



Office of the City Manager

Date: June 8, 2023
To: Budget and Finance Policy Committee
From: Dee Williams-Ridley, City Manager
Submitted by: Henry Oyekanmi, Finance Director
Subject: FY 2023 Third Quarter Revenue Report

The biggest change in our third quarter projections is the steep decline in Property Transfer Taxes. These taxes, which had provided an important backstop to pandemic-related reductions in other revenue sources, fell sharply in the third quarter of FY 2023. While total property sales volumes had averaged almost \$200 million per month for the first six months of FY 2023, the third quarter saw only \$70 million per month, down 64% from the first half of the year, and down 84% from the third quarter of FY 2022. Staff was aware that the high receipts in FY 2022 were an anomaly, which is why we originally projected a 25% decline in the adopted budget for FY 2023, but sales have decreased even more than we had projected. This was the result of continuing interest rate increases by the Federal Reserve which depressed sales values and reduced overall sales transactions.

Borrowing costs also risen because of the Federal Reserve raising rates in an attempt to counter overall inflation. But lenders are also demanding increased collateral for preferable interest terms on new loans, as their own capital costs have increased.

These drops are reminiscent of the last recession in 2008-2009, when transfer tax revenues fell over 50% and did not return to prior levels until FY 2014. There are important differences in the current environment, however. The credit market in 2008-2009 collapsed dramatically, making loans unavailable to many potential buyers. The current year-over-year decline appears to have been driven by the current interest rate environment, as well as a glut of anticipatory sales in FY 2022 and early FY 2023 that were based on expectations of rate increases, and which would otherwise have occurred in the current period. There is some current evidence of potential further tightening of credit markets, and the entire economy could still fall into another full-blown recession, but continued strength in labor markets and consumer spending indicate that this outcome is still avoidable.

LOCAL ECONOMY

The financial outlook for the Bay Area economy in 2023 is mixed. On the one hand, the region continues to be a hub for innovation and technology, which are driving economic growth. The Bay Area is also home to a large and affluent population, which provides a strong consumer base. On the other hand, the Bay Area faces a number of challenges, including high housing costs, a lack of affordable housing, and a shortage of skilled workers. These challenges could dampen economic growth in the region.

Overall, the financial outlook for the Bay Area economy in 2023 is positive, but there are a number of factors that could weigh on growth. Here are some of the key factors that could impact the Bay Area economy in 2023:

- Tech industry: The Bay Area is home to a large and growing tech industry, which is a major driver of economic growth. The tech industry is expected to continue to grow in 2023, but at a slower pace than in recent years.
- Housing market: The Bay Area housing market is one of the most expensive in the country. High housing costs make it difficult for many people to afford to live in the region, which could dampen economic growth.
- Labor market: The Bay Area labor market is tight, with many businesses struggling to find qualified workers. This could lead to wage inflation, which could make it more difficult for businesses to compete.
- Public finances: The Bay Area faces a number of fiscal challenges, including a large budget deficit and a growing unfunded pension liability. These challenges could lead to higher taxes and/or cuts to government services, which could dampen economic growth.

While changes in the real estate market have caused staff to pare back its transfer tax revenue projections, continued strength in sales tax, business license tax and utility users tax receipts mean that we still project that final FY 2023 General Fund revenues will exceed the adopted budget by 2.8%.

For FY 2024, we project that total General Fund revenue will be \$266.4M which is \$4.67M or 1.78% higher than the FY 2023 adopted budget.

General Fund Revenue and Transfer In FY 2023 Third Quarter vs FY 2022 Third Quarter Comparison

Revenue Categories	FY 2023				FY 2022				Comparison FY23 vs FY22	
	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	\$75,664,920	\$50,561,010	(\$25,103,910)	66.82%	\$71,382,000	\$46,074,107	(\$25,307,893)	64.55%	4,486,903	9.74%
Redemptions - Regular	831,441	638,419	(193,022)	76.78%	831,441	613,418	-218,023	73.78%	25,001	4.08%
Supplemental Taxes	2,000,000	1,229,929	(770,071)	61.50%	2,000,000	608,905	-1,391,095	30.45%	621,024	101.99%
Unsecured Property Taxes	3,516,000	3,806,995	290,995	108.28%	2,625,000	3,637,247	1,012,247	138.56%	169,748	4.67%
Property Transfer Tax	34,462,172	18,953,345	(15,508,827)	55.00%	21,000,000	32,558,537	11,558,537	155.04%	(13,605,192)	-41.79%
Property Transfer Tax-Measure P (New December 21, 2018)	14,073,750	9,086,940	(4,986,810)	64.57%	8,500,000	14,670,038	6,170,038	172.59%	(5,583,098)	-38.06%
Sales Taxes	19,016,546	14,558,589	(4,457,957)	76.56%	18,287,215	13,885,146	-4,402,069	75.93%	673,443	4.85%
Soda Taxes	990,210	875,532	(114,678)	88.42%	990,210	720,178	-270,032	72.73%	155,354	21.57%
Utility Users Taxes	13,800,000	12,701,095	(1,098,905)	92.04%	13,000,000	10,835,311	-2,164,689	83.35%	1,865,784	17.22%
Transient Occupancy Taxes	5,000,000	4,845,561	(154,439)	96.91%	2,173,000	3,502,092	1,329,092	161.16%	1,343,469	38.36%
Short-term Rentals	1,000,000	1,088,160	88,160	108.82%	630,000	886,762	256,762	630.00%	201,398	22.71%
Business License Tax	19,000,000	18,222,692	(777,308)	95.91%	18,498,146	11,267,370	-7,230,776	60.91%	6,955,322	61.73%
Recreational Cannabis	1,400,000	837,715	(562,285)	59.84%	1,643,739	982,618	-661,121	59.78%	(144,903)	-14.75%
U1 Revenues	4,900,000	4,853,469	(46,531)	99.05%	5,120,350	2,719,252	-2,401,098	53.11%	2,134,217	78.49%
Other Taxes	1,800,000	2,762,939	962,939	153.50%	1,761,714	1,631,952	-129,762	92.63%	1,130,987	69.30%
Vehicle In-Lieu Taxes	15,926,168	8,329,833	(7,596,335)	52.30%	14,959,837	7,503,002	-7,456,835	50.15%	826,831	11.02%
Parking Fines-Regular Collections	4,326,450	4,470,746	144,296	103.34%	3,726,450	3,855,090	128,640	103.45%	615,656	15.97%
Parking Fines-Booting Collections			-				-		-	
Moving Violations	132,600	106,329	(26,271)	80.19%	132,600	117,019	-15,581	88.25%	(10,690)	-9.14%
Ambulance Fees	3,880,779	3,672,839	(207,940)	94.64%	3,154,002	2,736,858	-417,144	86.77%	935,981	34.20%
Interest Income	6,000,000	5,942,994	(57,006)	99.05%	4,462,320	4,800,122	337,802	107.57%	1,142,872	23.81%
Franchise Fees	1,613,283	373,789	(1,239,494)	23.17%	1,613,283	511,590	-1,101,693	31.71%	(137,801)	-26.94%
Other Revenue	6,729,977	5,378,615	(1,351,362)	79.92%	6,729,977	5,585,280	-1,144,697	82.99%	(206,665)	-3.70%
IDC Reimbursement	5,490,000	4,732,212	(757,788)	86.20%	5,490,000	3,612,496	-1,877,504	65.80%	1,119,716	31.00%
Transfers	17,096,148	10,731,462	(6,364,686)	62.77%	27,354,923	20,516,193	-6,838,730	75.00%	(9,784,731)	-47.69%
Total Revenue:	\$258,650,444	\$188,761,209	-\$69,889,235	72.98%	\$236,066,207	\$193,830,583	-\$42,235,624	82.11%	(\$5,069,374)	-2.62%

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

General Fund revenue and transfers decreased 2.62% or \$5,069,371, from \$193,830,583 in the nine months of FY 2022, to \$188,761,209 for the same period in FY 2023, due primarily to a decline of \$13,605,192 in Property Transfer Taxes, a decline of \$5,583,098 in Measure P Property Transfer Taxes, and a decline of \$9,784,731 in Transfers.

The declines in Property Transfer Taxes and Measure P Property Transfer Taxes were especially troubling because they appear to be a collapse in the real estate market in Berkeley in the third quarter of FY 2023, resulting in year-over-year declines of \$10,806,858 and \$5,121,360 for Property Transfer Taxes and Measure P Property Transfer Taxes, respectively. It also resulted in significant decreases in the FY 2023 revenue projections for these two revenue sources: From \$34,462,172 to \$22,873,786 for Property Transfer Taxes and from \$14,073,750 to \$10,189,500 for Measure P Property Transfer Taxes. Staff will continue to closely monitor the impact the Federal Reserve Board’s dramatic increases in interest rates has on mortgage rates, the tightening of credit standards and the resulting lower affordability of potential home buyers, and on the anticipated slowing economy in the near future.

The declines in Property Transfer Taxes, Measure P Property Transfer Taxes and Transfers were partially cushioned by increases in the following revenue sources that warranted an increase in FY 2023 revenue projections: Secured Property Taxes, Supplemental Taxes, Sales Taxes, Utility Users Tax, Transient Occupancy Taxes (TOT), Business License Taxes, Other Taxes, Vehicle in Lieu Taxes, Parking Fines, Ambulance Fees, Interest Income, IDC Reimbursements, and Other Revenue.

Supplemental Taxes (+\$621,024 more than FY 2022 Actual)

During the nine months of FY 2023, Supplemental Taxes totaled \$3,806,995, which was \$621,024 or 102.0% more than the \$608,905 received for the same period in FY 2022.

As a result, staff raised the FY 2023 projection from \$2,000,000 to \$3,400,000.

Secured Property Tax (+\$4,486,903 more than FY 2022 Actual)

During the nine months of FY 2023, Secured Property Tax revenues totaled \$50,561,010, which was \$4,486,903 or 9.74% more than the \$46,074,107 received for the same period in FY 2022. This result was consistent with the County’s Certification of Assessed Valuation (received from the County in August 2022), which reflects growth of 10.8%. However, the FY 2023 Adopted Budget assumes a 6.00% increase for FY 2023 (based on the last preliminary estimate of FY 2023 growth received from the County prior to July 1, 2022). As a result, staff increased the FY 2023 Secured Property Tax projection from \$75,664,920 to \$79,091,256.

Unsecured Property Tax (+\$169,748 more than FY 2022 Actual)

During the nine months of FY 2023, Unsecured Property Tax revenues totaled \$3,806,995, which was \$169,748 or 4.67% more than the amount of \$3,637,247 received in the same period in FY 2022. This amount is lower than the County's Certification of Assessed Valuation growth reflected of 16.9% for FY 2023.

Property Transfer Tax (-\$13,605,192 less than FY 2022 Actual)

During the third quarter of FY 2023 (December 1, 2022 to February 28, 2023 payments from the County), the market for sales of real estate property in Berkeley collapsed as follows:

- Total Property Transfer Taxes received during this three-month period in FY 2023 (excluding County fees and seismic retrofit rebates) was \$3,180,411, down 81.5% from the \$13,987,269 received for the same period in FY 2022;
- Total Property transactions during the period was 108, down 57% from the total of 251 for the same period in FY 2022; and,
- There was only one property sale of \$10,000,000 during this period in FY 2023, compared to 11 with total property sales of \$342,200,000 for the same period in FY 2022

As a result, during the nine months of FY 2023, Property Transfer Tax totaled \$18,953,345 which was \$13,605,192 or 48.1% less than the \$32,558,537 received for the same period in FY 2022. However, \$2,117,407 of that decrease resulted from the late payment (in FY 2022) by the County of the May 2021 Property Transfer Taxes, which should have been received in FY 2021.

The primary reasons for the remaining \$11,487,785 decrease in Property Transfer Tax were the following:

- (1) the dollar value of property sales decreased by 43.1%, from \$2.457 billion in the nine months of FY 2022 to \$1.397 billion during the nine months of FY 2023, as illustrated in Table 1 below.
- (2) There were ten property sales of \$10 million or more, with total sales of \$410,979,500 in the nine months in the nine months of FY 2023 compared to 23 property sales of \$10 million or more, with total sales of \$581,538,500 in the nine months of FY 2022; and,
- (3) The number of property sales transactions decreased by 225 or 26.0% from 865 in the nine months of FY 2022 to 640 during the nine months of FY 2023, as illustrated in the Table 2 below.

Staff will continue to closely monitor this volatile revenue, especially in light of the high mortgage rates and slowing economy resulting from the Federal Reserve Board's aggressive attempt to slow down the US economy in order to reduce inflation, by sharply raising interest rates and selling Agency and Mortgage-backed securities from its Balance Sheet.

Table 1- Property Sales in Million \$

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2022	\$172.1	\$197.5	\$309.1	\$192.9	\$243.5	\$197.1	\$1,312.2
FY 2023	188.9	320.0	134.6	143.9	254.9	142.4	1,184.7
Change	16.8	122.5	-174.5	-49.0	11.4	54.7	-127.5
% Change	9.7%	62.0%	56.5%	-25.4%	4.7%	-27.8%	-9.7%

	Jan	Feb	Mar				Total
FY 2022	\$465.7	\$453.7	\$225.1				\$2,456.7
FY 2023	86.5	72.2	53.4				1,396.8
Change	-379.2	-381.5	-171.7				-1,059.9
% Change	-81.4%	-84.1%	-76.3%				-43.1%

Table 2-Number of Property Sales Transactions

	July	Aug	Sept	Oct	Nov	Dec	Total
FY 2022	114	91	72	103	119	115	614
FY 2023	113	101	108	79	74	57	532
Change	-1	10	36	-24	-45	-58	-82
% Change	-.88%	11.0%	50.0%	-23.3%	-37.8%	-50.4%	-13.4%

	Jan	Feb	Mar				Total
FY 2022	128	62	61				865
FY 2023	40	37	31				640
Change	-88	-25	-30				-225
% Change	-.68.8%	-40.3%	-49.2%				-26.0%

Measure P-Property Transfer Tax (-\$5,583,098 less than FY 2022 Actual)

As indicated above for Property Transfer Taxes, during the third quarter of FY 2023 (December 1-February 28, 2023 payments from the County), the market for sales of real estate property in Berkeley collapsed as follows:

- Total Measure P Property Transfer Taxes (a tax which took effect on December 21, 2018) received during this three-month period in FY 2023 (excluding County fees) was \$824,700, down 86.1% from the \$5,946,060 received for the same period in FY 2022;
- Total Property transactions during the period was 31, down 70.8% from the total of 106 for the same period in FY 2022; and,
- There was only one property sale of \$10,000,000 during this period in FY 2023, compared to 11 transactions with total property sales of \$342,200,000 for the same period in FY 2022.

As a result, Measure P taxes totaling \$9,086,940 was collected during the nine months of FY 2023, which was \$5,583,098 or 38.1% less than the \$14,670,038 collected during the same period of FY 2022. This decrease resulted primarily from the following: (1) A decrease of 36.9% in the dollar value of property sales amount in the nine months of FY 2023 versus those for the same period in FY 2022 as reflected in Table 3; (2) The number of property sales transactions decreased by 137 or 35.8% during the nine months of FY 2023, as illustrated in the Table 4 below.

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

	July	Aug	Sept	Oct	Nov	Dec	Total
FY 2022	\$117.7	\$126.8	\$147.9	\$145.5	\$190.1	\$134.1	\$862.1
FY 2023	114.4	271.1	84.1	63.3	203.7	99.8	836.4
Change	-3.3	144.3	-63.8	82.2	-13.6	-34.3	-25.7
% Change	-2.8%	113.8%	-43.1%	-56.5%	-7.2%	-25.6%	-3.0%

	Jan	Feb	Mar				Total
FY 2022	\$234.7	\$249.5	\$110.4				\$1,456.7
FY 2023	34.3	28.0	20.2				918.9
Change	-200.4	-221.5	-90.2				-537.8
% Change	-85.4%	-88.8%	-81.7%				-36.9%

Table 4- Property Transactions \$1.5 Million and Above

	July	Aug	Sept	Oct	Nov	Dec	Total
FY 2022	50	45	26	47	58	51	277
FY 2023	52	41	48	31	24	19	215
Change	2	-4	22	-16	-34	-32	-62
% Change	.4.0%	-8.9%	84.6%	-34.0%	-58.6%	-62.7%	-22.4%

	Jan	Feb	Mar				Total
FY 2022	53	25	28				383
FY 2023	12	10	9				246
Change	-41	-15	-19				-137
% Change	-77.4%	-60.0%	-67.9%				-35.8%

Sales Tax (+\$673,443 more than FY 2022 Actual)

For the nine months of FY 2023, Sales Tax revenue totaled \$14,558,589, which was \$673,443 or 4.85% more than the \$13,885,146 received for the nine months of FY 2022. The increase was significantly more than the .50% increase reflected in the Adopted Budget and was more consistent with the City’s sales tax consultant’s 3.7% projection: The sales tax consultant projects increases in the following categories over the FY 2022 actuals: General Retail (+\$237,193); Transportation (+\$236,709); Business-to-business (+\$149,551); and County Pool (+\$227,039). As a result, staff increased the FY 2023 projection from \$19,016,546 to \$19,449,474.

Utility Users Taxes (+\$1,865,784 more than FY 2022 Actual)

Utility Users Tax revenue for the nine months of FY 2023 totaled \$12,701,095, which was \$1,865,784 or 17.2% more than the \$10,835,311 received for the same period in FY 2022.

This increase of \$1,865,784 resulted from the following:

FY 2023 Actual Nine Months Revenues and FY 2022 Actual Nine Months Revenues				
	FY2023	FY 2022	\$ Change	% Change
Telephone	\$ 800,870	\$ 864,937	\$ -64,067	-7.41%
Cable	751,333	782,504	- 31,171	-4.00%
Cellular	1,354,465	1,281,710	72,755	5.68%
Electric	6,623,243	5,531,038	1,092,205	19.75
Gas	3,171,184	2,375,122	796,062	33.52%
Total	\$12,701,095	\$10,835,311	\$1,865,784	17.2%

The increases in gas and electric primarily resulted from the following: (1) The increased cost of natural gas to PG&E and the colder-than-normal temperatures, which increased energy bills; (2) The higher energy demands and tighter supplies on the West Coast, as customers used more natural gas for heating during cooler temperatures; and, (3) PG&E received an 8% increase in electricity rates in January 2022 and another increase of 8.9% in March 2023.

As a result, staff raised the FY 2023 projection from \$13,800,000 to \$17,454,320.

Transient Occupancy Tax (+\$1,343,469 more than FY 2022 Actual)

Transient Occupancy Tax (TOT) revenue for the nine months of FY 2023 totaled \$4,845,561, which was \$1,343,469 or 38.4% more than the \$3,502,092 received for the nine months of FY 2022, after including TOT rebates owed. The increase in FY 2023 was primarily attributable to a gross increase of 47.9% at the six largest hotels in Berkeley during the nine months of FY 2023.

As a result, staff increased the FY 2023 gross TOT revenue projection from \$5,000,000 to \$7,022,353 after subtraction of estimated TOT rebates owed.

Short-Term Rentals (+\$201,398 more than FY 2022 Actual)

Short-Term Rentals revenue for the nine months of FY 2023 totaled \$1,088,160, which was \$201,398 or 22.7% more than the \$886,762 received for the period of FY 2022. As a result, staff increased the Short-term rentals projection from \$1,000,000 to \$1,497,432.

Business License Taxes (+\$6,955,322 more than FY 2022 Actual)

Business license Taxes (BLT) revenue for the nine months of FY 2023 totaled \$18,222,692, which was \$6,955,322 or 61.7% more than the \$11,267,370 received for the nine months of FY 2022.

The big increase through the nine-month period of FY 2023 was primarily due to staff working overtime much earlier than in past years, and staff’s ability to process licenses timelier. Trend analysis indicates that BLT receipts are exceeding expectations, primarily due to increases in the following categories: Rental of Real Property (+\$1,130,142); Constructor or Contractor (+\$338,528); and, Professional/Semi-professional (+\$245,371) As a result, staff increased the FY 2023 Business License Taxes (BLT) revenue projection from \$19,000,000 to \$21,138,023.

U1 Revenues (+2,134,217 more than FY 2022 Actual)

U1 revenues for the nine months of FY 2023 totaled \$4,853,469, which was \$2,134,217 or 78.5% more than the \$2,719,252 received in the same period in FY 2022. The big increase through the nine-month period of FY 2023 was primarily due to staff working overtime much earlier than in past years, and staff's ability to process licenses timelier.

As a result, staff increased the FY 2023 U1 revenue projection from \$4,900,000 to \$5,800,000.

Vehicle in Lieu Taxes (+\$826,831 more than FY 2022 Actual)

Vehicle in Lieu Taxes (VLF) for the nine months of FY 2023 totaled \$8,329,833, which was \$826,831 or 11.02% more than the \$7,503,002 received for the nine months of FY 2022. This result was consistent with the County's Certification of Assessed Valuation (received from the County in August 2022), which reflects growth of 10.8%. Changes in VLF revenues are based on the growth in assessed values. However, the Adopted Budget reflects growth of 6.0%. As a result, staff increased the FY 2023 Vehicle in Lieu Tax projection from \$15,926,168 to \$16,626,651.

Other Taxes (+\$1,130,987 more than FY 2022 Actual)

Other Taxes for the nine months of FY 2023 totaled \$2,762,939, which was \$1,130,987 or 69.3% more than the \$1,631,952 received for the nine months of FY 2022. The primary reason for the increase was (1) an increase of \$667,626 or 155.4% in Parking Lot Taxes from \$429,487 in the nine months of FY 2022 to \$1,097,113 for the same period in FY 2023; and, (2) an increase of \$197,062 in Transportation Network Company User Tax (i.e., a tax on ride sharing companies enacted during the height of the COVID-19 pandemic) from \$431,007 in the nine months of FY 2022 to \$628,069 in the nine months of FY 2023.

As a result, staff increased the FY 2023 Other Taxes projection from \$2,631,441 to \$4,453,059.

Parking Fines (+\$615,656 more than FY 2022 Actual)

Parking Fines revenue for the nine months of FY 2023 totaled \$4,470,746, which was \$615,656 or 16.0% more than the \$3,855,090 received for the nine months of FY 2022. The primary reason for the increase was a significant increase in ticket writing, resulting from the lifting of COVID-19 restrictions.

During the nine months, ticket writing increased by 15,151 or 16.2% from 93,347 in the nine months of FY 2022 to 108,498 for the same period in FY 2023, as follows:

	July	Aug	Sept	Oct	Nov	Dec	Total
FY 2022	9,240	9,373	11,409	11,033	10,439	10,170	61,664
FY 2023	10,881	11,414	12,984	12,419	12,369	10,525	70,592
Difference	1,641	2,041	1,575	1,386	1,930	355	8,928
% Difference	17.8%	21.8%	13.8%	12.6%	18.5%	3.5%	14.5%

	Jan	Feb	Mar				Total
FY 2022	8,729	10,846	12,108				93,347
FY 2023	12,169	12,386	13,351				108,498
Difference	3,440	1,540	1,243				15,151
% Difference	39.4%	14.2%	10.3%				16.2%

As a result, staff increased the FY 2023 Parking Fines revenue projection from \$4,326,450 to \$5,800,000.

Ambulance Fees (+\$935,981 more than FY 2022 Actual)

Ambulance Fees revenue for the nine months of FY 2023 totaled \$3,672,839, which was \$935,981 or 34.2% more than the \$2,736,858 received for the same period during FY 2022. This increase was primarily due to an increase in the number of transports, which increased by 375 in the nine months of FY 2023.

In addition, the Fire Department was notified of the reinstatement of the Ground Emergency Medical Transportation (GEMT) cost report program, which will enable the department to receive reimbursement payments for FY 2019 through FY 2022 totaling approximately \$2.9 million. As a result, staff increased the Ambulance Fee revenue projection from \$3,880,779 to \$5,330,779 in FY 2023 and FY 2024.

Interest Income (+\$1,142,872 more than FY 2022 Actual)

For the nine month of FY 2023, interest income totaled \$5,942,994, which was \$1,142,872 or 23.8% more than the total of \$4,800,122 received for the same period in FY 2022. This increase was primarily attributable to an increase in the portfolio size, and a significant increase in average interest rates earned after the Federal Reserve reversed course and started raising interest rates on March 17, 2022. Primarily as a result of the Fed's actions beginning March 17, 2022, the net interest rate earned by the City increased from a range of .912%-1.078% during the nine months of FY 2022, to a range of 1.837%-2.8251% during the nine months of FY 2023, as follows:

Monthly Net Interest Rate Earned:

FY	July	Aug	Sept	Oct	Nov	Dec
2022	.912%	1.028%	1.057%	1.078%	1.018%	.961%
2023	1.837%	2.025%	1.972%	2.258%	2.390%	2.616%

FY	Jan	Feb	Mar	Apr	May	June
2022	.9402%	.9452%	1.005%			
2023	2.738%	2.7145%	2.8251%			

As a result, staff increased the FY 2023 Interest Income projection from \$6,000,000 to \$7,618,485.

Franchise Fees (-\$137,801 less than FY 2022 Actual)

Franchise Fees for the nine months of FY 2023 totaled \$373,789, which was \$137,801 or 26.9% less than the \$511,590 received for the same period in FY 2022.

Indirect Cost Reimbursements (+\$1,119,716 more than FY 2022 Actual)

Indirect Cost Reimbursements (IDC) for the nine months of FY 2023 totaled \$4,732,212, which was \$1,119,716 or 31.0% more than the \$3,612,496 received in the nine months of FY 2022. This increase was primarily accounted for by (1) an increase in the indirect cost rates calculated for FY 2023 (a range of 21-25%) compared to the rates calculated in FY 2022 (a range of 17%-18%), and (2) An increase of 4.66% in the indirect cost allocation base (total direct salaries and wages) from \$20,289,745 in the nine months of FY 2022 to \$21,234,357 for the same period in FY 2023.

As a result, staff increased the FY 2023 IDC revenue projection from \$5,490,000 to \$6,640,308.

Transfers (-\$9,784,731 less than FY 2022 Actual)

Transfers from other funds for the nine months of FY 2023 totaled \$10,731,462 which was \$9,784,731 or 47.7% less than the \$20,516,193 received for the same period in FY 2022. This was primarily attributable to the Transfer of \$17,227,017 from the American Rescue Plan Fund to recover from the impact of the COVID-19 pandemic, and Transfer of \$1,982,460 from the Health State Aide Realignment Fund in the nine months of FY 2022, compared to the Transfer of \$9,203,709 from the American Rescue Plan Fund in the same period of FY 2023 and a delay in the Health State Aide Realignment Fund transfer in FY 2023.

Other Revenues (-\$206,665 more than FY 2022 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 2023 totaled \$5,378,615 which was \$206,665 or 3.7% less than the \$5,585,280 received for the nine months of FY 2022. Staff decreased the FY 2023 Other Revenue projection from \$6,729,977 to \$6,029,977 consistent with the trends seen in this revenue category.

5 YEARS PROJECTED GENERAL FUND REVENUES

	Projected General Fund Revenue FY 2021 through FY 2025						
	FY 2023 Adopted	FY 2022 Actual	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Undesignated Revenues							
Secured Property Taxes	75,664,920	71,607,561	79,091,256	84,725,717	89,385,632	92,514,129	95,752,123
Supplemental Taxes	2,000,000	2,317,723	3,400,000	3,400,000	3,400,000	3,400,000	3,400,000
Unsecured Property Taxes	3,516,000	3,472,334	3,806,995	3,806,995	3,806,995	3,806,995	3,806,995
Property Transfer Taxes	18,000,000	18,000,000	18,000,000	18,000,000	16,000,000	16,000,000	16,000,000
Property Transfer Tax - Measure P	14,073,750	20,591,313	10,189,500	10,189,500	10,698,975	11,233,923	11,795,619
Sales Taxes	19,016,546	18,928,278	19,449,474	19,654,225	20,351,959	21,215,626	22,061,376
Soda Tax	990,210	1,025,800	1,147,387	1,147,387	1,147,387	1,147,387	1,147,387
Utility Users Taxes	13,800,000	14,750,065	17,454,320	17,454,320	17,054,320	17,054,320	17,054,320
Transient Occupancy Taxes(TOT)	5,000,000	5,727,046	7,022,353	8,374,588	8,655,826	9,621,409	10,683,549
Short-term Rentals	1,000,000	1,295,798	1,497,432	1,400,000	1,400,000	1,400,000	1,400,000
Business License Taxes	19,000,000	20,403,974	21,138,023	21,560,783	21,991,999	22,431,839	22,880,476
Recreational Cannabis	1,400,000	1,250,792	1,000,000	1,000,000	1,020,000	1,040,400	1,061,208
Measure U1	4,900,000	4,913,872	5,865,147	5,900,000	5,900,000	5,900,000	5,900,000
Vacancy Tax					2,500,000	5,000,000	5,150,000
Other Taxes	2,631,441	3,189,999	4,453,059	4,453,059	4,453,059	4,453,059	4,453,059
Vehicle In Lieu Taxes	15,926,168	15,006,003	16,626,651	17,811,134	18,790,746	19,448,422	20,129,117
Parking Fines - Regular Collections	4,326,450	4,765,819	5,800,000	5,800,000	5,300,000	5,300,000	5,300,000
Parking Fines - Booting Collections	-	-	-	-	-	-	-
Moving Violations	132,600	156,253	132,600	132,600	135,252	137,957	137,957
Ambulance Fees	3,880,779	3,833,730	5,330,779	5,350,779	3,880,779	3,880,779	3,880,779
Interest Income	6,000,000	6,694,122	7,618,485	8,826,211	8,826,211	8,826,211	8,826,211
Franchise Fees	1,613,283	1,720,056	1,720,056	1,720,056	1,720,056	1,720,056	1,720,056
Other Revenues	6,729,977	7,546,099	6,640,308	6,640,308	6,640,308	6,640,308	6,640,308
Indirect cost reimbursements	5,490,000	5,074,695	6,604,970	6,604,970	6,604,970	6,604,970	6,604,970
Transfers	17,096,148	27,354,923	17,096,148	7,591,924	4,472,621	4,562,074	4,562,074
Total Undesignated Revenues	242,188,272	259,626,255	261,084,943	261,544,556	264,137,095	273,339,864	280,347,585
Designated Revenues							
Prop. Transfer Taxes for capital improvements	16,462,172	24,901,750	4,873,786	4,873,786	8,017,475	9,218,349	10,479,266
Total Designated Revenues	16,462,172	24,901,750	4,873,786	4,873,786	8,017,475	9,218,349	10,479,266
TOTAL REVENUES AND TRANSFERS	258,650,444	284,528,005	265,958,729	266,418,342	272,154,570	282,558,213	290,826,851

Secured Property Taxes

In the Mid-Year FY 2023 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 (which bring assessed values to market value), staff projected that FY 2023 growth would be 10.8% and annual growth would be approximately 5.5% for the next several years. The FY 2023 projected growth still remains at 10.8%. However, as a result of the collapse in the real estate market during the third quarter of FY 2023 discussed above in the Property Transfer Tax section, the expectation for FY 2024 is 7.124%, and for FY 2025 it is 5.5%, but the growth for FY 2026 and FY 2027 have been lowered to 3.5%.

Sales Taxes

This revenue source is back to pre-pandemic levels, and growth is projected to increase 1.1% in FY 2024 and then level off to approximately 4% in FY 2025 through FY 2027. There is still some potential risk that the overall slowdown in the economy will be greater than currently expected due to the Federal Reserve Board's dramatic increase in interest rates from zero to over 5%, and due to tightening of credit standards due to the fallout from the recent three failures of three regional banks.

Business License Taxes

We are projecting a 3.6% growth in FY 2023 Business License Tax revenue and 2% from FY 2024 through FY 2027, led by growth in rentals of real property. Long-term projections will be adjusted as the impact of the recent dramatic increase in interest rates on the post-pandemic economic environment becomes clearer.

Transient Occupancy Tax

With the addition of a new hotel, we are currently projecting 22.6% growth in FY 2023 revenues, after subtracting the TOT rebates owed. We are currently projecting annual growth (TOT revenue increase after deducting TOT rebates owed) of 10% from the FY 2023 projected gross revenue levels. Based on those projections, we see the gross TOT revenue reaching the pre-pandemic level by the end of FY 2023. In addition, after subtracting projected TOT rebates owed, we expect that the net TOT level will be reached in FY 2024. We will continue to monitor the major hotels' projections of future occupancies and will adjust long-term projections as necessary.

Utility Users Tax

We expect UUT revenue to fall marginally from the FY 2023 and FY 2024 totals from FY 2025 through FY 2027, after increasing significantly in FY 2023 due to rate increases approved by the Public Utilities Commission and higher usage due to colder-than-normal temperatures.

Transfer Tax

Given the dramatic slowdown in the real estate market in the third quarter of FY 2023, the continuation of the trend in the first two months of the fourth quarter, and the continuing increases in interest rates by the Federal Reserve Board (along with rising mortgage rates), and a slowing US economy, we expect a decline in property values and in property sales activity in FY 2024. We project no growth in Transfer Tax revenue in FY 2024 from the revised FY 2023 total, followed by growth of 5% per year from FY 2025 – FY 2027.

Over the 5 years prior to the pandemic, transfer tax revenues grew 6% per year on average, but the high level of mortgage rates will continue to negatively impact sales prices and volumes somewhat in the next few years. After the sharp decline in FY 2023, we expect growth in revenues from Measure P supplemental tax on high value property transfers to be flat in FY 2024 and then increase at a rate of 5% from FY 2025 through FY 2027.

Conclusion

Projecting revenues many years into the future is inherently difficult to do with accuracy, as shifts in 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 while many of the restrictions that had constrained economic activity have been or soon will be 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, 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, after being kept at manageable levels for many years, there are signs that inflationary pressure is driving prices higher. It is not yet clear if this is the temporary effect of disrupted supply chains caused by COVID-19 or a more long-lasting phenomenon. The Federal Reserve Board has indicated that the markets are adjusting to the fact that interest rates are being raised as the Fed’s start to tighten monetary policy to combat inflation. This will have immediate effects on economic activities in all sectors of the economy.

Third, with the lowering of the growth rate for Secured Property Taxes and the decline projected for Property Transfer Taxes, the City General Fund has, at least for the near term, lost its two primary drivers of annual growth, and the overall growth in General Fund revenue will struggle to remain positive.

Fourth, the continuation of the war in Europe between Ukraine and Russia continues to have negative effects on global markets. The effects can worsen at any minute if Russian oil and natural gas supplies 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 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.