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by City Manager's Office  
*Memorandum*

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jennifer A. Maguire

**SUBJECT:** SALES TAX RESULTS FOR  
THIRD QUARTER  
2008-2009

**DATE:** June 15, 2009

Approved

Date

6/15/09

**INFORMATION MEMO**

Staff recently received preliminary information from the City's Sales Tax consultant, MuniServices, LLC, on the City's Sales Tax cash receipts for the third quarter of 2008-2009 (Sales Tax activity from January through March 2009). During this period, revenue of \$26.2 million represented a very significant decline of 29.3% over receipts received during the same quarter last year (\$37.1 million).

The City received this early Sales Tax data from MuniServices in advance of the State Board of Equalization (BOE) posting the local jurisdiction Statement of Tax Distribution for the third quarter 2008-2009, which is expected to occur later this week. City staff did contact the BOE and confirmed the Sales Tax receipt total, however, information is not yet available on the components of the Sales Tax decline in San José. It is anticipated that staff will receive data from MuniServices on the City's Sales Tax performance by economic sector (business-to-business, retail, transportation, etc.) as well as information on any one-time adjustments within the next few weeks. This information will provide a better understanding of our underlying performance for this most recent quarter.

The Sales Tax decline of almost 30% was far more severe than the drop assumed in the 2008-2009 General Fund Budget as modified during the 2008-2009 Mid-Year Budget Review as well as the estimate used to develop the 2009-2010 Proposed Budget. As part of the 2008-2009 Mid-Year Budget Review approved in February 2009, the General Sales Tax revenue estimate was adjusted downwards by \$6 million to allow for a drop of 6.5% in each of the last three quarters of the fiscal year. Combined with the first fiscal year quarter actual results (drop of 0.4%), an overall drop of 5% for 2008-2009 was projected. In March 2009, the City received data on the Sales Tax performance for the second quarter of the 2008-2009 fiscal year, which showed a decline of 8.5%. The Sales Tax revenue total used to develop the 2008-2009 General Fund Ending Fund Balance estimate and the 2009-2010 Proposed Budget incorporated the first two quarters' lower actual collection levels for 2008-2009 and assumed additional declines of 10% in the last two quarters of 2008-2009, for an overall drop of 7.2% in that fiscal year. For 2009-2010, an additional drop of 5% was assumed in the 2009-2010 Proposed Budget.

HONORABLE MAYOR AND CITY COUNCIL

June 15, 2009

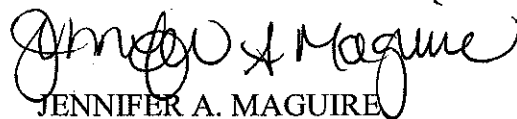
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With the significant decline in the most recent quarter and assuming receipts fall by 10% in the last quarter of 2008-2009, General Sales Tax revenue is projected to drop by approximately 12% in 2008-2009 to a total collection level of \$131.6 million. This revised General Sales Tax projection would fall below the 2008-2009 modified budget of \$142.0 million by \$10.4 million. This negative variance is well above the \$3.2 million shortfall previously assumed. While small positive revenue variances in 2008-2009 were projected to be available to offset \$3.2 million of this gap, current year (2008-2009) budget actions will now be necessary to address the additional shortfall of \$7.2 million to prevent a negative 2008-2009 General Fund Ending Fund Balance. Therefore, the 2008-2009 year-end budget adjustments memorandum, to be considered by the City Council on June 23, 2009, will include recommendations to recognize \$1.4 million in revenue from proceeds associated with the sale of the Stockton Warehouse that occurred in late February as well as the use of \$5.8 million of the Economic Uncertainty Reserve (leaving only \$4.5 million remaining in this Reserve) to address this shortfall. Due to the continued uncertainty in our economically sensitive revenue estimates (including the City's fourth quarter Sales Tax results for 2008-2009), it is recommended that any additional General Fund fund balance available at the close of the 2008-2009 fiscal year be first used to replenish the Economic Uncertainty Reserve to a prudent level before being distributed per the City Council Budget Policy.

The Sales Tax decline in the most recent quarter will also likely substantially impact 2009-2010 as the starting point for that year will be required to be adjusted downwards. This would result in a downward adjustment that could be as high as \$7 million in 2009-2010 to maintain the Sales Tax performance assumption of a 5% overall decline in 2009-2010. To address this projected shortfall, one-time stop-gap measures are expected to be brought forward as part of the 2008-2009 Annual Report process that will include a reevaluation of unexpended funds carried over from 2008-2009 and other current year cost-cutting measures. Ongoing budget balancing solutions will likely be brought forward as part of the 2009-2010 Mid-Year Budget Review process to start addressing the large ongoing shortfall anticipated to carry forward into 2010-2011 and to ensure the City's finances remain in a fiscally sound condition moving ahead.

Please contact me at 535-8144 if there are any questions about this information.



JENNIFER A. MAGUIRE  
Budget Director