GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2017-2018 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2017-2018 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
($000s)

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	$ 304,990,000	$ 306,222,332	$ 1,232,332	0.4%
Sales Tax	230,000,000	226,336,942	(3,663,058)	(1.6%)
Transient Occupancy Tax	18,720,000	19,530,772	810,772	4.3%
Franchise Fees	50,813,083	51,179,782	366,699	0.7%
Utility Tax	101,320,000	99,753,107	(1,566,893)	(1.5%)
Telephone Line Tax	20,000,000	20,480,699	480,699	2.4%
Business Taxes	68,385,000	70,673,106	2,288,106	3.3%
Licenses and Permits	59,269,916	60,502,727	1,232,811	2.1%
Fines, Forfeitures, and Penalties	15,336,284	14,353,995	(982,289)	(6.4%)
Rev. from the Use of Money/Property	5,705,000	7,929,821	2,224,821	39.0%
Revenue from Local Agencies	38,301,386	38,441,351	139,965	0.4%
Revenue from the State of California	16,447,460	15,721,031	(726,429)	(4.4%)
Revenue from Federal Government	5,808,333	5,590,625	(217,708)	(3.7%)
Fees, Rates, and Charges	48,191,983	50,703,142	2,511,159	5.2%
Other Revenue	223,637,309	218,951,265	(4,686,044)	(2.1%)
Subtotal	1,206,925,754	1,206,370,697	(555,057)	(0.0%)
Overhead Reimbursements	45,467,418	47,245,141	1,777,723	3.9%
Transfers	25,412,465	26,305,966	893,501	3.5%
Reimbursements for Services	17,970,000	17,329,683	(640,317)	(3.6%)
Subtotal	88,849,883	90,880,790	2,030,907	2.3%
TOTALS[1]	**$ 1,295,775,637**	**$ 1,297,251,487**	**$ 1,475,850**	**0.1%**

[1] Excludes Beginning Fund Balance.

The General Fund revenue performance for 2017-2018 is discussed in detail in this section. The 2017-2018 actual revenue receipts for each of the major revenue categories are compared to the modified budgets and any significant variances and resulting implications for current year revenue estimates are described. In addition, comparisons with prior fiscal year collection levels are included to indicate collection trends and to provide a historical perspective.

GENERAL FUND REVENUE PERFORMANCE

As shown in Table A, total revenue received in the General Fund in 2017-2018 was $1.3 billion. This collection level was within 0.1%, or $1.5 million, of the 2017-2018 Modified Budget. However, when the 2018-2019 Adopted Budget was developed, it was assumed that revenues would exceed the modified budget by approximately $5 million and would generate additional fund balance. Revenues fell short of this estimate by $3.5 million. After accounting for other reconciling items, including the Development Fee Program adjustments, rebudgets, and other clean-up actions, revenues ended the year $2.4 million below the estimate.

The 2017-2018 collection level of $1.3 billion was up $189.2 million, or 17.1%, from the actual 2016-2017 collections of $1.1 billion. Several revenue categories experienced growth in 2017-2018 compared to the prior year, including: Business Taxes; Other Revenue, Property Tax; Revenue from Local Agencies, Sales Tax; and Transient Occupancy Tax. These increases were partially offset by declines in Fines, Forfeitures and Penalties and Utility Tax revenue categories.

The variances from the modified budget levels, implications for current year revenue estimates, and changes from prior year level, are better understood through a discussion of the status of the individual General Fund revenue categories, which are provided in the following section.

Property Tax

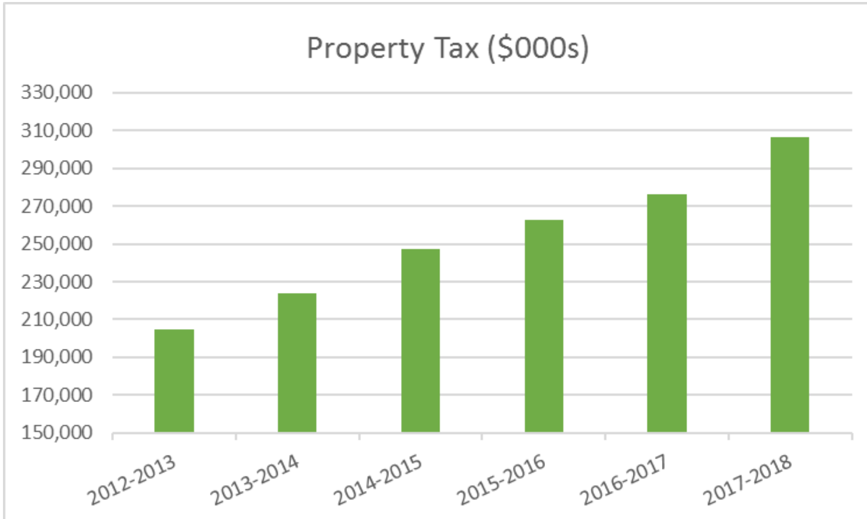
Property Tax	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Secured Property Tax	281,141,000	281,164,088	23,088	0.0%
Unsecured Property Tax	13,800,000	14,037,733	237,733	1.7%
SB 813 Property Tax	6,159,000	7,351,473	1,192,473	19.4%
Aircraft Property Tax	2,890,000	2,721,516	(168,484)	(5.8%)
Homeowner's Property Tax Relief	1,000,000	947,522	(52,478)	(5.2%)
Total	**304,990,000**	**306,222,332**	**1,232,332**	**0.4%**

The Property Tax revenue category includes Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax, Aircraft Property Tax, and Homeowner's Property Tax Relief (HOPTR). Property Tax receipts in 2017-2018 totaled $306.2 million, which was $1.2 million, or 0.4%, above the budgeted estimate of $305.0 million, and represented an increase of 10.8% from 2016-2017 collections of $276.4 million.

In 2017-2018, **Secured Property Tax** receipts continued to be the largest source of revenue in the Property Tax category. In 2017-2018, receipts totaled $281.2 million, which is consistent with the 2017-2018 Modified Budget estimate, and is 11.4% above the 2016-2017 receipts of $252.3 million. A significant portion of the growth from 2016-2017 collections was due to the Successor Agency to the

GENERAL FUND REVENUE PERFORMANCE

Property Tax



Redevelopment Agency (SARA) bond refunding in December 2017 that resulted in additional property tax distribution to the City of approximately $11.8 million in 2017-2018. In addition, excess Educational Revenue Augmentation Fund (ERAF) revenues totaled $8.4 million in 2017-2018, which was 91.1% higher than the $4.0 million received in the prior year.

After factoring out the SARA bond refunding revenue and the ERAF receipts, Secured Property Tax growth of 5.2% was realized in 2017-2018. This increase was driven by two factors: the change in the California Consumer Price Index (CCPI) and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CPI adjustment for the 2017-2018 tax roll was an increase of 2.0%. On a County-wide basis, the 2017-2018 roll growth was primarily attributed to changes in ownership (46.8%), new construction (19.4%), and change in the CCPI (16.5%).

In the **Unsecured Property Tax** category, collections of $14.0 million were slightly above the 2017-2018 Modified Budget estimate of $13.8 million. In addition, 2017-2018 receipts were $637,000, or 4.8%, above the prior year collections of $13.4 million.

The **SB 813 Property Tax** component represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Assessor formally revalues the property. In 2017-2018, receipts of $7.4 million were 19.4% above the 2017-2018 Modified Budget estimate of $6.2 million and exceeded the prior year collection level of $6.8 million.

Based on actual 2017-2018 performance and the initial 2018-2019 information provided by the County of Santa Clara, no adjustment to the 2018-2019 Property Tax revenue estimate is recommended in this report. These revenues will continue to be monitored and discussed with representatives from the offices of the County Assessor, the County Controller-Treasurer, and the County Tax Collector for any updated information that may affect collection levels.

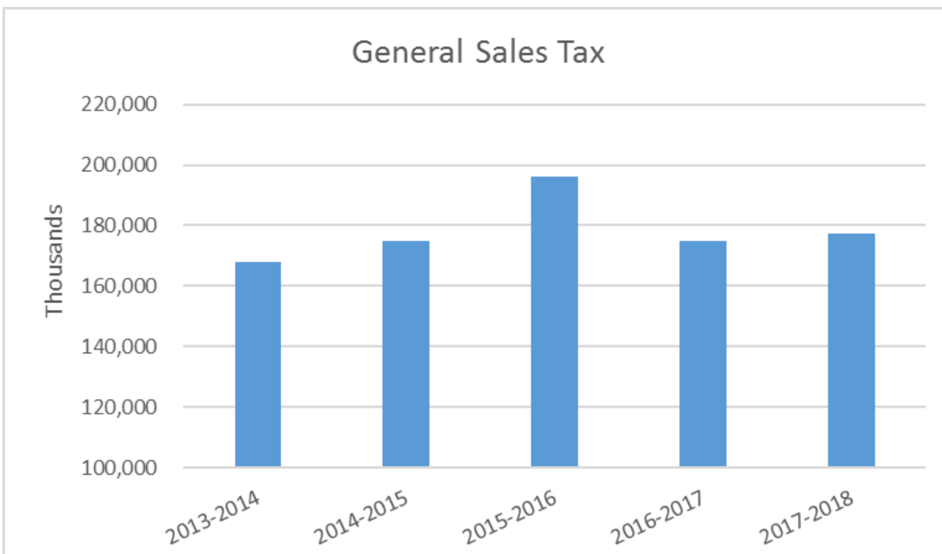
GENERAL FUND REVENUE PERFORMANCE

Sales Tax

Sales Tax	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
General Sales Tax	181,000,000	177,373,004	(3,626,996)	(2.0%)
Local Sales Tax	43,000,000	42,605,777	(394,223)	(0.9%)
Prop 172 Sales Tax	6,000,000	6,358,161	358,161	6.0%
Total	**230,000,000**	**226,336,942**	**(3,663,058)**	**(1.6%)**

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. Overall, Sales Tax collections in 2017-2018 of $226.3 million were $3.7 million, or 1.6%, below the 2017-2018 Modified Budget of $230.0 million. This variance was due to processing issues by the California Department of Tax and Fee Administration (CDTFA) that resulted in Sales Tax revenue not being allocated properly to the City. It is estimated that at least $5 million was not recognized in 2017-2018 due to this booking issue. If the unallocated revenue was included, the overall Sales Tax category would have exceeded the 2017-2018 Modified Budget by approximately $1.3 million.

In the **General Sales Tax** category, collections of $177.4 million fell short of the 2017-2018 Modified Budget level of $181.0 million by $3.6 million or 2.0%. However, this collection level reflects a $2.7 million (1.5%) increase from the 2016-2017 collection level of $174.7 million.



The 2017-2018 General Sales Tax figure of $177.4 million reflects performance for the four quarters of 2017-2018, during which growth of 8.75% (1st quarter), 2.5% (2nd quarter), -0.6% (3rd quarter), and -4.3% (4th quarter) was experienced. The CDTFA, which is responsible for distributing Sales Tax revenue to jurisdictions in California, implemented a new automated system in May 2018, which has resulted in 3rd quarter and 4th quarter receipts not being fully disbursed to jurisdictions during the quarter in which the tax revenue was received. The CDTFA is processing the outstanding payments, and based on information from the City's Sales Tax consultant, it is anticipated that the CDTFA will include the unallocated payments in the 1st and/or 2nd quarter 2018-2019 disbursements. If the City had received the outstanding payments, conservatively estimated at $5 million in 2017-2018, the collection level would have totaled approximately $182.4 million, which is slightly above the budgeted level of $181.0 million.

GENERAL FUND REVENUE PERFORMANCE

Sales Tax

General Sales Tax receipts in 2017-2018 of $177.4 million grew 1.5% from the 2016-2017 collection level of $174.7 million. If the unallocated 2017-2018 receipts of approximately $5 million had been received, collections would have ended the year 4.4% above the prior year. The year-over-year growth is primarily driven by the 8.75% growth in the first quarter of 2017-2018. That quarter, however, is compared to a very low first quarter in 2016-2017 that resulted from a large negative correction associated with jet fuel sales tax revenues that were allocated to San José in 2015-2016 in error and therefore reversed in 2016-2017.

When the 2018-2019 Adopted Budget was developed, the General Sales Tax estimate of $184.3 million reflected growth of 1.7% from the 2017-2018 estimate of $181.2 million. This reflected underlying quarterly growth of 2.0% as well as a downward adjustment of $550,000 to account for a prior year accrual adjustment that occurred in 2017-2018. Based on the actual 2017-2018 receipts of $177.4 million plus an additional $5 million in estimated underpayments, growth of approximately 1% is needed in 2018-2019 over the adjusted 2017-2018 receipts of $182.4 million.

As described *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report, the General Sales Tax revenue estimate is recommended to be increased by $5.0 million (from $184.3 million to $189.3 million) to conservatively account for the unallocated funds that were not distributed in 2017-2018, but will be received in 2018-2019.

In 2017-2018, **Local Sales Tax** revenues totaled $42.6 million, which was slightly (-0.9%) below the Modified Budget estimate of $43.0 million, but 60.7% above the prior year collection level of $26.5 million. In June 2016, San José voters approved a ¼ cent sales tax, which began implementation in October 2016, therefore, 2017-2018 represents the first year of full implementation of the tax.

When the 2018-2019 Adopted Budget was developed, the 2017-2018 Local Sales Tax estimate totaled $43.5 million, which included a one-time increase of $1.3 million from a prior year accrual. In 2018-2019, revenue of $43.0 million is estimated, which reflects underlying quarterly growth of 2.0% as well as a downward adjustment of $1.3 million to account for the prior year accrual adjustment that occurred in 2017-2018.

Similar to the General Sales Tax, 2017-2018 Local Sales Tax revenue is understated due to the CDTFA implementing a new automated system in May 2018, which has resulted in 3rd quarter and 4th quarter receipts not being fully disbursed to jurisdictions during the quarter in which the tax revenue was received. The CDTFA is processing the outstanding payments, and will include the missed payments in the 1st and/or 2nd quarter 2018-2019 disbursements. The Local Sales Tax receipts in 2017-2018 are likely understated by over $1 million as a result of the unallocated payments. As necessary, adjustments to this category will be brought forward during 2018-2019 based on the final reconciliation of 2017-2018 and actual 2018-2019 performance.

GENERAL FUND REVENUE PERFORMANCE

Sales Tax

Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. In 2017-2018, receipts of $6.4 million were 6.0% above the budgeted estimate of $6.0 million, however, receipts were $120,000, or 1.8%, below the 2016-2017 collection level of $6.5 million. This performance reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

Transient Occupancy Tax

Transient Occupancy Tax	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Transient Occupancy Tax	18,720,000	19,530,772	810,772	4.3%
Total	**18,720,000**	**19,530,772**	**810,772**	**4.3%**

In 2017-2018, receipts of $19.5 million for the General Fund's portion (4.0%) of the City's **Transient Occupancy Tax** (TOT) were $811,000, or 4.3%, above the 2017-2018 Modified Budget estimate of $18.7 million, and 6.9% above 2016-2017 TOT receipts of $18.3 million. The higher than budgeted receipts, which was primarily driven by stronger than anticipated performance late in the fiscal year, represents the recent trend of strong but decelerating year-over-year growth (24.1% growth in 2014-2015, 12.4% growth in 2015-2016,10.3% growth in 2016-2017, and 6.9% growth in 2017-2018). The 2017-2018 performance can be attributed to relatively flat occupancy rates, higher average daily room rates, and an increase in room inventory. In 2017-2018, the average room rate for the City's 13 largest hotels increased by $2 (from $210 to $212) while the average occupancy reported for these hotels essentially remained the same (76.5% in 2016-2017 and to 77.5% in 2017-2018). Moving forward, growth rates are anticipated to continue to moderate from the extremely high growth rates experienced in previous years.

The 2018-2019 Adopted Budget estimate of $19.7 million was built assuming almost 5% growth in TOT collections over 2017-2018 estimated receipts of $18.7 million. However, given the slightly higher receipts in 2017-2018, growth of less than 1% above 2017-2018 collections is needed in 2018-2019 to meet the budgeted estimate. Due to higher occupancy rates anticipated in 2018-2019 coinciding with hosting the College Football Playoff National Championship and the 2019 National Hockey League All Star Game, 2018-2019 receipts may exceed the budgeted level by year end. TOT revenue will continue to be monitored, and if warranted a budget adjustment may be brought forward later in the fiscal year.

GENERAL FUND REVENUE PERFORMANCE

Franchise Fees

Franchise Fees	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Electric Franchise Fee	21,726,000	23,214,525	1,488,525	6.9%
Commercial Solid Waste Franchise Fee	11,513,083	11,511,975	(1,108)	(0.0%)
Cable Franchise Fee	10,820,000	9,749,529	(1,070,471)	(9.9%)
Gas Franchise Fee	5,400,000	5,700,687	300,687	5.6%
Tow Franchise Fee	1,000,000	617,704	(382,296)	(38.2%)
Nitrogen Franchise Fee	60,000	68,829	8,829	14.7%
Great Oaks Water Franchise Fee	294,000	316,533	22,533	7.7%
Total	**50,813,083**	**51,179,782**	**366,699**	**0.7%**

Franchise Fee collections of $51.2 million were slightly above (0.7%) the 2017-2018 Modified Budget level of $50.8 million and were $1.5 million, or 3.1%, above the 2016-2017 collection level of $49.6 million.

Utility Tax

Utility Tax	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Electricity Utility Tax	46,800,000	46,761,850	(38,150)	(0.1%)
Telephone Utility Tax	29,600,000	26,855,548	(2,744,452)	(9.3%)
Water Utility Tax	14,850,000	15,580,080	730,080	4.9%
Gas Utility Tax	10,070,000	10,555,629	485,629	4.8%
Total	**101,320,000**	**99,753,107**	**(1,566,893)**	**(1.5%)**

The City assesses utility user taxes on four utilities, including Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of $99.8 million were $1.6 million, or 1.5%, below the 2017-2018 Modified Budget level and $1.0 million, or 1.0%, below the 2016-2017 actual level of $100.8 million. In 2017-2018 the Telephone Utility Tax receipts did not meet budgeted levels, however, this decrease was partially offset by higher than budgeted receipts for the Gas Utility Tax and Water Utility Tax.

Receipts in the **Electricity Utility Tax** category of $46.8 million met the 2017-2018 Modified Budget estimate of $46.8 million and were $784,000, or 1.7%, above the 2016-2017 collection level of $46.0 million. This increase in revenue primarily reflects slightly higher rates and increased consumption.

Receipts in the **Telephone Utility Tax** category of $29.6 million were $2.7 million, or 9.3%, below the 2017-2018 Modified Budget estimate and were $2.1 million, or 2.4%, below the 2016-2017 collection

GENERAL FUND REVENUE PERFORMANCE

Utility Tax

level of $28.9 million. The decline in this revenue category is the result of wireless consumers shifting to less expensive prepaid wireless plans and consumers continuing to permanently disconnect landlines in favor of cellular phones and internet phones.

Gas Utility Tax receipts of $10.6 million were 4.8% above the budgeted level of $10.1 million, but were 5.0% below 2016-2017 collection level of $11.1 million. The decrease in year-over-year revenue primarily reflects decreased consumption levels. This category can vary significantly from year to year based on weather conditions.

Receipts in the **Water Utility Tax** category of $15.6 million were $730,000, or 4.9%, above the modified budget level of $14.9 million and $797,000, or 5.4%, above the prior year actual collection level of $14.8 million. The higher collection level is primarily due to the water rate increases and changing consumption levels.

Telephone Line Tax

Telephone Line Tax	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Telephone Line Tax	20,000,000	20,480,699	480,699	2.4%
Total	**20,000,000**	**20,480,699**	**480,699**	**2.4%**

In 2017-2018, **Telephone Line Tax** collections of $20.5 million were $481,000, or 2.4%, above the budgeted estimate of $20.0 million and were approximately 1% above the 2016-2017 collection level of $20.3 million.

Business Taxes

Business Taxes	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
General Business Tax	24,885,000	26,485,772	1,600,772	6.4%
Cardroom Tax	18,700,000	18,891,443	191,443	1.0%
Marijuana Business Tax	12,800,000	13,018,246	218,246	1.7%
Disposal Facility Tax	12,000,000	12,277,645	277,645	2.3%
Total	**68,385,000**	**70,673,106**	**2,288,106**	**3.3%**

GENERAL FUND REVENUE PERFORMANCE

Business Taxes

Revenues in the Business Taxes category include the General Business Tax, Cardroom Tax, Marijuana Business Tax, and Disposal Facility Tax. Overall, collections of $70.7 million were 3.3% above the 2017-2018 Modified Budget estimate of $68.4 million, and 30.5% ($16.5 million) above the 2016-2017 collection level of $54.2 million. The significant growth in revenue in 2017-2018 reflects modernization of the San José Business Tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017, and an increase in the Marijuana Business Tax.

General Business Tax collections of $26.5 million ended the year 6.4% above the Modified Budget estimate of $24.9 million. In addition, 2017-2018 revenue was 103% above the 2016-2017 receipts of $13.4 million. As previously discussed, the significant revenue growth in 2017-2018 reflects modernization of the San José Business Tax, included increasing the base tax, increasing the incremental tax and making it more progressive, increasing the cap (the maximum amount of the tax affecting large businesses), updating the application of the tax to more classes of business, and adding inflation based adjustments for future tax rates.

In 2017-2018, **Cardroom Tax** collections of $18.9 million ended the year 1.0% ($191,000) above the 2017-2018 Modified Budget estimate of $18.7 million and $408,000, or 2.2%, above the 2016-2017 collection level of $18.5 million.

Marijuana Business Tax collections in 2017-2018 totaled $13.0 million, which were $218,000, or 1.7%, above the modified budget and 24.3% ($2.5 million) above the 2016-2017 collection level of $10.5 million. The higher revenue collections in 2017-2018 was attributed to increased consumption as well as the legalization of recreational cannabis. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational cannabis use in the State of California. With this change, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. The 2018-2019 revenue estimate of $13.5 million factored in anticipated growth associated with this change. The revenue category will be closely monitored in 2018-2019 to determine if additional adjustments are warranted.

In 2017-2018, **Disposal Facility Tax** collections of $12.3 million were 2.3%, or $278,000, above the 2017-2018 Modified Budget level of $12.0 million and 1.0% above prior year collections of $12.2 million.

Licenses and Permits

Licenses and Permits	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Building Permits	32,500,000	33,546,256	1,046,256	3.2%
Fire Permits	13,111,000	13,171,164	60,164	0.5%
Other Licenses and Permits	13,658,916	13,785,307	126,391	0.9%
Total	**59,269,916**	**60,502,727**	**1,232,811**	**2.1%**

GENERAL FUND REVENUE PERFORMANCE

Licenses and Permits

Revenues in the Licenses and Permits category include the Building Permits, Fire Permits, and various other licenses and permits. Overall, Licenses and Permits collections of $60.5 million were 2.1% ($1.2 million) above the 2017-2018 Modified Budget level of $59.3 million and 5.3%, or $3.0 million, above the 2016-2017 collection level of $57.5 million. Both the Building and Fire Development Fee Programs continued the solid performance experienced over the past few years with receipts exceeding the budgeted estimates and the prior year collection levels.

Building Permits receipts of $33.5 million ended the year $1.0 million, or 3.2%, above the Modified Budget level of $32.5 million, and 4.5% above the prior year's collection level of $32.1 million. The 2017-2018 budgeted estimate incorporated fee increases that were projected to increase overall revenues by approximately 14% from a base of $27.5 million. These rate increases were implemented on August 14, 2017.

The total valuation of projects submitted in 2017-2018 was $1.7 billion, 10.9% below the $1.9 billion valuation of projects submitted in 2016-2017. Residential valuation of $631.0 million in 2017-2018 was higher than the 2016-2017 level of $599.1 million. A total of 3,241 new residential units received permits in 2017-2018, which was above 2016-2017 actuals of 2,712 units. Commercial valuation of $617.7 million tracked below the prior year level of $702.6 million. Industrial activity of $423.4 million was also lower than last year's level of $574.5 million. Notable activity that took place in 2017-2018 includes building permits for: the Reserve, two apartment buildings (369 units and 267 units) and a 376,000 square foot podium garage, on South Winchester Boulevard; a new six level parking garage and a three story retail building at the Valley Fair Shopping Mall on Stevens Creek Boulevard; two apartment buildings (165 units and 136 units) that are part of the Fairfield Apartment site; a six story office building (located south of Coleman Avenue and west of Highway 87); the balance of construction for a 318-unit apartment building that is part of the Berryessa Flea Market development project (the foundation permit for the building was filed in January 2017); the balance of a nineteen story, 260-unit apartment building (located on the corner of W. San Carlos Street and S. 3rd Street); two new hotels, including a 151,000 square foot, 174 room project (located on North 1st Street) that is part of the Bay 101 project, and a 49,000 square foot hotel project (located near the intersection of Cherry Avenue and Almaden Expressway); and the balance of a garage and the 320,000 square foot mixed use building for the Santana Row Expansion Lot 9 on Olsen Drive.

As described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report, there are several reconciling actions that result in a net decrease of $1.7 million to the Building Development Fee Program Earmarked Reserve. This decrease primarily reflects the correction to the over rebudget of the reserve by $5.4 million in the 2018-2019 Adopted Budget. The decrease to the Reserve is partially offset by an increase of $3.1 million that is the result of the reconciliation of the 2017-2018 actual activity in which the excess revenues of $1.0 million, expenditure savings of $1.8 million, and interest earnings attributed to the program of $0.3 million are set aside in this reserve. In addition, the Annual Report includes a recommendation to shift the cost for two positions (a Senior Executive Analyst

Licenses and Permits

and an Executive Analyst) that were inadvertently included in the Building Development Fee Program ($0.6 million) for 2018-2019 rather than the General Fund (non-fee supported). With these recommended adjustments, the net decrease to the Building Development Fee Program Earmarked Reserve will be $1.7 million, bringing the Reserve total from $22.4 million to $20.7 million. When the 2018-2019 Adopted Budget was developed, it was assumed that collections would remain the same as the prior year amount of $32.5 million.

Fire Permits receipts of $13.2 million were 0.5% above the 2017-2018 Modified Budget estimate of $13.1 million and 3.3% above the 2016-2017 collection level of $12.7 million. This category includes revenue for the Fire Development Fee Program and the Fire Non-Development Fee Program.

Development revenues from Architectural Plan Check and Inspection, Engineering Systems (Alarms and Sprinklers) Permits and Inspections, and miscellaneous revenues ended the year at $8.1 million, which was 1.8% ($152,000) below the 2017-2018 Modified Budget estimate of $8.2 million. The slightly lower revenues are offset by expenditure savings in this fee program of $391,000 and interest earnings of $104,000. Based on the reconciliation of actual revenues and expenditures, a net increase of $343,000 to the Fire Development Fee Program Reserve is recommended, as described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report. Additionally, the rebudget of the reserve to 2018-2019 was short by $820 due to a minor adjustment to costs that were not incorporated in the initial reconciliation. With these actions, the Fire Development Fee Program Earmarked Reserve is recommended to be increased from $7.0 million to $7.3 million.

Non-Development revenue of $5.1 million from Annual Renewable Permits, Non-Renewable Permits and Inspections, and other miscellaneous activities were above the 2017-2018 Modified Budget estimate of $4.9 million. Annual renewable permits revenue of $4.4 million was $201,000 (4.8%) above estimated levels and $1.0 million (31.0%) higher than the collections in the prior year. Combined revenues of $671,000 from non-renewable permit and other inspection activities (such as after-hours inspections for fire regulatory enforcement and hazardous materials) and permits for pyrotechnics, tents, canopies, and temporary membrane structures were $11,000 (1.7%) higher than budgeted levels of $660,000 and $54,000 (8.8%) higher than last year’s year-end revenue of $617,000.

The 2018-2019 Adopted Budget estimate of $13.3 million was built based on a sustained level of activity from the 2017-2018 year-end estimates in the Non-Development fee program and a slight decrease in activity in the Fire Development fee program, along with fee adjustments in both Development and Non-Development programs.

GENERAL FUND REVENUE PERFORMANCE

Fines, Forfeitures and Penalties

Fines, Forfeitures and Penalties	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Parking Fines	11,550,000	10,806,606	(743,394)	(6.4%)
Vehicle Code Fines	1,313,000	1,469,318	156,318	11.9%
Business License Penalties	1,200,000	749,321	(450,679)	(37.6%)
Administrative Citation Fines	425,000	286,441	(138,559)	(32.6%)
Other Fines and Penalties	848,284	1,042,309	194,025	22.9%
Total	**15,336,284**	**14,353,995**	**(982,289)**	**(6.4%)**

The primary sources of revenue in the Fines, Forfeitures, and Penalties revenue category are Parking Fines, Vehicle Code Fines, Administrative Citation Fines, and Other Fines and Penalties. Collections of $14.4 million in this category were $982,000, or 6.4%, below the 2017-2018 Modified Budget level of $15.3 million and 12.2% below the prior year collection level of $16.3 million.

Parking Fines, the largest component of this revenue category, ended the year at $10.8 million. This collection level was 6.4%, or $743,000 below the Modified Budget level of $11.55 million and $1.0 million below the prior year level of $11.8 million. This reflects the shift in activity to vehicle abatement service requests rather than other parking enforcement activities. In addition, **Business License Penalties** of $749,000 fell below the 2017-2018 budgeted estimate of $1.0 million. **Vehicle Code Fines** ended the year at $1.5 million, which was is 11.9% above the Modified Budget of $1.3 million, however was 8.7%, or $140,000 below the prior year collections. The Administrative Citation Fines and other remaining categories ended the year at $1.3 million, which was consistent with the budgeted level and the prior year collections.

Revenue from Use of Money and Property

Use of Money and Property	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
City-Owned Property Rentals	2,980,000	3,799,262	819,262	27.5%
Interest Earnings on the General Fund	2,000,000	3,316,298	1,316,298	65.8%
Subrogation Recovery	500,000	643,276	143,276	28.7%
Other Use of Money and Property	225,000	170,985	(54,015)	(24.0%)
Total	**5,705,000**	**7,929,821**	**2,224,821**	**39.0%**

The Use of Money and Property category primarily consists of rental income from various City properties, interest income earned in the General Fund, and subrogation recovery revenues. Collections of $7.9 million ended the year 39.0% above the Modified Budget level of $5.7 million and 16.8%, or $1.1 million, above the prior year collection level of $6.8 million.

GENERAL FUND REVENUE PERFORMANCE

Revenue from Use of Money and Property

Rental income of $3.8 million was 27.5% above the budgeted estimate of $3.0 million and 10.9% above prior year collections of $3.4 million, reflecting slightly higher collections for several properties. Interest income of $3.3 million was 65.8% above budgeted level of $2.0 million, and 60.5% above the prior year levels of $2.1 million; however, revenues continue to track below historic levels prior to the implementation of the prefunding of retirement contributions and the significant decline in interest rates. Subrogation recovery revenues of $643,000 ended the year 28.7% above the budgeted estimate, however, revenues dropped 33.7% from the prior year collection level of $970,000.

Revenue from Local Agencies

Revenue from Local Agencies	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Successor Agency to the RDA	25,312,000	25,766,143	454,143	1.8%
Central Fire District	6,963,000	7,000,819	37,819	0.5%
Paramedic Program	1,500,000	1,287,507	(212,493)	(14.2%)
Other Local Agency Payments	4,526,386	4,365,460	(160,926)	(3.6%)
Total	**38,301,386**	**38,419,929**	**118,543**	**0.3%**

The Revenue from Local Agencies category contains revenue received from a variety of other local government agencies. The largest sources of revenue are the reimbursements from the Successor Agency to the Redevelopment Agency of San José, a separate entity (Successor Agency), the Central Fire District for fire services provided to County residents by the San José Fire Department, and the County of Santa Clara for the Paramedic Program.

Revenue collections of $38.4 million ended the year slightly above the budgeted estimate of $38.3 million. This collection level, however, is 38.6% above the 2016-2017 collection level of $27.7 million, which is primarily due to Successor Agency contributions in 2017-2018 and receipt of funds related to the Paramedic Program.

The largest revenue in the Revenue from Local Agencies category is a reimbursement from the Successor Agency to the Redevelopment Agency (SARA) for the payment of the Convention Center Debt Service, which totaled $13.6 million in 2017-2018. A corresponding expenditure is included in the City-Wide Expenses category for this debt service payment. In addition, in 2017-2018, a reimbursement from SARA for enforceable obligations totaling $12.2 million was received. The reimbursement accounts for costs the City incurred supporting SARA since dissolution of the San José Redevelopment Agency in 2012.

In 2017-2018, the Central Fire District payment of $7.0 million ended the year slightly above the Modified Budget of $6.96 million, and 8.2% above the prior year collection of $6.5 million. These payments

GENERAL FUND REVENUE PERFORMANCE

Revenue from Local Agencies

represent property taxes collected by the Central Fire District for areas of the County served by the San José Fire Department. The year-over-year increase of payments is due to the change in Property Tax valuation in those areas.

Reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) of $1.3 million fell slightly below the budgeted estimate of $1.5 million. The budgeted estimate consisted of the equipment reimbursement component (Annex B, Category A funds) of $1.3 million and the service-related component (Annex B, Category B funds) of $224,000. The actual receipts in 2017-2018 fell short of the budgeted level by approximately $200,000, which is due to the timing issue of receipt of the fourth quarter payments. It is anticipated that the City will receive $704,000 for the Category A ($314,000) and Category B ($390,000) funds based on actual performance for the last quarter. These funds will be recognized in 2018-2019. Factoring in the fourth quarter payment, Paramedic Program receipts exceeded expectations by approximately $500,000 due to higher Category B funds based on actual response time performance.

The 2018-2019 Adopted Budget included the rebudget of revenues and associated expenditures for various local agency grants in the amount of $30,000, and an additional $155,000 in rebudget adjustments are recommended in this report to account for the anticipated receipt of revenue in 2018-2019 that were not received in 2017-2018. Additional information on the rebudget of local agency grants, as well as budget actions to recognize new grants and reimbursements are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Revenue from the State of California

Revenue from State of California	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Tobacco Settlement	10,900,000	10,952,059	52,059	0.5%
Motor Vehicle In-Lieu Tax	450,000	550,639	100,639	22.4%
Other State Revenue	2,753,416	2,822,767	69,351	2.5%
State Grants	2,344,044	1,395,566	(948,478)	(40.5%)
Total	**16,447,460**	**15,721,031**	**(726,429)**	**(4.4%)**

The major State revenues include the Tobacco Settlement Revenue and State Grants. Revenue from the State of California of $15.7 million ended the year 4.4% below the 2017-2018 Modified Budget estimate of $16.4 million, but 8.3% above the prior year collection level of $14.5 million.

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Revenue from the State of California

The Tobacco Settlement revenue, which is the largest revenue source in this category, totaled $11.0 million in 2017-2018, which is consistent with the 2017-2018 Modified Budget. Receipts in 2017-2018 were 19.4%, or $1.8 million, above the prior year collection level of $9.2 million.

State grants and other reimbursements totaled $4.2 million, which was $879,000 below the Modified Budget level of $5.1 million. This was the result of a timing difference of many grants (and their associated expenditures).

The 2018-2019 Adopted Budget included the rebudget of revenues and associated expenditures for various State grants in the amount of $472,000, and an additional $408,000 of rebudget adjustments are recommended in this report to account for revenues that were not received 2017-2018, but are now anticipated to be received in 2018-2019. Additional information on the rebudget of State grants, as well as budget actions to recognize new grants and reimbursements are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Revenue from the Federal Government

Revenue from Federal Government	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Federal Grants	5,808,333	5,590,625	(217,708)	(3.7%)
Total	**5,808,333**	**5,590,625**	**(217,708)**	**(3.7%)**

The revenue in this category is generated by various federal grants and reimbursements. In 2017-2018, Revenue from the Federal Government of $5.6 million was $218,000, or 3.7%, below the Modified Budget level of $5.8 million, however, receipts were $3.8 million, or 47.5%, above the 2016-2017 collection level of $3.8 million. The negative variance from the Modified Budget was primarily the result of the timing of various grants (and their associated expenditures) where the work was not yet completed in 2017-2018. The 2018-2019 Adopted Budget included the rebudget of revenues and associated expenditures for various Federal grants in the amount of $1.3 million to account for anticipated receipt of revenue in 2018-2019 that were not received in 2017-2018. Based on actual 2017-2018 performance, net negative rebudget adjustments of $239,000 are recommended in this report. Additional information on the rebudget of Federal grants, are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

GENERAL FUND REVENUE PERFORMANCE

Fees, Rates, and Charges

Fees, Rates, and Charges	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
PRNS Fees	21,748,084	21,771,227	23,143	0.1%
Public Works Fees	12,435,000	14,321,065	1,886,065	15.2%
Planning Fees	6,230,000	6,551,506	321,506	5.2%
Transportation Fees	1,674,720	1,897,208	222,488	13.3%
Police Fees	1,373,071	1,337,294	(35,777)	(2.6%)
Library Fees	775,300	587,520	(187,780)	(24.2%)
Miscellaneous Fees	3,955,808	4,237,322	281,514	7.1%
Total	**48,191,983**	**50,703,142**	**2,511,159**	**5.2%**

Revenues in this category include fees and charges assessed by several departments. Overall, Fees, Rates, and Charges collections of $50.7 million were 5.2% ($2.5 million) above the 2017-2018 Modified Budget level of $48.2 million, and 13.0% above the 2016-2017 collection level of $44.9 million. In 2017-2018, the Public Works Fee Program, Planning Fee Program, Transportation Departments revenues, and Miscellaneous revenues exceeded the budgeted estimates, however, the Library and Police Departments revenue collections fell below their budgeted estimate.

In 2017-2018, **Public Works Departmental Fee** collections of $14.3 million ended the year 15.2% above the modified budget estimate of $12.4 million and 31.2% above the $10.9 million collected in 2016-2017. The 2017-2018 collections are comprised of $7.2 million from the Development Services Program, $4.4 million from the Utility Fee Program, $850,000 from a broadband provider to support the implementation of small cell technology as part of the City's Broadband Strategy, and $274,000 in special assessment collection charge fees. Revenues related to Engineering categories such as Residential and Non-Residential performed at lower than estimated levels as a result of lower activity levels. However, these revenues are offset by higher than estimated levels in the Utility Excavation, Grading Permits, Geologic Fees, Planned Development Permit, and Conditional Use Permits categories. Each year, excess development-related revenues and expenditure savings are set aside in reserve to support the fee programs.

In 2017-2018, $1.9 million was generated from excess revenues of $1.6 million, expenditure savings of $207,000 in the Public Works Fee Program, and interest earnings attributed to the program of $79,000. These funds are recommended to be allocated to the Public Works Development Fee Program Earmarked Reserve ($1.5 million, increase from $4.9 million to $6.4 million) and to the Public Works Development Fee Program – Small Cell Permitting Reserve ($374,000). Additional information regarding these adjustments can be found in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report

GENERAL FUND REVENUE PERFORMANCE

Fees, Rates, and Charges

Transportation Departmental Fee collections of $1.9 million ended the year 13.3%, or $222,000, above the Modified Budget level of $1.7 million, and was 19.0%, above the 2016-2017 collection level of $1.6 million. A significant portion of the higher than budgeted revenue is related to the Street Tree Planting program, which totaled approximately $121,000, exceeding the Modified Budget of $20,000 and the prior year collection level of $11,000. As described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report, the additional Street Tree Planting revenue received in 2017-2018 is recommended to be allocated to the corresponding City-Wide expenditure appropriation.

In 2017-2018, **Library Departmental Fee** collections of $588,000 ended the year 24.2% below the Modified Budget level of $775,000, and 9.7% below the 2016-2017 receipts of $650,000. Fines revenues accounted for $505,000 of the total receipts for 2017-2018 and were down from $512,000 in the prior year. The decrease in Fine revenues is primarily the result of the Reducing Economic Barriers to Library Access, which was approved by the City Council on May 17, 2016, which implemented several fine forgiveness programs. Fine forgiveness programs that have recently been implemented by San José Public Library included Volunteer Away Your Fines, which allows patrons to have their Library cardholder debt reduced or waived through volunteering at a library, and Read Away Your Fines, which allows patrons to read books to reduced or waived their fines.

Planning Departmental Fee collections of $6.6 million ended the year 7.2% above the modified budget estimate of $6.2 million and 47.3% above the prior year collection level of $4.4 million, which was the result of City Council-approved fee changes that were implemented on August 14, 2017. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Planning Fee revenues throughout 2017-2018 were anticipated to end the year $1.5 million below the 2017-2018 budget revenue estimate of $7.7 million. A year-end action decreased the revenue estimate by $1.5 million, offset by reductions to the Planning Development Fee Program Reserve (-$750,000), and Planning Development Fee Program Personal Services (-$600,000) and Non-Personal/Equipment (-$150,000) appropriations. However, higher than anticipated permit issuance in June 2018 resulted in the Planning Departmental Fee collections exceeding the Modified Budget by $322,000. Fee categories where the actual collections exceeded the estimate include Residential and Non-Residential Tentative Maps, Sale of Publications and Record Retention, Public Information Services, Non-Residential General Plan Amendments, Residential Prezonings/Rezonings, Non-Residential Conventional Prezonings/Rezonings, Annexations, Non-Residential Site Development Permits, Non-Residential Planned Development Permits, Non-Residential Development Permit Adjustments, and Single-Family Design Review. Categories where actuals fell short of the estimate included Public Noticing, Preliminary Review, Residential General Plan Amendments, Non-Residential Prezonings/Rezonings, Residential Conventional Prezonings/Rezonings, Residential and Non-Residential Environmental Clearance, Residential Site Development Permits, Residential Planned Development Permits, Residential Development Permit Adjustments, Residential and Non-Residential Conditional Use Permits, and Miscellaneous Permits. As described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report, the Planning Development Fee Program Earmarked Reserve is recommended to be decreased by $34,000. This decrease is the net result of the

GENERAL FUND REVENUE PERFORMANCE

Fees, Rates, and Charges

following: a downward adjustment of $540,000 to correct for the over-rebudgeting of this reserve in the 2018-2019 Adopted Budget; and an upward adjustment of due to over rebudgeting the reserve amount to 2018-2019 by $540,000, which is partially offset by an increase of $506,000 derived from a combination of additional revenues of $322,000, expenditure savings of $131,000, and interest earnings attributed to the program of $22,000. With the recommended adjustments included in this report, the Reserve will decrease from $1.069 million to $1.003 million.

Other Revenue

Other Revenue	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
TRANs Proceeds	150,000,000	150,000,000	0	0.0%
Sale of Surplus Properties	37,825,663	38,186,678	361,015	1.0%
Other Revenue	35,811,646	30,764,587	(5,047,059)	(14.1%)
Total	**223,637,309**	**218,951,265**	**(4,686,044)**	**(2.1%)**

The Other Revenue category contains a number of unrelated revenue sources and totaled $219.0 million in 2017-2018, which was 2.1% below the modified budget of $223.6 million, however was significantly higher (84.9%) than the 2016-2017 collection level of $118.4 million. The significant increase in this category from prior year collections is primarily due to the Tax Revenue Anticipation Notes (TRANs) proceeds increasing from $100.00 million in 2016-2017 to $150.0 million in 2017-2018, as well as the sale of the Airport West (FMC) site, which resulted in $36.3 million being allocated to the General Fund. The TRANs proceeds have an offsetting expenditure to repay the TRANs and the Airport West (FMC) site proceeds were primarily used to pay off debt service related to the original acquisition of the site.

The Other Revenue category ended 2017-2018 2.1% below the Modified Budget level primarily due to proceeds from the Energy Services Company (ESCO) of $2.4 million not being received, however the 2018-2019 Adopted Budget included a rebudget of these funds as they are anticipated to be received in 2018-2019. The corresponding debt service payment that is budgeted in the City-Wide Expenses was also rebudgeted as part of the 2018-2019 Adopted Budget. Grants and reimbursements also ended the year below the budgeted estimate. The 2017-2018 Adopted Budget included the rebudget of revenues and associated expenditures for various grants and reimbursements in the amount of $1.8 million, and an additional $862,000 of rebudget adjustments are recommended in this report to account for the anticipated receipt of revenue in 2018-2019 that were not received in 2017-2018. Additional information on the rebudget of these grants as well as the recognition of new grant revenues and their associated expenditures, are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

GENERAL FUND REVENUE PERFORMANCE

Transfers and Reimbursements

Transfers and Reimbursements	2017-2018 Budget ($)	2017-2018 Actuals ($)	2017-2018 Variance ($)	2017-2018 Variance (%)
Overhead Reimbursements	45,467,418	47,245,141	1,777,723	3.9%
Transfers	25,412,465	26,305,966	893,501	3.5%
Reimbursements for Services	17,970,000	16,980,661	(989,339)	(5.5%)
Total	**88,849,883**	**90,531,768**	**1,681,885**	**1.9%**

The Transfers and Reimbursements category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall, collections of $90.5 million ended the year 1.9%, or $1.7 million, above the 2017-2018 Modified Budget estimate of $88.8 million. The Overhead Reimbursement category was above the budgeted estimate due to higher capital fund overhead based on actual activity in 2017-2018. Transfers exceeded the budgeted estimate in 2017-2018 by $894,000 primarily due to additional funding from the Parks Construction and Conveyance Tax Funds ($598,000) as 15% of the Parks Construction and Conveyance Tax revenues are transferred to the General Fund for parks maintenance and these revenues exceeded the budgeted estimate. Reimbursements for Services ended the year below the budget primarily due to lower Gas Tax receipts ($16.6 million actual receipts versus the budgeted estimate of $17.3 million).

Summary

In 2017-2018, total revenues received by the General Fund of $1.3 billion were slightly higher than the 2017-2018 Modified Budget level by $1.5 million (0.1%). However, when the 2018-2019 Adopted Budget was developed, it was assumed that revenues would exceed the modified budget by approximately $5 million and would generate additional fund balance. Revenues fell short of this estimate by $3.5 million. After accounting for other reconciling items, including the Development Fee Program adjustments, rebudgets, and other clean-up actions, revenues ended the year $2.4 million below the estimate. This is an extremely small variance given the diversity of over 450 City revenues and the overall size of the General Fund.

The 2017-2018 collection level of $1.3 billion was up $189.2 million (17.1%) from the actual 2016-2017 collections ($1.1 billion). The 2017-2018 revenue estimates were built on the assumption that the economically-sensitive revenues would continue to experience growth and actual performance in 2017-2018 was consistent with this assumption. A number of economically-sensitive revenue categories, such as Property Tax, Sales Tax, Business Taxes, and Transient Occupancy Tax, continued to experience solid growth. This was due to economic performance and other contributing factors such as the Successor Agency to the Redevelopment Agency bond refunding that generated additional Property Tax, the full year implementation of the Local Sales Tax, and the modernization of the Business Tax. Only a couple revenue categories experienced declines from the prior year, including Utility Taxes and Fines, Forfeitures, and Penalties.

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Summary

Continued positive revenue performance is expected to again be experienced in 2018-2019. The Administration will actively monitor economic indicators and revenues in 2018-2019 through the Bi-Monthly Financial Report and the Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions, if necessary.