees**

Ambulance growth was projected to increase 4.04% in FY 2024 and flatten out in FY 2025. However, Ambulance Fees revenue for the nine months of FY 2024 totaled \$5,735,203, which was \$2,062,364 or 56.2% more than the \$3,833,730 received for the same period in FY 2023. This increase was primarily due to (1) an increase in the number of transports by 501 or 11.6% in the nine months of FY 2024, from 4,330 to 4,831; and (2) the Public Provider Ground Emergency Medical Transportation (PPGEMT) program replaced the Quality Assurance Fee Program (QAF); The MEDI-CAL and MCAL HMO reimbursement rate increased to \$1,062 under the PPGEMT Program



from \$339 under the QAF Program in FY 2023. In addition, there were additional rate increases effective April 1, 2023 and November 1, 2023.

As a result, Staff revised projections as follows: an increase of 40.7% in FY 2024; an increase of 6.91% in FY 2025; a decrease of 6.46% in FY 2026; and no growth in FY 2027 and FY 2028.

### **Interest Income**

The sharp rise in interest rates triggered by the Feds is a double-edged sword: While the rise in interest rates negatively impacts the City's Property Transfer Taxes (through less property sales) and Secured Property Taxes and Vehicle In Lieu Taxes (through lower assessed values), it results in an increase in Interest Income. For FY 2023, Interest Income totaled \$12,117,025, which was \$5,422,903 or 81.0% more than the \$6,694,122 received in FY 2022. It was also \$6,117,025 more than the adopted budget amount of \$6,000,000.

Primarily as a result of the Fed's actions, the net interest rate earned by the City increased from a range of 1.837%-2.83% during the nine months of FY 2023, to a range of 2.84%-3.18% during the nine months of FY 2024. In addition, the increase was partially attributable to an inversion of the yield curve, where short-term rates were greater than long-term rates.

Some economic models project that the Federal Funds rate will average 5.25% in 2024 and drop to 4.0% in 2025. However, by then staff will have locked in rates near 5.0% on a significant portion of the investment portfolio. Even the Feds chairman said he is unsure when the Feds will start lowering interest rates, so the projected interest income assumes 15.5% growth in FY 2024; a decline of 3.57% in FY 2025; a decline of 7.41% in FY 2026, and flat growth in FY 2027 and FY 2028.

### **Conclusion**

Projecting revenues many years into the future is inherently difficult to do with accuracy, as shifts in the macroeconomic climate can cause asset valuations and economic output to fluctuate in ways not able to be anticipated at the time projections are made. Staff use the best assumptions available, based on historic trends, observation of leading economic indicators, and known changes in the regulatory environment. The current environment, however, presents heightened uncertainty due to several macroeconomic factors that could impact future City revenues.

First, while the health emergency related to the COVID-19 pandemic is finally receding, and the restrictions that had constrained economic activity have been lifted, there is a possibility that the local economy has been reshaped in ways that will not return to a pre-pandemic

“normal.” The increase in telecommuting that occurred in the past couple of years may not fully recede. This could have effects on spending activities of residents and employees of City businesses and institutions, as well as the desirability of certain locations for home purchases. These trends will have to be studied and analyzed and adjustments made as more data comes in.

Second, as reported last year, inflation rose to unacceptably high levels, causing the Federal Reserve Board to tighten monetary policy significantly to combat inflation. As a result, the Feds raised interest rates from a range of 0%-.25% in March 2022 to a range of 5.25%-5.50% currently. During this period the average mortgage rose from a little over 4.1% to as high as 8.0%, and are approximately 7.5% currently. In addition, the Feds began a program to sell \$95 billion/month (or \$1.14 trillion) of Agency and Mortgage-Backed securities from its Balance Sheet, which will increase the supply of these securities and put additional upward pressure on mortgage rates. This has already significantly reduced consumer spending and has started slowing down the economy. During the first nine months of FY 2024, the City’s Sales Tax Consultant has noted a significant decline in sales activity in a number of categories in Berkeley, resulting in a decline in the FY 2024 Sales Tax revenue projection. Staff has also noticed an underperformance in TOT: FY 2024 growth was projected at 6.95%. However, the actual results through the first nine months of FY 2024 were a decline of over 3%.

Third, gigantic and ongoing federal budget deficits, higher than acceptable inflation rates and the Federal Reserve Board tightening of the monetary supply to fight high inflation have replaced the COVID-19 pandemic as the biggest headwinds to economic growth in the City over the next few years. The Feds Chairman said the Feds will keep interest rates at a high level until its preferred inflation index (i.e., Core Personal Consumption Expenditure Index or PCE Index) declines below its target of 2% and the Feds is convinced it will remain so. It is currently 2.8%. The Feds is trying to engineer a soft landing for the economy (i.e., slowing the economy by tightening the money supply, but not creating a recession); the Feds may or may not be successful at engineering this soft landing. The proposed \$1.8 trillion federal budget deficit for the upcoming fiscal year will require the issuance of an additional \$1.8 trillion in Treasury Bonds to fund the deficit. This additional huge supply of bonds may overwhelm demand for Treasury Bonds and put further upward pressure on long-term interest rates, including mortgage rates.

As discussed under Secured Property Taxes and Property Transfer Taxes, the upward pressure on mortgage rates has lowered the growth rate for projected Secured Property Taxes, Vehicle In Lieu Taxes and Property Transfer Taxes; as a result, the City General Fund has, at least for the near term, lost its three primary drivers of annual growth, and the overall growth in General Fund revenue will struggle to remain positive. Fortunately for the City, this huge loss of General Fund revenue has been offset by significant increases in Interest Income and Ambulance Fees, but these increases may not be permanent. The inflation trends are headed in the right direction now, but if that changes, all bets are off as far as how high interest can go in the future.

Fourth, the continuation of the war in Europe between Ukraine and Russia, the war in the Middle East, and the manipulation of oil supplies by OPEC+ have the potential to dramatically reshape global markets, especially if Russian oil and natural gas are cut off from the rest of the world. This would drive fuel and transportation prices higher, with downstream effects on the prices of most goods. This could keep the inflation rate and interest rates higher for a longer period of time, and negatively impact consumer spending.

Any one or a combination of these factors could necessitate further revision of the projections presented here. Staff will continue to monitor the revenues we actually receive and changes in the economic environment, so that we may update or revise our projections if changes in our forecasts are warranted.