

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues and transfers through December totaled \$420.4 million, or 44.5% of the budgeted estimate. Based on current collection trends, existing revenues are tracking to end the year approximately \$12 million to \$16 million above budgeted levels (variance of approximately 1.5%). Approximately \$10 million to \$12 million of this higher collection level can be attributed to significant growth seen in the Development Fee Program collections.

The following table details actual 2013-2014 General Fund revenue collections through December as compared with budgeted revenue estimates and 2012-2013 actual collections for the same period a year ago. It also details the proposed changes to each category:

2013-2014 General Fund Revenue Status through December
(\$ in Thousands)

Category	Budget Estimate	YTD Actual	% of Estimate	2012-2013 % of Actual	Proposed Changes
<i>General Revenue</i>					
Property Tax	\$ 220,850	\$ 60,979	27.6%	27.9%	\$ -
Sales Tax	170,110	42,656	25.1%	24.8%	2,000
Telephone Tax	20,600	7,345	35.7%	34.0%	-
Transient Occupancy Tax	10,600	4,312	40.7%	36.1%	-
Franchise Fees	43,923	18,006	41.0%	41.5%	-
Utility Tax	91,895	39,204	42.7%	34.8%	-
Business Taxes	42,435	21,207	50.0%	45.0%	500
Licenses and Permits	40,278	29,515	73.3%	54.1%	8,990
Fines, Forfeitures, and Penalties	15,862	6,177	38.9%	44.0%	(1,000)
Use of Money and Property	2,673	1,884	70.5%	44.1%	-
Revenue from Local Agencies	36,805	4,018	10.9%	12.0%	327
Revenue from the State of California	11,523	1,223	10.6%	5.4%	330
Rev. from State Govt. - Recovery Act	-	1	N/A	13.3%	-
Revenue from Federal Government	12,768	6,493	50.9%	28.4%	284
Rev. from Fed. Govt. - Recovery Act	10	20	200.0%	11.9%	-
Departmental Charges	35,449	20,991	59.2%	47.5%	2,730
Other Revenue	120,112	110,499	92.0%	95.2%	(1,198)
Sub-Total General Revenue	875,893	374,530	42.8%	40.7%	12,963
<i>Transfers and Reimbursements</i>					
Overhead Reimbursements	36,576	29,014	79.3%	78.5%	-
Transfers	16,342	10,084	61.7%	51.1%	160
Reimbursements for Services	15,243	6,809	44.7%	34.2%	500
Sub-Total Transfers and Reimbursements	68,161	45,907	67.4%	60.2%	660
TOTALS	\$ 944,054	\$ 420,437	44.5%	42.1%	\$ 13,623

**2013-2014
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

OVERVIEW

Through December, the majority of revenues tracked at or above budgeted collections, including: Sales Tax, Transient Occupancy Tax, Business Taxes, Property Tax, Licenses and Permits and Departmental Charges. These positive variances are partially offset by lower collections in a limited number of categories, including Fines, Forfeitures, and Penalties, Revenue from the Federal Government, and Other Revenue.

Recommended Adjustments

Various revenue adjustments are recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; and (2) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures. Significant actions include:

- Implement required technical and rebalancing actions to increase revenue estimates by a net \$760,000 to bring estimates in line with revised projections. Major actions include:
 - Increase the Sales Tax estimate by \$2.0 million to reflect higher than estimated 1st quarter receipts.
 - Increase the Business Taxes (\$500,000) and Transfers and Reimbursements (\$660,000) categories to align the budget with current estimated collections levels.
 - Reduce the Other Revenue estimate by \$1.4 million to correct for the double counting of reimbursements related to banking services and to account for the delay in the Finance Department Payment Manager implementation.
 - Reduce the Fines, Forfeitures and Penalties estimate by \$1.0 million to more accurately align with Parking Fines projections.
- Recognize grant, reimbursement, and/or fee related funds (\$12.9 million).
 - The majority of this increase reflects increases in the Development Fee Program Revenue estimates of \$11.4 million as a result of record level collections. Offsetting increases to the Development Fee Program Reserves are also recommended.

In total, adjustments recommended in this document result in a net addition of \$13.6 million to the General Fund revenue estimates. Additional detail on these recommended adjustments can be found in Section III of this document. The following discussion highlights major General Fund activities through December in various revenue categories.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

Revenue Status

2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$220,850,000	\$60,979,395	27.6%	27.9%	\$0

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Airplane In-Lieu Tax, and Homeowners Property Tax Relief. Overall, Property Tax revenues are tracking to end the year within the budgeted estimate based on the most recent estimates from the County Assessor's Office.

In the 2013-2014 Adopted Budget, the **Secured Property Tax** estimate of \$201.4 million assumed an increase of approximately 8% in collections from 2012-2013 and was aligned with the June 2013 information provided by the Santa Clara County Assessor's Office. This projected increase was anticipated due to two primary factors: 1) the net increase in residential and commercial valuation resulting from the full or partial restoration of property values that were previously temporarily reassessed downwards under Proposition 8 due to the declining market values; and 2) the change in the California Consumer Price Index (CCPI) of 2.0% for the 2013-2014 tax roll. Through December, Secured Property Tax collections of \$47.3 million were 8.7% above the prior year receipts of \$43.5 million and reflect Property Tax installments from the County. The County of Santa Clara current estimate for 2013-2014 Secured Property Tax of \$201.9 million is slightly above the 2013-2014 Adopted Budget estimate and assumes estimated tax roll corrections of \$50.0 million County-wide. This is a preliminary estimate from the County and will be adjusted during the year based on actual experience. Because tax roll adjustments are still occurring and will continue to take place until the end of May 2014, the Budget Office will continue to work with the County to monitor actual performance and estimate year-end collections.

The 2013-2014 **Unsecured Property Taxes** budget estimate is \$12.6 million, which is 2.0% above the prior year collection level. Receipts through December of \$10.9 million typically reflect approximately 90% of the annual revenue for this category (which is received in October). Based on this historical collection trend, Unsecured Property Tax receipts may fall slightly below the budgeted estimate. It should be noted that the most recent 2013-2014 projection from the County of Santa Clara of \$12.2 million is approximately \$400,000 below the budgeted estimate.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

For **SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales), collections totaled \$595,000 through December, which is down 36.3% from the \$935,000 received last year at this time. Based on current collection trends and the County of Santa Clara's most recent estimate, receipts in this category are expected to fall below budgeted levels. Over the last few years, revenues in this category had fallen significantly, due, in part, to a substantial number of refunds that were due to property owners as a result of declining home values. In 2011-2012, however, strong growth of 12.9% was experienced with receipts of \$3.3 million. In 2012-2013, collections of \$3.05 million fell \$216,000 from 2011-2012 levels (-6.6%). With the improvement in the real estate market, moderate growth would typically be expected. However, the County continues to anticipate impacts to collections until the backlog of refunds is resolved. The 2013-2014 Adopted Budget assumed collections of \$3.6 million, requiring growth of 18.1% from actual 2012-2013 receipts. Year-end collections are currently tracking to fall below budgeted levels; adjustments will be brought forward by year-end based on actual experience, if needed. It should be noted that collection levels in recent years remain well below the high of \$10.1 million received in 2005-2006 and below levels seen just a few years ago (e.g., \$8.0 million in 2006-2007 and \$7.9 million in 2007-2008).

Aircraft Property Tax receipts through December totaled \$2.1 million, reflecting growth of 3.7% from the prior year collection level. The 2013-2014 Adopted Budget estimate of \$2.2 million requires growth of 5.6% from 2012-2013 receipts of \$2.1 million. Typically, collections through October reflect 90% of the annual revenue for this category. If this historical trend continues, it is estimated that revenues will end the year close to the budgeted estimate of \$2.2 million. The current County of Santa Clara Assessor's Office estimate falls slightly below the 2013-2014 budgeted level.

Based on the latest estimate from the County, the **Homeowners Property Tax Relief** revenue is projected to total \$1.03 million in 2013-2014, which is slightly below the \$1.05 million currently budgeted for this category.

SALES TAX

Revenue Status

2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$170,110,000	\$42,655,806	25.1%	24.8%	\$2,000,000

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

SALES TAX

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax. Overall, revenues are tracking above budgeted estimates and an increase of \$2.0 million to the revenue estimate is recommended in this report to account for higher than anticipated first quarter receipts in the General Sales Tax category.

The 2013-2014 Modified Budget estimate for **General Sales Tax** is \$164.5 million, which is approximately 3.7% above the actual 2012-2013 collection level. It is currently anticipated that underlying growth of at least 3% will be realized in 2013-2014 based on recent sales tax performance and current economic trends. Information on actual receipts for the first quarter of General Sales Tax for the current year was received in December and represented activity for July through September 2013. The first quarter 2013-2014 General Sales Tax revenues were up 8.5% from the same quarter in the prior year. When comparing San José's cash receipts to those of other jurisdictions, San José's growth of 8.5% was above the growth levels of Santa Clara County (up 3.5%), Northern California (up 4.0%), and the State as a whole (up 3.4%).

The City's Sales Tax consultant, MuniServices Company, provides economic performance data to the City which is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding State and county pools, and adjusts for anomalies, payments to prior periods, and late payments. On an economic basis, growth of 4.1% was realized in the most recent quarter. As shown in the chart below, this growth was the result of increases in all economic sectors except Business-to-Business and Miscellaneous. The Construction sector experienced strong growth of 12.7%, driven primarily by the increase in wholesale building materials (up 29.2%). The Transportation sector also experienced solid growth of 6.7%, primarily due to continued growth in used auto sales (31.7%).

Sales Tax Revenue Economic Performance
July – September 2013

Economic Sector	% of Total Revenue	% Change July-Sept. 2013 to July – Sept. 2012
Transportation	25.4%	+ 6.7%
General Retail	24.7%	+ 2.7%
Business-to-Business	22.8%	- 0.5%
Food Products	15.2%	+ 4.5%
Construction	11.3%	+ 12.7%
Miscellaneous	0.6%	- 15.8%
Total	100.0%	4.1%

The year-over-year increase for the first quarter exceeded the 3.0% economic growth assumed in the 2013-2014 Modified Budget for that quarter. To reflect this higher growth, a \$2.0 million increase in the Sales Tax estimate is recommended in this report. This funding is recommended to be used to offset

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

SALES TAX

other actions recommended in this report. Information on the second quarter collections (October-December sales activity) for this fiscal year will not be received until March. The City's Sales Tax performance will continue to be closely monitored to determine if any additional budget adjustments are necessary.

Through December, the **Proposition 172 Sales Tax** receipts of \$2.3 million are tracking 5.1% above the 2012-2013 collection level of \$2.2 million through the same period. The 2013-2014 budgeted estimate of \$5.6 million requires growth of 8.9% from the 2012-2013 collection level of \$5.2 million. Based on 2012-2013 actual performance and current collection trends, it is anticipated that collections will meet budgeted estimates this year.

TRANSIENT OCCUPANCY TAX

Revenue Status

2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$10,600,000	\$4,312,336	40.7%	36.1%	\$0

The 2013-2014 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$10.6 million, which reflects growth of approximately 5% from the 2012-2013 collection level of \$10.1 million (which included TOT receipts and TOT compliance revenue). Year-to-date receipts of \$4.3 million are 18.3% above the prior year. A portion of this increase is driven by a strong influx of TOT compliance revenue (\$324,000). While collections have moderated in November and December, based on current collection trends, TOT revenues in the General Fund are expected to exceed the budgeted estimate by approximately \$500,000 to \$700,000. If warranted, an upward adjustment will be brought forward at year-end.

Through December, the average hotel occupancy rate at the 14 major hotels was 68.1%, a slight improvement from the 64.4% occupancy rate for the same period in 2012-2013. However, for the same 14 hotels, the average daily room rate through December was \$149.24, up 11.1% from the \$134.34 room rate for the same period in 2012-2013. The year-to-date average revenue-per-available room (RevPAR) metric of \$101.73 represents an increase of 17.3% from the prior year level.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

UTILITY TAX

Revenue Status

2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$91,895,000	\$39,204,168	42.7%	34.8%	\$0

Utility Tax contains the following categories: **Electric, Gas, Water and Telephone**. Collections through December of \$39.2 million were tracking 23.6% above the prior year level of \$31.7 million. The majority of this growth, however, was due to differences in the timing of payments and prior year accruals. The 2013-2014 budgeted estimate assumes an increase of approximately 1% from the prior year. Based on current collection trends, overall, Utility Tax receipts are tracking to meet budgeted estimates. Below is a more detailed discussion of the revenue performance in each category and adjustments to the revenue estimate.

Through December, **Electric Utility Tax** receipts of \$19.2 million were tracking 28.0% above the prior year level of \$15.0 million and reflect activities through November. Once adjusted for timing differences in payments and accrual differences between projected June 2013 receipts and actual receipts, collections are tracking 5.7% above the adjusted prior year levels of \$17.9 million. Growth of 2.2% from 2012-2013 actual collections is needed to meet the 2013-2014 budgeted estimate of \$40.2 million. Collections in 2012-2013 were impacted by a refund that was processed by Pacific Gas and Electric (PG&E) in September 2012 for energy usage from April 2011 through June 2012, accounting for the majority of the variance between the two fiscal years, as well as the 2.6% rate increase which went into effect January 2013. Current forecasts show an anticipated rate increase in January 2014 of approximately 2.4% as well. Because of the uncertainty of any one-time adjustments and the volatility inherent in this revenue category, receipts will continue to be monitored closely for the remainder of the year.

Gas Utility Tax receipts through December of \$2.4 million were significantly above prior year collections of \$1.7 million. However, once adjusted for timing differences in payments and slight variances in accrual levels compared to actual June collection levels, receipts are tracking 3.7% above adjusted prior year levels of \$2.3 million. The 2013-2014 budgeted estimate of \$8.1 million assumed that collections would remain flat at estimated 2012-2013 receipts; however, based on actual 2012-2013 receipts of \$8.4 million, the 2013-2014 Adopted Budget estimate allows for a decline of 3.8% from the 2012-2013 collection level. If current collection trends continue, receipts in this category may slightly exceed budgeted levels by approximately \$500,000. However, Gas Utility Tax receipts are subject to significant fluctuations from the impact of weather conditions and/or rate changes. Collections will continue to be monitored closely since approximately two-thirds of the revenue in this category is typically collected in the second half of the year.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

UTILITY TAX

Water Utility Tax collections of \$5.4 million through December are tracking 22.2% above the prior year level of \$4.4 million, however, once adjusted for accruals and timing differences in payments, receipts through December are approximately 3.3% over adjusted prior year levels of \$5.1 million. The 2013-2014 Adopted Budget estimate of \$11.4 million was based on growth of 3.6% over the projected 2012-2013 collection level of \$11.0 million which assumed rate increases. However, because revenues in 2012-2013 ended the year below the estimated collection level, an increase of 8.4% is now needed to achieve the budgeted estimate. It should be noted that this category is always subject to fluctuations related to the amount of precipitation received, particularly in the spring. However, if current collection trends continue, receipts in this category may fall below budgeted levels by \$500,000. Consumption levels over the next several months will determine if adjustments to the revenue estimate will be appropriate before the end of the year.

Telephone Utility Tax receipts of \$12.2 million through December are tracking 15.1% above the prior year level of \$10.6 million however, once adjusting for timing difference in payment and accruals, receipts through December are actually tracking approximately 3% below prior year levels. This is primarily due to lower receipts in Voice Over Internet Protocol (VOIP) and cell phone receipts. The 2013-2014 Adopted Budget estimate of \$32.2 million allows for a slight decline of 2.0% from 2012-2013 actual collections. Therefore, if current collections continue, it is estimated that receipts will end the year close to budgeted levels.

BUSINESS TAXES

Revenue Status

2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$42,435,000	\$21,207,283	50.0%	45.0%	\$500,000

Business Taxes include the following major groups of revenue: **Business Tax, Cardroom Business Tax, Marijuana Business Tax and Disposal Facility Tax.** Overall, this category is tracking above the Modified Budget estimate of \$42.4 million. As part of this report, a \$500,000 increase to this category is recommended to reflect higher than expected receipts in Disposal Facility Tax (\$500,000) and would bring the total budgeted estimate to \$42.9 million.

Business Tax – collections of \$7.4 million through December were 1.9% above the prior year collection level of \$7.3 million. However, the 2013-2014 Adopted Budget allows for a decline of 16.9% from

**2013-2014
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

BUSINESS TAXES

actual 2012-2013 receipts of \$13.9 million. In the development of the 2013-2014 Adopted Budget, it was assumed that receipts would decline as unusually high activity was experienced in 2012-2013 because of the Business Tax Amnesty Program. However, growth from 2011-2012 levels of \$11.3 million was expected as a result of both the gradual economic recovery and the ongoing implications of the Amnesty Program. The Finance Department is completing its reconciliation of the Amnesty Program, and it is anticipated that a clean-up of outstanding accounts will result in a recommended cancellation of approximately \$1.0 million, of which sufficient reserves have been set aside to offset this adjustment. In addition, the Finance Department is working to complete a final reconciliation of the ongoing implications of the Business Tax Amnesty Program with final conclusion to be discussed in an information memorandum scheduled to be released January 2014. It is anticipated that this may result in revenues falling slightly below budgeted levels of \$11.5 million and will be monitored closely.

Cardroom Business Tax – collections of \$6.6 million through December continue to track at the prior year levels. The 2013-2014 budgeted estimate of \$15.5 million, allows for a decline in collections of 5.0% from the prior year level of \$16.3 million. The budgeted decline assumed normalizing the spike in activity for the opening of M8trix Casino. However, if receipts in this category continue to track at prior year levels, it is anticipated that revenues may exceed the budgeted estimate by \$500,000 to \$800,000.

Marijuana Business Tax – collections of \$2.4 million through December reflect collections from July through November and are 41.8% above the prior year collection level of \$1.7 million. In 2013-2014, the budgeted estimate of \$5.4 million requires growth of 27.5%, reflecting the anticipated increase in receipts due to the City Council approved increase in the tax rate from 7% to 10% of gross receipts. With monthly receipts of approximately \$500,000, total collections in this category are currently projected to exceed the budgeted estimate. However, it should be noted that there remains continued uncertainty regarding this program and the impacts of program changes, including a change in enforcement as approved by the City Council in December 2013.

Disposal Facility Tax (DFT) – Receipts through December of \$4.8 million are tracking 1.0% above the prior year level of \$4.7 million and reflect 47.7% of the budgeted estimate of \$10.0 million. The 2013-2014 Adopted Budget estimate of \$10.0 million was built on the assumption that revenues would fall due to improvements in the processing of waste for the commercial program as well as the historical downward trend in this category. From the 2012-2013 actual collection level of \$10.7 million, the 2013-2014 Adopted Budget allows for a 6.6% decline in receipts. Based on current tracking, revenues are anticipated to exceed budgeted levels by \$500,000 primarily due to an increase in estimated waste from neighboring jurisdictions. An increase of \$500,000 to the estimate is included in this document to provide funding for required rebalancing actions as recommended in this document. With this adjustment, the revised estimate of \$10.5 million allows for a 2.0% decline in receipts from prior year receipts.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

LICENSES AND PERMITS

Revenue Status				
2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$40,278,246	\$29,514,467	73.3%	54.1%	\$8,990,000

Licenses and Permits include the following major groups of revenue: **Building Permits, Fire Permits** and **Miscellaneous Other Licenses and Permits**. Through December, revenues of \$29.5 million are tracking 17.1% about the prior year level of \$25.2 million and overall, revenues are estimated to exceed budgeted levels.

Development-related activity experienced very significant growth in 2012-2013 and this strong performance continues in 2013-2014. Actions to increase revenues and reserves in the Building and Fire Fee Programs are recommended in this document for a total increase of \$8.8 million to budget levels.

Building Permits – Building Permit revenues of \$16.1 million through December are tracking 30.4% above the 2012-2013 collection level of \$12.4 million for the same period and continue to track to end the year well above the budgeted estimate of \$21.0 million. The 2013-2014 budgeted revenue estimate allows for a drop of 22.4% in this category. All revenue categories are tracking above estimated levels. Strong revenue receipts are being driven by an increase in residential, commercial, and industrial construction activity. It is anticipated that Building Permit revenues will exceed the Adopted Budget estimate by \$8.0 million as a result of the increased development activity and a number of large projects, including Samsung Semiconductor, San Jose Earthquakes, Whole Foods Market, multiple apartment complexes, including development at the “Hitachi site.” Included in this document are recommendations to recognize the additional estimated revenues of \$8.0 million with a corresponding increase to the Building Development Fee Program Earmarked Reserve. This action would increase the Reserve from \$15.3 million to \$23.3 million.

Fire Permits – Through December, Fire Permit collections of \$6.3 million are tracking 14.5% above the prior year collection level of \$5.5 million and are anticipated to exceed the Adopted Budget estimate of \$10.4 million. The Development-related revenues, which totaled \$3.6 million through December, are currently tracking to exceed the budgeted estimate of \$6.3 million by approximately \$800,000. Included in this document are actions to recognize this additional revenue and increase the Fire Development Fee Program Earmarked Reserve. This action increases the Reserve from \$5.6 million to \$6.4 million. At this time, the Fire Department projects that the Non-Development program revenues, which totaled \$2.7 through December, will end the year at or slightly below budgeted revenue levels of \$4.1 million.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

LICENSES AND PERMITS

Miscellaneous Other Licenses and Permits – Revenues of \$7.1 million are tracking 3.3% below prior year levels of \$7.3 million and are generally tracking at anticipated levels through December. The 2013-2014 Modified Budget estimate of \$8.9 million allows for a decline of 5.8% from the prior year, primarily reflecting a lower estimate for cardroom permits and the off sale of alcohol enforcement. Based on current collections, revenues are anticipated to fall slightly below budgeted estimates by year end due to lower than anticipated receipts in the multiple housing permits and off sale of alcohol permits categories as a result of accounting adjustments to properly account for actual prior year receipts.

FINES, FORFEITURES, AND PENALTIES

Revenue Status				
2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$15,862,200	\$6,177,026	38.9%	44.0%	(\$1,000,000)

Fines, Forfeitures, and Penalties include the following groups of revenue: **Parking Fines**, the City's share of **Vehicle Code Fines**, **County Municipal Court Fines**, **Administrative Citation Fines and Penalties**, and **Cardroom and Business Tax Penalties**.

Through December, revenues totaled \$6.2 million, or 38.9% of the budget estimate, with collections tracking 3.7% below the prior year primarily due to lower vehicle code and municipal court fines. The 2013-2014 budgeted estimate, however, requires growth of 9.0% as it was anticipated that the parking fine receipts would return to historical levels after the transition of parking compliance officers that were transferred from the Airport Department to the Transportation Department in 2012-2013. Because parking fines, which represent approximately 70% of the budgeted estimate in this category, have not shown the growth that was anticipated, a downward adjustment of \$1.0 million is recommended to this category.

Parking Fines totaled \$4.1 million through December, which was slightly below the \$4.0 million collected through the same period last year. The 2013-2014 budget estimate of \$11.0 million requires an increase of 16.6% from the 2012-2013 collection level of \$9.4 million. When the 2013-2014 Adopted Budget was developed, it was assumed that Parking Fines would experience a decline in 2012-2013 as a result of the transition of parking compliance officers that were transferred from the Airport Department to the Department of Transportation. However, given the temporary nature of these impacts, Parking Fine revenues were expected to improve in 2013-2014 with collections estimated at \$11.0 million, which was still below the 2011-2012 levels of \$11.8 million. Through December, due to a higher level

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

FINES, FORFEITURES, AND PENALTIES

of staff absences as a result of injuries and non-work related injuries/illnesses, revenues are anticipated to fall at least \$1.0 million below the budgeted estimate. A downward adjustment of \$1.0 million to the Parking Fines revenue estimate, therefore, is recommended in this document. The reduction in revenue is partially offset by a reduction in the Parking Citations/Jail Courthouse appropriation (\$425,000).

Business Tax penalties of \$368,000 through December are tracking slightly below (2.1%) prior year levels due to the impacts of the Business Tax Amnesty Program and are expected to end the year slightly below the budgeted estimate of \$1.0 million.

REVENUE FROM LOCAL AGENCIES

Revenue Status				
2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$36,804,638	\$4,017,844	10.9%	12.0%	\$327,182

Funding in this category is provided by many local agencies. The largest sources include reimbursement from the Successor Agency to the Redevelopment Agency of the City of San José, a public entity, reimbursement from the Central Fire District for fire services provided by the City to County properties, CAL-ID support, reimbursement for the City’s Paramedic Program, and Senior Nutrition reimbursement. Revenues are generally performing close to budgeted levels through December, and a recommended increase of \$327,000 to the budgeted revenue estimate is included in this report as discussed below.

The largest revenue estimate in the Revenue from Local Agencies is a reimbursement from the Successor Agency to the Redevelopment Agency for the payment of the Convention Center Debt Service. While no revenues have been received through December, it is anticipated that the 2013-2014 budgeted estimate of \$15.3 million will be received by year-end under the current accounting for this payment. The 2013-2014 Modified Budget also includes a reimbursement of \$10.3 million from the Successor Agency to the Redevelopment Agency to reimburse for intra-year loans provided during 2012-2013 from the City to the Successor Agency. Although no reimbursement is reflected through December, the reimbursement was completed in January 2014.

Included in this category are reimbursements for the City’s Paramedic Program from the County of Santa Cara. The 2013-2014 budgeted estimate totals \$2.2 million, however, no reimbursement was

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

received through December. In 2012-2013, the City also did not receive payment for the fourth quarter. There are ongoing discussions with the County Board of Supervisors on the timing and potential withholding of payments as the City is having difficulty meeting performance requirements. The situation will continue to be monitored.

Minimal budget adjustments are recommended in this report to recognize revenues and allocate funding for the following: After School Education and Safety Programs for 2013-2014 (\$294,000) and the 2013-2014 Northern California High Intensity Drug Trafficking Area (\$34,000). Section III of this document provides a description of these actions.

DEPARTMENTAL CHARGES

Revenue Status				
2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$35,449,213	\$20,991,002	59.2%	47.5%	\$2,730,000

Contained in this revenue category are the various **Fees and Charges** levied to recover costs of services by several City departments. The mid-year status of collections in over 150 different fee types in this category was reviewed.

Total revenues of \$21.0 million are tracking above the prior year of \$18.4 million (14.0%) and are tracking to end the year above the budgeted estimate of \$35.4 million. Collections in all departments including Transportation, Public Works, Planning, Police, Library, and Parks, Recreation and Neighborhood Services (PRNS) Departments are tracking to meet or exceed estimated levels.

Development-related activity experienced very significant growth in 2012-2013 and this strong performance continues in 2013-2014. Actions to increase the budgeted revenue estimates and associated reserves in the Planning and Public Works Fee Programs are recommended in this document for a total increase of \$2.6 million. In addition to these adjustments, a budget action is recommended to increase the PRNS revenue estimate of \$15.6 million by \$180,000 to account for increased participation levels in recreation classes offered. An associated increase to the PRNS Fee Activities appropriation is recommended to provide for additional staff and vendor hours needed to support the increased class participation levels.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

DEPARTMENTAL CHARGES

Below are highlights of the current status of the development-related fee programs:

Public Works – Public Works revenues through December of \$5.1 million are tracking well above the prior year level of \$4.1 million (approximately 25%). Revenues in most residential categories are tracking above estimated levels due to several single family and multi-family residential projects that were received in the first half of 2013-2014. Non-residential revenues are performing at anticipated levels. At this time, collections are projected to conservatively exceed the budgeted revenue estimate of \$7.8 million by approximately \$1.6 million in the Public Works Development Fee Program. Budget actions are recommended to recognize additional revenue of \$1.6 million. A portion of this additional revenue is recommended to be allocated to increase the Public Works Development Fee Program Personal Services appropriation by \$550,000 in order to reflect higher than budgeted personal services expenses due to increased development activity. It is recommended that the remaining \$1.0 million of additional revenue be allocated to the Public Works Development Program Earmarked Reserve, increasing the Reserve from \$5.6 million to \$6.6 million, to ensure funding is preserved for program works-in-progress.

Planning, Building and Code Enforcement (PBCE) – Through December, Planning Fee revenue of \$2.5 million is 72.1% above the prior year collection level of \$1.5 million. The \$3.0 million adopted Planning Fee revenue estimate, however, allows for a drop of 22.5% from the prior year actuals. Overall revenue collections are tracking significantly above estimated levels and it is anticipated that Planning Fee revenues will exceed the Adopted Budget estimate by \$1.0 million as a result of increased development activity, primarily in residential activity. Budget actions are recommended to recognize additional revenue of \$1.0 million with a corresponding increase to the Planning Development Fee Program Earmarked Reserve. This action would increase the Reserve from \$1.3 million to \$2.3 million.

OTHER REVENUE

Revenue Status				
2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$120,112,223	\$110,499,255	92.0%	95.2%	(\$1,198,176)

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through December totaled \$110.5 million compared to prior year levels of \$116.0 million. This decrease was primarily due to the receipt in 2012-2013 of \$5.0 million in proceeds from the sale of

**2013-2014
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

OTHER REVENUE

14.5 acres of the Airport West property to the Earthquakes, LLC with a corresponding increase in expenditures to pay off a portion of the HUD 108 loan associated with this property. When factoring out the additional sale of property proceeds in the prior year, Other Revenue collections are tracking at the prior year level.

Collections in this category are expected to end the year approximately \$1.4 million below the budgeted estimate due almost entirely to the double counting of reimbursement from interest earnings for costs associated with Banking Services (\$1.2 million) as well as a delay in the implementation of the Payment Manager program (\$250,000). These major transactions are described in more detail below.

Following is a discussion of the other major sub-categories in the Other Revenue category:

Beginning in 2010-2011, the City has been required to issue **Tax and Revenue Anticipation Notes (TRANS)** annually for cash flow purposes due to the pre-payment of the City's retirement contributions. In 2013-2014, \$100.0 million was required to be issued, which is the same amount that was issued in 2012-2013.

In the current year, the City has received \$5.2 million in **HP Pavilion Rental, Parking, and Naming** revenue in accordance with the arena agreement, which is close to the budgeted estimate of \$5.3 million.

Investment Cost Reimbursement revenues through December of \$879,000 are tracking within estimated levels. However, it has been identified that the reimbursement from City funds for **Banking Services** was inadvertently double counted since it was being reimbursed by interest earnings and it was also included in the calculations of the 2013-2014 Cost Allocation Plan. A recommended decrease of \$1.15 million is included in this document to correct this error. In addition, due to a delay in the implementation of the Payment Manager program approved in the 2013-2014 Adopted Operating Budget, an additional decrease of \$250,000 to the budgeted estimate is recommended. Under this program, a new vendor payment process would allow vendors to receive electronic payments in-lieu of manual checks. Vendors choosing to participate in receiving the City's payments in this faster and more efficient manner would incur a small fee assessed by the banking services provider. The banking services provider would then share a portion of this revenue with the city. As a result of vacancies in the Finance Department, the implementation of this program was delayed, but it is anticipated to begin in 2014. A revised implementation schedule will be incorporated into the development of the 2014-2015 budget process as appropriate.

SB 90 Reimbursements totaled \$320,000 through December compared to the 2013-2014 Adopted Budget estimate of \$250,000. An upward adjustment may be brought forward at year-end depending on the final SB 90 reimbursements and the overall performance of the Other Revenue category.

2013-2014 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OTHER REVENUE

Through December, revenue from the **Sale of Surplus Property** totaled \$599,000 compared to \$5.6 million in the prior year. The variance primarily reflects a \$5.0 million sale of 14.5 acres to the Earthquakes, LLC in 2012-2013. Once adjusting for this, revenues of approximately \$600,000 are tracking at prior year levels. The Office of Economic Development currently anticipates that revenues in this category will meet or exceed the budgeted estimate of \$1.3 million in 2013-2014.

A number of additional adjustments are also recommended to recognize revenue and allocate funds to specific projects and programs, including the following: Cirque du Soleil (\$130,000), American Society for the Prevention of Cruelty to Animals (ASPCA) (\$35,000), Special Event Sponsorships for various Council District activities (\$22,000), Parent Project Grant (\$9,000), 1st Act Digital Media Grant (\$5,000), and Walmart Foundation Grant (\$1,000). Section III of this document provides a description of these actions.

TRANSFERS AND REIMBURSEMENTS

Revenue Status				
2013-2014		2012-2013		2013-2014
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$68,161,114	\$45,906,459	67.4%	60.2%	\$660,000

The following are sources of revenue in this category: reimbursements to the General Fund for **Overhead** costs, revenue received as **Transfers** from other City funds, and **Reimbursements** for services rendered. Collections of \$45.9 million through December are tracking above prior year levels of \$40.6 million primarily due to higher than budgeted overhead reimbursements and higher reimbursements for services. Overall, collections are currently tracking to slightly exceed the budgeted estimate.

Overhead Reimbursements – Overhead reimbursements associated with special funds are currently budgeted at \$25.6 million and capital funds are budgeted at \$11.0 million for a total category revenue estimate of \$36.6 million. Through December, overhead collections of \$29.0 million were tracking 14.7% above prior year levels of \$25.3 million. This reflects higher receipts in both special funds (\$2.8 million) and capital funds (\$966,000). This budgeted increase reflects increases in salary levels and activity and was assumed in the development of the 2013-2014 Adopted Budget. Overhead reimbursements associated with special funds is expected to end the year close to the budgeted estimate, however the overhead associated with capital funds may fall slightly below the budgeted estimate due to

**2013-2014
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

TRANSFERS AND REIMBURSEMENTS

position vacancies in various capital programs. Overhead reimbursements will be monitored closely and adjustments will be brought forward later in the fiscal year as necessary.

Transfers – This category includes \$16.3 million in various transfers. Through December, transfers of \$10.1 million were tracking within estimated levels, and at prior year levels of \$10.0 million. Although tracking at prior year levels, it is estimated that receipts may end the year above budgeted levels primarily due to an anticipated increase in the budgeted transfer from the Construction and Conveyance Tax Fund based on higher revenue collections in that fund. This transaction will be brought forward at year-end based on actual performance in that fund. In addition, interest earnings in select funds are currently tracking to exceed budgeted estimates, therefore an increase of \$120,000 is recommended in this document. Revenues will continue to be monitored and adjustments brought forward by year end as appropriate.

Reimbursement for Services – The budget estimate for this category is \$15.2 million, of which \$14.5 million is expected to be generated from the three **Gas Tax Funds**. Currently, Gas Tax revenues of \$6.7 million were up from the prior year levels of \$5.3 million and are tracking to exceed the budgeted estimate by year-end. A recommended increase of \$500,000 to align the budget with current projections and prior year actual collections is included in this document, bringing the estimate to \$15.0 million for Gas Tax Funds.

CONCLUSION

A comprehensive review of all General Fund revenue accounts was performed based on activity through the first six months of the year. Based on current collection trends, existing revenues are generally performing within budgeted expectations and are projected to end the year with approximately \$12.0 million to \$16.0 million in additional revenues when including the Development Fee Program activities. This positive variance represents approximately 1.5% of the budget. It is important to note that approximately \$10.0 million to \$12.0 million of this additional revenue is attributed to the booming Development Fee Programs and corresponding increases to the program reserves are included in this document. Once adjusted to exclude Development Fee Programs, revenues are anticipated to end the year with approximately \$2.0 million to \$4.0 million. Additional revenue is also expected to be generated from Business Taxes, Sales Tax, and Transfers and Reimbursements, as well as various net-zero grants and reimbursements.

In total, a net increase of \$13.6 million to the General Fund revenue estimates is recommended in this document. This increase primarily reflects a \$12.9 million increase as a result of net-zero Grants Reimbursements and Fees adjustments as well as a net increase of \$760,000 in general revenue activity. The majority of the \$12.9 million reflects Development Fee Program adjustments of \$11.4 million. The remaining net increase of \$760,000 includes the increase in Sales Tax receipts (\$2.0 million), Disposal

**2013-2014
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

CONCLUSION

Facility Taxes (\$500,000), and Transfers and Reimbursements (Gas Tax Reimbursements (\$500,000), higher interest transfers (\$120,000), and a transfer from the Neighborhood Security Bond Fund (\$40,000)), partially offset by reductions in Banking Services reimbursements (\$1.4 million), and Parking Fines (\$1.0 million).

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2015-2019 General Fund Forecast, due to be released late February, as well as the 2014-2015 Proposed Budget, due to be released on May 1, 2014. As always, staff will continue to closely monitor the City's current year financial status and report to the City Council any significant developments through the Bi-Monthly Financial Reports. The January/February Bi-Monthly Financial Report will be brought to the Public Safety, Finance and Strategic Support Committee in April.