



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jennifer A. Maguire

**SUBJECT:** 2016-2017 UPDATED REVENUE AND  
EXPENDITURE ESTIMATES IN THE  
GENERAL FUND AND TRANSIENT  
OCCUPANCY TAX FUND

**DATE:** June 2, 2016

Approved

Date

6/2/16

## RECOMMENDATION

A. The following adjustments to the 2016-2017 Proposed Operating Budget for the General Fund are recommended:

1. Increase the Beginning Fund Balance estimate by \$2,525,400.
2. Increase the Property Tax revenue estimate by \$1,112,000 (\$1,112,000 ongoing).
3. Decrease the Transient Occupancy Tax revenue estimate by \$869,000 (\$869,000 ongoing).
4. Increase the Essential Services Earmarked Reserve by \$2,534,400 (\$145,000 ongoing).
5. Increase the Budget Stabilization Earmarked Reserve by \$2,500,000.
6. Decrease the one-time portion of the 2017-2018 Future Deficit Reserve by \$1,112,000 (2016-2017 amount) and increase the ongoing portion of the 2017-2018 Future Deficit Reserve by \$1,112,000.
7. Decrease the Cultural Facilities Capital Maintenance Earmarked Reserve by \$869,000 (\$869,000 ongoing).
8. Decrease the Police Department Non-Personal/Equipment budget by \$285,000 (\$145,000 ongoing).

B. The following adjustments to the 2016-2017 Proposed Operating Budget for the Transient Occupancy Tax Fund are recommended:

1. Decrease the Beginning Fund Balance – Future Distribution Reserve estimate by \$1,040,000.
2. Decrease the Transient Occupancy Tax revenue estimate by \$1,082,000 (\$1,082,000 ongoing).
3. Decrease the Transfer to the Convention and Cultural Affairs Fund budget by \$1,061,000 (\$541,000 ongoing).
4. Decrease the Cultural Grants budget by \$530,500 (\$270,500 ongoing).
5. Decrease the San José Convention and Visitors Bureau budget by \$530,500 (\$270,500 ongoing).

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## **BACKGROUND**

Since the release of the 2016-2017 Proposed Operating Budget on May 1, 2016, the Administration has continued to evaluate revenues and expenditure estimates in all funds to determine if any adjustments should be brought forward for City Council consideration. As described below and shown in Attachment A, adjustments to the General Fund and Transient Occupancy Tax Fund revenue and expenditure estimates are recommended.

## **ANALYSIS**

### ***Changes to General Fund and Transient Occupancy Tax Revenues and Expenditure Estimates***

Adjustments to the following 2016-2017 revenue and expenditure categories are recommended:

- **Beginning Fund Balance** – An upward adjustment to the 2016-2017 General Fund Beginning Fund Balance estimate is recommended to reflect the latest analysis of actual 2015-2016 performance (\$2.5 million) as well as to account for the contributions from the Development Fee Programs to the Human Resources/Payroll/Budget Systems Upgrade Project (funded by the existing Development Fee Program Reserves) that were inadvertently omitted from the 2016-2017 Proposed Budget (\$25,400).

Based on actual year-to-date revenue collections and expenditures, as well as new information received from the County of Santa Clara with regard to Property Tax collections, an upward adjustment of \$2.5 million to the 2016-2017 Beginning Fund Balance is recommended. Additional fund balance is available due primarily to higher than estimated revenues in areas such as Property Taxes, Business Taxes, Other Revenues, and Transfer and Reimbursements, higher than estimated departmental savings, and additional savings in the City-Wide Expenses category.

As part of the 2016-2017 Proposed Budget, additional funding of \$500,000 is recommended for the Human Resources/Payroll/Budget Systems Upgrade Project. A portion of this cost will be reimbursed by special and capital funds as well as the Development Fee Programs in the General Fund. The contributions of \$25,400 from the Development Fee Programs (Building: \$14,300; Fire: \$3,100; Planning: \$2,600; and Public Works: \$5,400), which will be funded by the existing Development Fee Program Reserves, were inadvertently omitted from the Proposed Budget. To account for these contributions, an adjustment to the 2016-2017 Beginning Fund Balance is recommended.

- **Property Tax Revenue Estimate** – Subsequent to the release of the 2016-2017 Proposed Budget, updated information was received from the County of Santa Clara Assessor's Office on May 16, 2016 on projected Property Tax receipts for 2015-2016. These

estimates were above those used in the development of the 2016-2017 Proposed Budget. As a result, a total ongoing increase of \$1,112,000 to the Property Tax revenue estimate is recommended (from \$270.6 million to \$271.7 million), reflecting an upward adjustment to the Secured Property Tax (\$534,000-from \$246.3 million to \$246.8 million; maintains 6% growth assumption over revised base) and the SB 813 Property Tax (\$578,000-from \$4.4 million to \$5.0 million) categories.

- **Transient Occupancy Tax Revenue Estimate** – Based on lower 2015-2016 projected Transient Occupancy Tax (TOT) receipts, an ongoing downward adjustment to the 2016-2017 General Fund revenue estimate of \$869,000 (from \$17.8 million to \$17.0 million) is recommended, offset by a reduction of \$869,000 to the Cultural Facilities Capital Maintenance Earmarked Reserve. Per City Council direction, the growth in General Fund Transient Occupancy Tax receipts over the actual 2013-2014 collection level is set aside in the Cultural Facilities Capital Maintenance Reserve. Because the adjusted TOT amount is still well above the 2013-2014 collection level, the downward adjustment is appropriate to be offset by a reduction in the Reserve level. With this adjustment, the underlying 2016-2017 growth rate remains at 4%, but is applied to a lower base collection level. As part of the 2015-2016 Year-End Clean-Up Actions that will be brought forward later in June, a downward adjustment to the 2015-2016 TOT revenue estimate, offset by a reduction to the current Cultural Facilities Capital Maintenance Reserve will also be brought forward. It should be noted that the Reserve total after Proposed Budget, rebudget, and other anticipated clean-up actions will be \$6.4 million.

In the Transient Occupancy Tax Fund, downward adjustments to both the 2016-2017 Beginning Fund Balance – Future Distribution Reserve (\$1,040,000-from \$3.4 million to \$2.4 million) and the 2016-2017 ongoing Transient Occupancy Tax revenue estimate (\$1,082,000-from \$26.5 million to \$25.4 million) are recommended to reflect lower collections in 2015-2016 and 2016-2017. To offset this reduction in funding, downward adjustments to the three TOT Fund recipients are also recommended in 2016-2017, including the Convention and Cultural Affairs Fund (\$1,061,000; \$541,000 ongoing), the Cultural Grants budget (\$530,500; \$270,500 ongoing), and the San José Convention and Visitors Bureau (\$530,500; \$270,500 ongoing).

- **Police Department Non-Personal/Equipment (Police Body Worn Camera Program)** – The 2016-2017 Proposed Budget includes funding of \$1.2 million for the Police Body Worn Camera Program (\$1.3 million ongoing). However, based on the results of the recent Request for Proposal (RFP) process that is agendized for the June 7, 2016 City Council meeting (Item 3.7- Report on Request for Proposal for a Body Worn Camera and Evidence Management System), the cost of this program will now be below the amount incorporated into the Proposed Budget. As a result, a reduction to the 2016-2017 Police Department Non-Personal/Equipment Budget is possible, resulting in savings of \$285,000 in 2015-2016 and \$145,000 ongoing.

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***Allocation of Net Additional General Fund Revenues/Expenditure Savings***

The additional 2016-2017 funding sources in the General Fund are recommended to be allocated to the following:

- **Essential Services Reserve** – An increase to the Essential Services Reserve of \$2,534,400 (\$145,000 ongoing) is recommended and is available for allocation by the City Council during the 2016-2017 budget process. This action, combined with funding set aside as part of the 2016-2017 Proposed Operating Budget and other Manager's Budget Addenda, will bring the Reserve total to \$5,170,300 (\$280,900 ongoing).
- **Budget Stabilization Reserve** – The 2016-2017 Proposed Budget increases the Budget Stabilization reserve by \$2.5 million (up to \$12.5 million once funding of \$10.0 million is rebudgeted from 2015-2016 and included in the Adopted Budget). This action would further increase the reserve by \$2.5 million (to \$15.0 million). Per City Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, within the General Fund, unrestricted reserves shall be set aside as a safety net for general City operations. Currently, the Contingency Reserve, Budget Stabilization Reserve, and Workers' Compensation/General Liability Catastrophic Reserve are available for these purposes and the combined funding goal for those reserves in the aggregate shall be 10% of General Fund operating expenditures. With this change, these reserves will equate to approximately 5.8% (up from approximately 5.4% in the Proposed Budget). The Budget Stabilization Reserve, in particular, provides budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. It is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur.
- **2017-2018 Future Deficit Reserve** – The 2016-2017 Proposed Budget establishes a 2017-2018 Future Deficit Reserve of \$4.1 million (and \$6.9 million ongoing). The 2017-2021 General Fund Forecast that was issued in February 2016 projected an ongoing \$11.1 million shortfall for 2017-2018. This reserve sets aside resources to address this shortfall. This action recommends allocating additional ongoing funds of \$1,112,000 from the recommended Property Tax revenue estimate increase to better address the ongoing shortfall in 2017-2018 (bringing the ongoing portion of the Reserve to \$8.0 million), which will free up \$1,112,000 in one-time funds for use in 2016-2017.



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## CITY SOURCE AND USE OF FUNDS

GENERAL FUND	2016-2017	Ongoing
<b>SOURCE OF FUNDS</b>		
Beginning Fund Balance: 2015-2016 Additional Revenue/Expenditure Savings	2,500,000	
Beginning Fund Balance: Building Development Fee Program Earmarked Reserve Rebudget	14,300	
Beginning Fund Balance: Fire Development Fee Program Earmarked Reserve Rebudget	3,100	
Beginning Fund Balance: Planning Development Fee Program Earmarked Reserve Rebudget	2,600	
Beginning Fund Balance: Public Works Development Fee Program Earmarked Reserve Rebudget	5,400	
Property Tax Revenue Estimate (Secured and SB 813)	1,112,000	1,112,000
Transient Occupancy Tax Revenue Estimate	(869,000)	(869,000)
<b>Total General Fund Source of Funds</b>	<b>2,768,400</b>	<b>243,000</b>
<b>USE OF FUNDS</b>		
Essential Services Reserve	2,534,400	145,000
Budget Stabilization Reserve	2,500,000	
2017-2018 Future Deficit Reserve	(1,112,000)	1,112,000
Cultural Facilities Capital Maintenance Earmarked Reserve	(869,000)	(869,000)
Police Department Non-Personal/Equipment (Police Body Worn Camera Program)	(285,000)	(145,000)
<b>Total General Fund Use of Funds</b>	<b>2,768,400</b>	<b>243,000</b>
TRANSIENT OCCUPANCY TAX FUND	2016-2017	Ongoing
<b>SOURCE OF FUNDS</b>		
Beginning Fund Balance-Future Distribution Reserve	(1,040,000)	
Transient Occupancy Tax Revenue Estimate	(1,082,000)	(1,082,000)
<b>Total Transient Occupancy Tax Fund Source of Funds</b>	<b>(2,122,000)</b>	<b>(1,082,000)</b>
<b>USE OF FUNDS</b>		
Transfer to the Convention and Cultural Affairs Fund	(1,061,000)	(541,000)
Cultural Grants	(530,500)	(270,500)
San José Convention and Visitors Bureau	(530,500)	(270,500)
<b>Total Transient Occupancy Tax Fund Use of Funds</b>	<b>(2,122,000)</b>	<b>(1,082,000)</b>