2018-2019
MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues and transfers through December totaled $553.7 million, or 44.2% of the budgeted estimate. Based on current collection trends and information, existing revenues are anticipated to end the year approximately $20 million - $25 million above budgeted levels (variance of approximately 2% when excluding the Beginning Fund Balance). The primary drivers of this additional revenue are higher than estimated Sales Tax, Property Tax, and Revenue from Local Agencies. An additional $18.7 million is projected to be generated from SARA and City-owned property sales.

The following table details actual 2018-2019 General Fund revenue collections through December as compared with budgeted revenue estimates and 2017-2018 actual collections for the same time period in the previous year. Also included are changes to each category (excluding the Beginning Fund Balance adjustment) that are recommended as part of this report:

2018-2019 General Fund Revenue Status through December
($ in Thousands)

Category	Budget Estimate	Y.T.D Actual	% of Estimate	2017-2018 % of Actual	Proposed Changes
General Revenue					
Property Tax	$ 320,450	$ 82,917	25.9%	25.8%	$ 4,000
Sales Tax	238,500	93,264	39.1%	33.3%	12,000
Telephone Line Tax	20,000	8,103	40.5%	32.8%	-
Transient Occupancy Tax	19,700	7,564	38.4%	35.4%	-
Franchise Fees	50,475	20,893	41.4%	39.4%	-
Utility Tax	102,400	36,956	36.1%	38.6%	-
Business Taxes	69,400	35,597	51.3%	49.5%	-
Licenses and Permits	60,894	35,282	57.9%	60.6%	-
Fines, Forfeitures, and Penalties	14,983	6,594	44.0%	45.0%	-
Use of Money and Property	6,897	3,895	56.5%	46.0%	-
Revenue from Local Agencies	14,920	5,250	35.2%	11.9%	1,185
Revenue from the State of California	13,118	16	0.1%	8.3%	877
Revenue from Federal Government	5,953	930	15.6%	23.6%	253
Fees, Rates, and Charges	55,527	27,867	50.2%	46.2%	294
Other Revenue	166,073	173,709	104.6%	79.6%	19,270
Sub-Total General Revenue	1,159,290	538,837	46.5%	42.5%	37,879
Transfers and Reimbursements					
Overhead Reimbursements	50,456	8,692	17.2%	80.1%	-
Transfers	25,657	1,727	6.7%	65.1%	312
Reimbursements for Services	18,225	4,484	24.6%	36.2%	-
Sub-Total Transfers and Reimbursements	94,338	14,903	15.8%	67.4%	312
TOTALS	**$ 1,253,628**	**$ 553,740**	**44.2%**	**44.3%**	**$ 38,191**

2018-2019
MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

Through December, the majority of revenues are tracking to end the year at or above budgeted estimates, including: Property Tax; Sales Tax; Transient Occupancy Tax; Business Taxes; Use of Money and Property; and Other Revenue. These positive variances are partially offset by lower collections in a limited number of categories, including Utility Taxes.

Recommended Adjustments

As described below, revenue adjustments totaling $38.9 million are recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; (2) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures; (3) complete clean-up actions; and (4) reconcile the General Fund to the final audited 2017-2018 Comprehensive Annual Financial Report (CAFR).

- Implement required technical and rebalancing actions to revise revenue estimates in limited areas to bring estimates in line with revised projections (net increase of $35.8 million). Significant actions include:
  - Recognizing revenue related to seven properties that were previously owned by the Successor Agency to the Redevelopment Agency (SARA), and one property owned by the City of San José, which resulted in net proceeds of $18.7 million. Separate expenditure actions are recommended to transfer $4.3 million of the proceeds that were related to the sale of the South Hall site to the Convention Center Facilities District Revenue Fund to establish the South Hall Debt Service Reserve. The remaining funds ($14.4 million) are recommended to be allocated to the 2019-2020 Proposed Budget Planning Reserve.
  - Increase the Sales Tax estimate by $12.0 million (from $238.5 million to $250.5 million) to align the budget with the estimated level of receipts. As mentioned in the 2017-2018 Annual Report and previous Bi-Monthly Financial Reports, the California Department of Tax and Fee Administration, which is responsible for distributing Sales Tax revenue to jurisdictions in California, implemented a new automated system, which resulted in 3rd quarter and 4th quarter 2017-2018 receipts not being fully disbursed to jurisdictions during the quarter in which the tax revenue was received. It is estimated approximately $10 million of payments were received in 2018-2019 that is attributed to 2017-2018 (General Sales Tax; $9.0 million and Local Sales Tax; $1.0 million). When factoring in this additional revenue in 2018-2019, plus estimating 2% growth for the remainder of the year from prior year levels, the 2018-2019 Sales Tax receipts are estimated at $250.5 million, which is $12.0 million above the budgeted estimate. The recommended adjustment reflects an $11.0 million increase for General Sales Tax and a $1.0 million increase for Local Sales Tax.
  - Increase the Property Tax estimate by $4.0 million, from $320.5 million to $324.5 million, to reflect higher estimated Secured Property Tax receipts. Based on the most recent information provided by the County of Santa Clara, Secured Property Tax receipts in 2018-2019 are estimated at $300 million, which is approximately $4 million over the budgeted level.

2018-2019 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

- Recognize grant, reimbursement, and/or fee related funds ($2.5 million). Significant actions include:
    - Recognize revenue from the State of California to reimburse for Strike Teams deployed to 10 sites in four counties throughout the State during the summer and fall 2018 to assist with fire and disaster problems ($650,000); recognize revenue from the Santa Clara County for youth scholarships for city-wide summer camps and classes ($250,000); and recognize revenue received for the sale of Autumn Parkway ($235,000).
- Clean-up actions recommended in this report result in a decrease of $142,000 to account for a negative rebudget for the After School Education and Safety (ASES) grant. This grant revenue, which was expected to be received in 2018-2019 and had been rebudgeted, was actually received at the end of 2017-2018. As a result, a negative rebudget is necessary to remove the revenue in the current year.
- Increase the Beginning Fund Balance by $663,000 (of which $363,000 is due to final reconciliation of the Public Works Development Fee Program and $142,000 is due to ASES grant revenue received at the end of 2017-2018) based on a reconciliation to the final audited 2017-2018 Comprehensive Annual Financial Report (CAFR).

In total, adjustments recommended in this document result in a net addition of $38.2 million to the General Fund revenue estimates (excluding the Beginning Fund Balance increase of $663,000). With the Beginning Fund Balance adjustment, total sources are recommended to increase by $38.9 million. Additional detail on these adjustments can be found in Section III of this document. The following discussion highlights major General Fund activities through December in various revenue categories.

PROPERTY TAX

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$320,450,000	$82,916,663	25.9%	25.8%	$4,000,000

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), Aircraft Property Tax, and Homeowner's Property Tax Relief. Overall, Property Tax revenues are projected to exceed the budgeted estimate by approximately $4 million based on the most recent information received from the County of Santa Clara and actual performance through the first half of the fiscal year. As described in *Section III. Recommended Budget Adjustments and Clean-up Actions,* a

STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

recommendation is included in this report to increase the Property Tax budget by $4.0 million (from $320.5 million to $324.5 million) to more closely align the Secured Property Taxes budget with estimated receipts.

Secured Property Taxes represent over 90% of the revenue in the Property Tax category. For 2018-2019, the Adopted Budget estimate of $295.5 million was based on assumed growth of 5.5% from the 2017-2018 estimated collection level for Secured Property Taxes. The 2018-2019 budget includes $275.1 million from general Secured Property Tax receipts, $12.0 million from SARA Residual Property Tax receipts, and $8.4 million from the distribution of excess Education Revenue Augmentation Fund (ERAF) funds. Based on the most recent information provided by the County, Secured Property Tax revenue is anticipated to exceed the budgeted estimate of $295.5 million by approximately $4 million.

The 2018-2019 Adopted Budget assumed that general Secured Property Tax receipts would total $260.7 million in 2017-2018 and grow by 5.5% to $275.1 million in 2018-2019. However, based on the most recent information from the County, 2018-2019 receipts are estimated at $278.3 million, which reflects growth of 6.7% from the 2017-2018 actual collection level of $260.9 million. The updated figure from the County is approximately $2.7 million over the budgeted estimate of $275.1 million.

As a result of the SARA bond refunding that occurred in December 2017, the City received a residual property tax distribution of $11.8 million in 2017-2018. The Adopted 2018-2019 Budget assumed receipts would remain fairly flat at $12.0 million. However, due to outstanding Supplemental Education Revenue Augmentation Fund (SERAF) loans anticipated to be paid off within the next year, the SARA residual property tax revenue will be reduced on a one-time basis to an estimated $7.9 million in 2018-2019, but will increase again in 2019-2020. The City is also expected to receive the SERAF loan repayment revenue in 2019-2020 due to the timing of payments.

The Adopted Budget assumed $8.4 million from 2018-2019 excess ERAF funds, which is consistent with the 2017-2018 actual collection level. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. The County provided preliminary information (that is received from the State of California) that a payment of approximately $13.8 million may be received in March, which is approximately $5.4 million higher than the budgeted estimate of $8.4 million.

As described in *Section III. Recommended Budget Adjustments and Clean-up Actions,* a recommendation is included in this report to increase the Secured Property Tax estimate by $4.0 million, from $295.5 million to $299.5 million. This net increase is comprised of general Secured Property Taxes ($2.7 million) and additional ERAF receipts ($5.4 million), partially offset by lower SARA Property Taxes (-$4.1 million).

Status of General Fund Revenues

PROPERTY TAX

The 2018-2019 **Unsecured Property Taxes** budget estimate of $14.5 million requires growth of approximately 3% from the actual 2017-2018 collection level of $14.0 million. Collections through December totaled $13.9 million, which is fairly consistent with the prior year collection level. A majority of the revenue for this category is received in October of each year, with only minimal funding received throughout the remainder of the year. Based on information provided by Santa Clara County as well as actual revenue performance through the first half of the year, it is anticipated revenues will end the year at $14.3 million, which is approximately $200,000 below the budgeted level.

SB 813 Property Tax receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) totaled $1.8 million through December, which is relatively flat compared to the prior year level. The 2018-2019 Adopted Budget estimate of $6.9 million is well below the 2017-2018 actual collection level of $7.4 million as collections in this category ended 2017-2018 stronger than anticipated. However, the preliminary 2018-2019 estimate from Santa Clara County totals $6.6 million, which is $234,000 below the budgeted estimate.

Aircraft Property Tax receipts through December totaled $2.3 million, which is 8.0% below the prior year collection level of $2.5 million. Typically, collections through December reflect 95% of the annual revenue for this category. The 2018-2019 Adopted Budget estimate of $2.7 million assumed receipts would remain consistent with 2017-2018 collections. However, based on current year collections and the latest estimate from the County of Santa Clara, receipts are anticipated to end the year at $2.5 million, which is $200,000 below the budgeted estimate.

In the **Homeowners Property Tax Relief** category, $141,000 was received through December, which is approximately 1% below the prior year collection level. Based on the most recent estimate from the County and historical collection patterns, revenue is projected to end the year at $921,000, which is slightly below the Adopted Budget estimate and the 2017-2018 collection level.

STATUS OF GENERAL FUND REVENUES

SALES TAX

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$238,500,000	$93,264,421	39.1%	33.3%	$12,000,000

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. When the 2018-2019 Adopted Budget was developed, it was projected that Sales Tax receipts would end 2017-2018 at $230.8 million and grow 1.2% to $233.5 million in 2018-2019. This increase 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. In 2017-2018 Sales Tax receipts, however, ended the year at only $226.3 million. This lower collection level was due to the under-distribution of sales tax revenue throughout the State.

The California Department of Tax and Fee Administration (CDTFA), which is responsible for distributing Sales Tax revenue to jurisdictions in California, implemented a new automated system, which resulted in 3rd quarter and 4th quarter 2017-2018 receipts not being fully disbursed to jurisdictions during the quarter in which the tax revenue was received. The CDTFA has since processed the outstanding payments and included the additional revenue in the 1st quarter 2018-2019 disbursement that were received in November 2018. The CDTFA has estimated these collections, which represent July to September activity, included approximately $10 million of receipts (General Sales Tax of $9 million and Local Sales Tax of $1 million) that is attributed to 2017-2018. Based on 1st quarter receipts, including the $10 million that is attributed to the prior fiscal year, and estimating the next three quarters of Sales Tax payments will grow by approximately 2% from the prior year receipts, the 2018-2019 Sales Tax estimate is anticipated at $250.5 million. This amount includes General Sales Tax of $200.3 million, Local Sales Tax of $44.0 million, and Proposition 172 Sales Tax of $6.2 million. As part of the 2017-2018 Annual Report, the General Sales Tax estimate was increased by $5 million to partially reflect the under-distribution, bringing the Modified Budget to $189.3 million. As part of this report, a recommendation is included to increase the General Sales Tax an additional $11.0 million (from $189.3 million to $200.3 million) and the Local Sales Tax revenue by $1.0 million (from $43.0 million to $44.0 million). If these actions are approved, the revised 2018-2019 Sales Tax budgeted estimate would total $250.5 million.

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

STATUS OF GENERAL FUND REVENUES

SALES TAX

additional $9 million in estimated underpayments, growth of approximately 1% is needed in 2018-2019 over the adjusted 2017-2018 receipts of $186.4 million. As previously mentioned, the CDTFA has processed the outstanding payments from 2017-2018 and included the additional revenue in the 1st quarter 2018-2019 disbursement that was received in November 2018. The 1st quarter General Sales Tax receipts totaled $57.9 million, however after factoring out the portion of the payment attributed to 2017-2018, the receipts totaled approximately $48 million, which represents an 8% increase from the 1st quarter 2017-2018 payment. Based on the 1st quarter actual receipts and estimated 2% growth for the remainder of the fiscal year, the 2018-2019 General Sales Tax receipts would total approximately $200 million. A $5.0 million increase to the General Sales Tax revenue estimate was included in the 2017-2018 Annual Report to conservatively account for the underpayment, which brought the Modified Budget to $189.3 million. As part of this report, a recommendation to increase the General Sales Tax an additional $11.0 million (from $189.3 million to $200.3 million) is included to account for the higher true-up payment for the prior year and higher first quarter 2018-2019 receipts.

Starting in 2016-2017, the Sales Tax category includes **Local Sales Tax**. In June 2016, San José voters approved a ¼ cent local sales tax, which was implemented in October 2016. Receipts in 2017-2018 represented the first year of full collection of the tax and totaled $42.6 million, of which $1.3 million was due to a prior year accrual adjustment that occurred in 2017-2018. In 2018-2019, the Adopted Budget estimate of $43.0 million 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.

Similar to the General Sales Tax, Local Sales Tax revenue was understated in 2017-2018 due to the CDTFA implementing a new automated system, which 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 Local Sales Tax receipts in 2017-2018 are estimated to be understated by approximately $1 million as a result of the unallocated payments. The first quarter 2018-2019 receipts of $13.0 million were well above the prior year receipts of $10.5 million and include both payments due to the prior year as well as the final payment for the first quarter 2018-2019. This report includes a recommendation to increase the Local Sales Tax budget by $1.0 million, from $43.0 million to $44.0 million, to align the budget with estimated receipts.

Information on the General Sales Tax and Local Sales Tax second quarter collections (October-December sales activity) for this fiscal year will be received in February 2019.

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. Through December, the **Proposition 172 Sales Tax** receipts of $2.2 million were 2.3% above 2017-2018 collections of $2.1 million through the same period. The 2018-2019 budgeted estimate of $6.2 million allows for a 2.5% decrease from the 2017-2018 collection level of $6.4 million. It is currently anticipated that collections will slightly exceed the budgeted estimate by year-end.

STATUS OF GENERAL FUND REVENUES

TRANSIENT OCCUPANCY TAX

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$19,700,000	$7,564,163	38.4%	35.4%	$0

The 2018-2019 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is $19.7 million, which was built assuming growth of approximately 5% from the 2017-2018 estimated collection level of $18.7 million. However, since 2017-2018 actual receipts came in above estimated levels at $19.5 million, growth of less than 1% is needed to meet the 2018-2019 budget estimate. Through December 2018, TOT collections recorded in the General Fund of $7.6 million are 9.6% above the prior year's collections of $6.9 million. This year-over-year variance is largely due to sustained group and transient booking activity, the assessment of higher average room rates, and lower basis for comparison due to the impacts of recent changes to accrual methodology observed during the first half of 2017-2018.

Based on current collection trends as well as the anticipated impact of the recently hosted College Football Playoff National Championship and 2019 National Hockey League All Star Game, TOT collections are projected to exceed the budgeted estimate by $1 million - $2 million. Given the volatility associated with this revenue source, collections will continue to be monitored and an upward budget adjustment may be brought forward for City Council consideration later in the fiscal year.

Through December, the average hotel occupancy rate for the San José market hotels was 78.5%, a slight increase from the 77.4% occupancy rate reported for the same period in 2017-2018. However, reported average room rates have risen from $183.48 to $195.08 (6.3%). Year-to-date average revenue-per-available room (RevPAR) of $153.10 also exceeds the prior year level of $142.08, an increase of 7.8%.

STATUS OF GENERAL FUND REVENUES

FRANCHISE FEES

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$50,474,798	$20,893,224	41.4%	39.4%	$0

Franchise Fees are collected in the Cable Television, City Generated Tow, Commercial Solid Waste, Nitrogen Gas Pipeline, PG&E Electric, PG&E Gas, and Great Oaks Water categories. Through December, Franchise Fee receipts of $20.9 million are 3.6% above the prior year collection level of $20.2 million. The 2018-2019 budgeted estimate of $50.5 million allows for a 1% drop from the 2017-2018 actual collection level. Based on current collection trends, Franchise Fees are anticipated to fall slightly below the budgeted estimates as a result of lower than anticipated Cable Franchise Fee collections.

Cable Television Franchise Fees of $2.2 million through December are 13.4% below the prior year levels and reflect a payment for one quarter. The 2018-2019 Adopted Budget estimate was built on the assumption that 2017-2018 revenues would total $10.4 million and remain flat in 2018-2019. However, 2017-2018 collections underperformed in the last half of the fiscal year, and ended the year at $9.7 million. Based on current collection trends and historical patterns, revenues are anticipated to continue to decline and end the year at $8.5 million - $9.0 million.

Through December **City Generated Tow Fees** of $128,000 reflect a 53.5% drop from the prior year collection level. As detailed in the Amendments to City Generated Tow Agreements memorandum that was approved by the City Council on October 31, 2017, tow fees have significantly declined. To address the changing environment, contract amendments, such as allowing tow operators to deduct disposal expenses associated with certain tows of recreational vehicles and similar trailers, were approved as part of the memorandum that became effective January 1, 2018. The 2018-2019 budget estimate of $256,000 allows for a 58.6% drop from the 2017-2018 collection level, and it is anticipated current year collections will meet the budgeted estimate.

Commercial Solid Waste Fees of $4.9 million through December are approximately 2.5% above prior year receipts and are anticipated to meet the budgeted estimate of $11.8 million by year-end.

Electric and Gas Franchise Fees provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in a calendar year (revenues in 2017-2018 are based on calendar year 2018). Actual collections through December of $13.5 million reflect formula driven advance amounts; true receipts will not be known until April 2019. The 2018-2019 Adopted Budget for Electric Franchise Fees ($22.7 million) and Gas Franchise Fees ($5.0 million) allows for a 2.2% and 12.3% drop, respectively, from the

STATUS OF GENERAL FUND REVENUES

FRANCHISE FEES

prior year receipts. Based on the current year performance of Electricity and Gas Utility Tax receipts, which generally have similar collection trends, it is anticipated both fees will meet the budgeted estimate by year-end.

Remaining franchise fees include the **Great Oaks Water** ($300,000) and **Nitrogen Gas Pipeline** ($60,000) categories. It is currently anticipated that both of the categories will end the year close to the budgeted estimates.

UTILITY TAX

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$102,400,000	$36,955,916	36.1%	38.6%	$0

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Telephone Utility Tax, and Water Utility Tax. Through December, Utility Tax receipts of $37.0 million are 4.0%, below the prior year collection level, which is due to lower collections in the Electric, Gas, and Telephone Utility Tax categories. The 2018-2019 Adopted Budget was built on the assumption that 2017-2018 Utility Tax revenue would end the year at $101.3 million and grow 1.5% to $102.4 million in 2018-2019. However, since 2017-2018 ended the year only at $99.8 million, growth of almost 3% is needed in 2018-2019 to meet the budgeted estimate. Based on historical collection trends and the limited data currently available, it is anticipated that revenue will end the year $2.5 million - $3.0 million below budgeted levels.

In the **Electricity Utility Tax** category, collections through December totaled $17.6 million, which is 6.6% below the $18.9 million received in the prior fiscal year. The 2018-2019 Adopted Budget assumed that 2017-2018 receipts would total $48 million, and grow approximately 2% to $49 million in 2018-2019. However, since 2017-2018 ended the year at $46.8 million, growth of almost 5% is needed to meet the budgeted estimate. Based on current collection trends, receipts in this category are anticipated to end the year approximately $2 million - $2.5 million below the budgeted estimate.

In the **Gas Utility Tax** category, receipts through December totaled $1.8 million, which reflects a 14.3% decline from the previous year collection of $2.1 million. The 2018-2019 Adopted Budget estimate of $10.0 million assumed no growth from the 2017-2018 estimate of $10.0 million. However, revenues in 2017-2018 ended the year at $10.6 million, therefore the 2018-2019 estimate allows for a 5.3% drop from

STATUS OF GENERAL FUND REVENUES

UTILITY TAX

the prior year collections. The largest receipts in this category are received over the winter months and the weather conditions significantly affect collection levels. At this point in the fiscal year it is anticipated revenues will meet or slightly exceed the budgeted level by year-end.

Collections in the **Telephone Utility Tax** category of $10.2 million through December are approximately 1.1% below the prior year level of $10.3 million. Revenues in this category have been consistently decreasing in recent years, which reflects the competition between cellular carriers and the move from some cellular customers to VoIP and other services which are less expensive. The 2018-2019 Adopted Budget estimate of $26.2 million allows for a 2.4% decrease from the 2017-2018 collection level of $26.9 million. In previous Bi-Monthly Financial Status Reports, it was reported that Telephone Utility Tax collections would fall short of the budgeted estimate, however, one-time compliance revenue of $1.3 million was recently received in December 2018. With the additional unanticipated compliance revenue, it is now anticipated Telephone Utility Tax revenues will slightly exceed the budgeted estimate by approximately $500,000.

Water Utility Tax collections of $7.4 million through December are slightly above the prior year level of $7.2 million. The 2018-2019 Adopted Budget was built on the assumption that $16.7 million would be received in 2017-2018, then grow approximately 3% to $17.2 million in 2018-2019. However, since 2017-2018 receipts only totaled $15.6 million, growth of 10.4% is required to meet the 2018-2019 budgeted level. Based on current collection trends, receipts in this category are anticipated to fall below the budgeted estimate by approximately $1.0 million - $1.5 million by year-end.

BUSINESS TAXES

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$69,400,000	$35,597,232	51.3%	49.5%	$0

The Business Taxes category consists of the Cardroom Tax, Disposal Facility Tax, General Business Tax, and Marijuana Business Tax. Through December, overall collections of $35.6 million are 1.8% above the prior year collection levels of $35.0 million, primarily reflecting higher collections in the Marijuana Business Tax category. The 2018-2019 Adopted Budget estimate of $69.4 million allows for almost 2%

STATUS OF GENERAL FUND REVENUES

BUSINESS TAXES

decline from 2017-2018 levels as the result of 2017-2018 ending the year approximately $2.3 million above the estimated level. If current collection trends continue, Business Tax receipts are projected to exceed the budgeted estimate by $2.5 million - $3.0 million.

Through December, **Cardroom Tax** receipts of $7.6 million are slightly below the prior year level of $7.7 million. Because receipts in 2017-2018 slightly exceeded expectations, collections in the category can drop by 1% in 2018-2019 and reach the budgeted estimate of $18.7 million.

Disposal Facility Tax revenue of $4.7 million through December reflect a decline of approximately 5% from the prior year level. Actual landfill activity is known through the end of November 2018, which totals $5.0 million and represents less than a 1% increase from the prior year. The 2018-2019 Adopted Budget of $11.5 million allows for a 6% drop from the 2017-2018 actual receipts of $12.3 million, which ended the year above budget due to higher than estimated receipts in the last quarter of 2017-2018. Based on current collection trends, it is anticipated receipts will end the year at or slightly above budgeted levels.

Through December, **General Business Tax** receipts of $17.9 million are consistent with prior year levels. The 2018-2019 budgeted estimate assumed 2017-2018 collections would reach $23.7 million and increase to $25.7 million in 2018-2019. This factored in 2% underlying growth for inflation adjustments from the 2017-2018 estimate, plus an additional $1.5 million revenue as the result of the General Business Tax Amnesty Program, which was approved to be implemented in 2018-2019 and would encourage the enrollment of non-compliant businesses. Since actual 2017-2018 receipts totaled $26.5 million, the 2018-2019 estimate allows for a 3% drop from the prior year. While the General Business Tax Amnesty Program is not expected to begin until the end of the fiscal year, receipts are still projected to exceed the budgeted estimate by $1 million - $2 million based on prior year actuals and current year activity.

Marijuana Business Tax collections reflect marijuana business tax as well as compliance revenues. Through December, receipts of $5.4 million are 22.1% above prior year levels of $4.4 million. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. The 2018-2019 Adopted Budget estimate of $13.5 million assumed growth of 5.5% from the 2017-2018 estimate of $12.8 million based on the legalization of recreational marijuana usage. Since actual 2017-2018 receipts were slightly higher at $13.0 million, growth of 3.7% is needed to meet the 2018-2019 estimate. Since the sale of recreational cannabis became legal, average monthly Marijuana Business Tax collections have been approximately $1.2 million. If this collection level continues, receipts may exceed the $13.5 million budgeted estimate by year-end.

STATUS OF GENERAL FUND REVENUES

LICENSES AND PERMITS

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$60,893,631	$35,281,991	57.9%	60.6%	$0

The Licenses and Permits category contains fees and charges collected by various departments. The most significant revenue sources are development-related fees, which include Building Permits and Fire Permits. Through December, revenues of $35.3 million are 3.7% below the prior year level of $36.6 million, which is primarily due to differences in the timing of payments for other licenses and permits. The 2018-2019 Adopted Budget estimate of $60.9 million requires growth of almost 1% from the 2017-2018 collection level of $60.5 million. Based on activity through December and adjustments for the timing of payments, Licenses and Permits receipts are estimated to end the year close to budgeted levels.

Building Permit revenues $17.7 million through December reflect growth of 1.5% from the $17.5 million received during the same time period in the previous year. The 2018-2019 Adopted Budget assumed 2017-2018 collections would total $32.5 million and remain flat in 2018-2019. However, since actual 2017-2018 Building Permit revenues totaled $33.5 million, receipts can drop 3.1% in 2018-2019 and still meet the revenue estimate.

Residential building permit revenues through December are generally performing below estimated levels, with the exception of building plan check permit fee. However, non-residential and miscellaneous building permit revenues are stronger than anticipated through December, with the exception of non-residential building plan check fees, Building Standards Administration Special Revolving Fund (BSASRF) fees, and permit processing fees.

For 2018-2019, the Building Fee Program continued the phased implementation of the new fees and/or fee modifications recommended for the program as part of the City of San José Development Services Cost Recovery Analysis, Process Improvements, Calculation of Unearned Revenues, and Refund Processing Report accepted by the City Council in December 2016. However, these changes, implemented on August 13, 2018, had no net impact to the overall revenue estimate for 2018-2019 of $32.5 million. It is currently anticipated Building Permit revenues will end the year close to the 2018-2019 budget revenue estimate of $32.5 million.

Through December, overall residential permit valuation decreased 24.0% from prior year levels ($299.4 million in 2018-2019 and $394.1 million in 2017-2018). Residential activity through December included

STATUS OF GENERAL FUND REVENUES

LICENSES AND PERMITS

1,489 multi-family units and 195 units for single family construction for a total of 1,684 units. Notable projects for November and December include a construction permit for a four townhouse buildings and two twenty-eight story residential high rise buildings, which are located on the corner of East Santa Clara Street and North Fourth Street.

Commercial valuation of $243.9 million through December 2018 is 40% lower than the 2017-2018 level of $406.3 million. The commercial activity in the month of December was very modest ($34.8 million) with alterations accounting for 43% of the commercial activity ($15.0 million). Recent notable projects include a five-story parking structure on Coleman Avenue and a permit for a medical clinic located north of Alum Rock Avenue. Industrial construction valuation of $208.4 million through December was also lower (28.6%) than the prior year level ($291.9 million in 2017-2018). A notable project for November included a seven building self-storage warehouse near the intersection of Aborn Road and Silver Creek Road. Alterations accounted for all industrial activity in December.

Fire Permits, which consist of development and non-development related permits, totaled $7.9 million through December, which represents a 3.7% increase from the prior year collections. To meet the 2018-2019 budgeted revenue estimate of $13.3 million, growth of less than 1% from the 2017-2018 actual collection level of $13.2 million is needed; at this point of the year, collections are anticipated to meet or slightly exceed budgeted levels by year-end.

Development related receipts through December of $4.0 million are consistent with the prior year collections. The budgeted estimate of $8.1 million aligns with the prior year's actual collections of $8.1 million and it is anticipated that receipts will meet the budgeted estimate by year-end.

Non-Development receipts of $3.9 million represents 75% of the budget and are 6.9% above revenues received through December 2017. This collection primarily represents three of the four major billing cycles (July, September, and December) for non-development fire permits for this fiscal year. If current collection trends continue, it is anticipated that receipts will meet or slightly exceed the budgeted estimate of $5.2 million by year-end.

Miscellaneous Other Licenses and Permits revenues of $9.6 million reflect a 16.5% drop from the prior year level of $11.5 million, which is primarily due to the timing of payments. The 2018-2019 Adopted Budget estimate requires growth of 9.7% from the prior year actual collections. It is currently anticipated revenues will meet or fall slightly below the budgeted level by year-end.

STATUS OF GENERAL FUND REVENUES

REVENUE FROM USE OF MONEY AND PROPERTY

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$6,897,000	$3,894,851	56.5%	46.0%	$0

The Use of Money and Property category primarily includes interest income earned in the General Fund, rental income from various City properties, and subrogation recovery revenues.

Use of Money and Property receipts through December of $3.9 million reflect a 6.7% increase from prior year levels. The 2018-2019 budget estimate of $6.9 million allows for a 13% drop from the 2017-2018 actual receipts of $7.9 million. Based on current collection trends, revenues in this category are anticipated to end the year above the budgeted estimate by approximately $1.2 million, primarily due to higher than estimated interest earnings and rental income.

Interest earnings on the General Fund through December total $1.3 million, up almost 29% from the prior year level of $1.0 million, which is primarily due to rising interest rates. The budgeted estimate of $3.0 million allows for a decline of 9.5% from the 2017-2018 actuals of $3.3 million. If current collection trends continue, interest earnings are anticipated to exceed the budgeted estimate of $2.0 million by approximately $1 million.

Rental income through December totals $2.0 million, which is consistent with the prior year levels. Collections in this category are anticipated to exceed the budget estimate of $3.0 million by approximately $250,000.

Subrogation revenue totals $356,000 through December, down 22.8% from the prior year level of $461,000. Subrogation revenue can fluctuate monthly as a portion of anticipated revenues may not be collectable from those individuals that damaged City property. Based on historical data and current collection trends, it is currently anticipated that revenues will meet the budgeted estimate of $500,000 by year-end.

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$14,920,072	$5,249,727	35.2%	11.9%	$1,184,751

The Revenue from Local Agencies category contains revenue received from a variety of other local government agencies. The largest sources of revenue are the Central Fire District payment for fire services provided to County residents by the San José Fire Department, the County of Santa Clara payment for the Paramedic Program, and the County reimbursement for the Senior Nutrition Program. Overall, revenues in this category are anticipated to exceed the budgeted levels by $1.2 million at year-end.

The largest revenue estimate in the Revenue from Local Agencies category is the Central Fire District payment. Through December, a total of $3.8 million has been received, which represents an increase of 8.4% from the prior year receipts during the same period. Growth of 4.3% from the 2017-2018 receipts of $7.0 million is needed to meet the budgeted estimate of $7.3 million. Based on current collection trends as well as information provided by Santa Clara County, Central Fire District reimbursements are anticipated to exceed the budget by approximately $150,000. A recommendation is included in this report to recognize the additional revenue that is anticipated to be received from the County.

Reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) is budgeted at $1.7 million, which includes the equipment reimbursement component (Annex B, Category A funds; $1.3 million) and the EMS System User component (Category C funds; $473,000). Through January, a total of $1.4 million has been received from the County, which includes approximately $783,000 for Annex B, Category B, that was not budgeted as the funding is service-related and is not guaranteed to be received each year. A recommendation is included in this report to recognize the Category B funds that were received from the County to date. Additional funding may be recognized at year-end based on actual performance in the second half of the fiscal year.

The City’s Senior Nutrition Program is a partnership between the City and Bateman Senior Meals to serve nutritious meals to seniors at 13 different community center locations. Meals are served weekly from Monday through Friday (with one site serving Saturday), at reduced costs to seniors. Funding for this program is made possible by the City’s contract with the County to provide approximately 920 meals per day. The County funds two-thirds of the program with the City paying the remaining one-third of the cost of the meals. The budgeted revenue estimate of $1.7 million should be received by year-end.

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

As described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, a net increase of $1.2 million is recommended for the Revenue from Local Agencies category. Recommended adjustments include increasing the Paramedic Program allocation to reflect Category B funds ($783,000), recognizing revenue anticipated to be received from the City of Campbell for the Cambrian 36 annexation agreement ($199,000), increasing the Central Fire District payment ($150,000), recognizing a grant from the Santa Clara Valley Water District for the Pollution Prevention and Creeks Clean-up project ($195,000), and reducing the 2017 After School Education and Safety (ASES) grant revenue estimate as this funding was received at the end of 2017-2018 (-$142,000 negative rebudget).

FEES, RATES, AND CHARGES

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$55,527,543	$27,866,933	50.2%	46.2%	$294,183

The Fees, Rates, and Charges category contains various fees and charges levied to recover costs of services provided by several City departments, including Library; Parks, Recreation and Neighborhood Services; Planning, Building and Code Enforcement; Police; Public Works; and Transportation. Through the first half of the fiscal year, revenues totaled $27.9 million, which is 18.1% above the $23.6 million received in the prior year. The higher receipts in 2018-2019 is partially due to the timing of small cell permitting payments to the Public Works Department. With the exception of the Planning Fees, the departmental fee categories are generally tracking within estimated levels through December and are expected to meet or exceed the budgeted estimates by year-end.

Through December, **Planning, Building and Code Enforcement (PBCE)** Planning Fee revenues of $3.8 million are 25.9% above the prior year collection level of $3.0 million. However, to meet the 2018-2019 Adopted Budget estimate of $8.96 million, an increase of 36.8% is needed from the prior year actual revenue of $6.6 million. The significant increase in revenue was anticipated in 2018-2019 due to City Council-approved fee changes that were implemented on August 13, 2018. Through December, Planning Fee revenue was within estimates in the following categories: Williamson Act applications, residential tentative maps, sale of publications and record retention, public information services, preliminary review, residential General Plan amendments, non-residential conventional prezonings/rezonings, non-residential environmental clearances, non-residential planned development permits, and non-residential development permit adjustments. However, lower than estimated revenues were received for non-residential tentative

Status of General Fund Revenues

FEES, RATES, AND CHARGES

maps, public noticing, non-residential General Plan amendments, residential and non-residential planned development prezonings/rezonings, residential Conventional prezonings/rezonings, residential environmental clearances, annexations, residential and non-residential site development permits, residential planned development permits, residential development permit adjustments, residential and non-residential conditional use permits, single-family design review, and miscellaneous permits. Based on current collection trends, Planning Fee revenues may end the year below the budgeted estimate by $1.0 million - $1.5 million. A portion of this lower collection level can be offset by projected expenditure savings of approximately $750,000. An action to use a portion of the Planning Development Fee Program Reserve that currently totals $1.0 million may be recommended at year-end to address any net shortfall between revenues and expenditures.

The **Public Works** Department fee revenue is comprised of the Development Services Fee Program, Utility Fee Program, and Small Cell Permitting. Through December, overall Public Works fee revenues totaled $8.3 million, which represents a 35.2% increase from the prior year level of $6.1 million. This increase is primarily attributable to Small Cell Permitting revenue of $1.8 million already being reflected in the 2018-2019 collections, however, in 2017-2018, this revenue was not received until June.

Through the first half of the fiscal year, all Public Works fee revenue categories are performing at higher than estimated levels. Development Services Fee Program collections totaled $3.9 million, 4.1% above prior year collections; Utility Fee Program receipts totaled $2.6 million, 8.6% above prior year collections; and Small Cell Permitting revenue totaled $1.8 million, which had no receipts in the prior year until June. Revenue received for Small Cell Permitting is for works-in-progress that will be spent through the remainder of the fiscal year. Based on activity through December and historical collection patterns, fee revenues are anticipated to end the year at or slightly above budgeted levels.

Through December, **Police Department Fees** totaled $732,000, which represents a 15.1% increase for the prior year. The budgeted estimate of $1.4 million requires growth of 3.3% from 2017-2018 collection levels. Vehicle Impound Fees totaled $521,000 through December, accounting for the majority of revenues in this category. This document includes a recommendation to reduce the Vehicle Impound Fee from $290 per release to $122 per release based on an in-depth time task study performed by the Police Department. The 2018-2019 Adopted Budget included a revenue estimate of $903,000 from the Vehicle Impound Fee. Based on actual activity through December, the current fee was on track to generate approximately $1.0 million in 2018-2019. With the revised fee for the remainder of the fiscal year, revenues are projected to reach $820,000, which is $83,000 below the budgeted estimate. This lower collection level can be offset by higher receipts in other Fees, Rates, and Charges in the current year.

Remaining Fees, Rates, and Charges categories are generally performing at estimated levels through the first half of the fiscal year. **Library Department Fees** of $158,000 are tracking to meet the budgeted estimate of $332,000. **Miscellaneous Fees** totaled $2.6 million and are up 74.1% from the prior year,

STATUS OF GENERAL FUND REVENUES

FEES, RATES, AND CHARGES

which is primarily due to the planned increase in revenue associated with the Citywide Planning Fee; collections in this category are tracking to slightly exceed the budgeted estimate. **Parks, Recreation, and Neighborhood Services Department Fees** of $11.3 million are consistent with prior year levels and are tracking to meet the budgeted estimate of $22.0 million. **Transportation Department Fees** of $1.0 million are 13.3% above the prior year and are tracking to meet or slightly exceed the budgeted estimate of $1.8 million.

As described in *Section III. Recommended Budget Adjustments and Clean-up Actions,* an increase of $294,000 to the PRNS Fees, Rates, and Charges is recommended (from $22.0 million to $22.3 million). This increase reflects grant revenue from Gardner Family Health Network for fitness program access for Gardner Health clients ($44,183) and recognition of revenue from the Santa Clara County Summer Youth Programming for youth scholarships for city-wide summer camps and classes ($250,000). The revenue adjustments are recommended to be offset by an increase to the PRNS Non-personal/Equipment appropriation ($250,000) and the PRNS Fee Activity appropriation ($44,183).

OTHER REVENUE

Revenue Status

2018-2019			2017-2018	2018-2019
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$166,072,788	$173,708,615	104.6%	79.6%	$19,269,987

The Other Revenue category contains several unrelated revenue sources. Other Revenue collections through December totaled $173.7 million, which is consistent with the prior year receipts of $174.4 million through the same time period. This collection level exceeded the budgeted estimate of $166.1 million due to the receipt of property sale proceeds.

As approved by the City Council, a total of seven properties that were previously owned by the Successor Agency to the Redevelopment Agency (SARA) were sold in the first half of the fiscal year. Once sold, the net proceeds were distributed to the appropriate taxing entities, with the City of San José receiving $16.7 million, or 14.14% of the total sales. Included in the SARA sales was the Diridon Station Area properties, the South Hall site, several properties along San Pedro Street, one property on South First Street, and one property on South Second Street. In addition, a City-owned property located on West San Carlos Street was also sold, which resulted in proceeds of $2.0 million. Altogether, between SARA and City-owned properties, a total of $18.7 million has been received. Recommendations are included in this

Status of General Fund Revenues

OTHER REVENUE

report to recognize the $18.7 million of Property Sales revenue, transfer $4.3 million of the proceeds related to the sale of the South Hall site to the Convention Center Facilities District Revenue Fund to establish the South Hall Debt Service Reserve, and place the remaining amount ($14.4 million) in a new 2019-2020 Proposed Budget Planning Reserve.

Beginning in 2010-2011, the City has had 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 2018-2019, the TRANs issuance totaled $150 million, which was consistent with the 2017-2018 issuance.

Investment Cost Reimbursement totaled $535,000 through December, which is fairly consistent with prior year receipts of $518,000 during the same time period. It is currently anticipated that the budgeted estimate of $1.3 million will be achieved by year-end.

Revenue from the **Sale of Surplus Property** (excluding the properties discussed above) totaled $555,000 through December, which is significantly higher than the prior year receipts of $118,000. As described further in *Section III. Recommended Budget Adjustments and Clean-up Actions*, a recommendation to increase the Sale of Surplus Property by $235,000 (from $1.0 million to $1.2 million) to recognize the sale of five small fragments of Autumn Parkway is included in this report. An offsetting adjustment to allocate the funding to Autumn Parkway Parcels Sale Proceeds Reserve is also included in this document.

As described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, a net increase of $19.3 million is recommended for the Other Revenue category. Recommended adjustments include recognizing the proceeds from SARA and City-owned property sales ($18.7 million), recognizing and appropriating funds associated with the sale of parcels on Autumn Parkway ($235,000), recognizing and appropriating Pacific Gas and Electric funds related to city tree planning ($146,000), recognizing and appropriating revenue related to emergency street tree services ($100,000), recognizing and allocating various Mayor and City Council revenues ($82,000), and several net zero grant related actions.

STATUS OF GENERAL FUND REVENUES

TRANSFERS AND REIMBURSEMENTS

Revenue Status

2018-2019			**2017-2018**	**2018-2019**
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$94,338,116	$14,903,323	15.8%	67.4%	$312,000

The following are sources of revenue in the Transfers and Reimbursements category: reimbursements to the General Fund for Overhead costs, revenue received as Transfers from other City funds, and Reimbursements for services rendered. Collections of $14.9 million through December are significantly lower than prior year receipts of $61.2 million primarily due to a significant portion of overhead reimbursements and transfers from other City funds have not yet occurred, but are anticipated to be executed in January 2019. Overall, Transfers and Reimbursements collections are anticipated to end the year close to the budgeted estimate.

Overhead Reimbursements associated with special funds are currently budgeted at $37.9 million and capital funds are budgeted at $12.6 million for a total category revenue estimate of $50.5 million. Through December, overhead collections of $8.7 million has been received, which is 77.0% below the prior year level of $37.8 million. However, reimbursements of $36.2 million that generally occur earlier in the fiscal year are anticipated to be executed in January, which will increase the current year collections to $44.9 million, which represents 89.0% of the budgeted estimate. Overall, Overhead reimbursements are expected to slightly exceed the budgeted estimate due to higher capital program overhead based on actual activity.

Budgeted **Transfers** of $25.7 million include $24.6 million in various transfers from other funds and $1.1 million in transfers of interest earnings from selected funds. Through December, overall transfer receipts of $1.7 million are significantly below the prior year levels of $17.1 million, which is primarily due to the timing of budgeted transfers. However, transfers of $20.4 million that generally occur earlier in the fiscal year are anticipated to be executed in January, which will increase the current year collections to $22.1 million, which represents 86.2% of the budgeted estimate. As described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, this report includes a recommendation to increase the budgeted transfer from the Airport Maintenance and Operations Fund by $312,000 (from $8.8 million to 9.1 million) to align the budget transfer with anticipated the Police Department overtime costs at Norman Y. Mineta San José International Airport; a corresponding increase to the Police Department budget is also recommended in this report

STATUS OF GENERAL FUND REVENUES

TRANSFERS AND REIMBURSEMENTS

The budget estimate for Reimbursement for Services is $18.2 million, of which $17.3 million is expected to be generated from the three **Gas Tax Funds**. Currently, Gas Tax revenues of $4.3 million are down from the prior year levels of $6.1 million by 29.0%. When the 2018-2019 Adopted Budget was developed, it was estimated 2017-2018 collections would total $17.3 million and remain flat in 2018-2019. However, since collections in 2017-2018 were below estimated levels, growth of 4.2% is needed to meet the 2018-2019 budgeted estimate. It is important to note that collections in this category can vary significantly from month to month. However, based on current collection trends, it is anticipated revenues will fall short of the budgeted estimate by $1 million - $2 million. Other reimbursements from the Maintenance Assessment District Funds and the Deferred Compensation Program are expected to end the year close to the budgeted estimate.

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 and information, existing revenues are anticipated to end the year approximately $20 million - $25 million above budgeted levels (variance of approximately 2% when excluding the Beginning Fund Balance). The primary drivers of this additional revenue are higher than estimated Sales Tax, Property Taxes, and Revenue from Local Agencies. An additional $18.7 million is projected to be generated from SARA and City-owned property sales. Overall, development-related revenues in the General Fund are generally on pace to meet budgeted levels. However, Planning revenues are expected to fall below the budget.

In total, a net increase of $38.9 million to the General Fund Sources is recommended in this document. This increase primarily reflects an increase of $35.8 million related to technical and rebalancing items, a $2.5 million increase related to net-zero grants reimbursements and fees adjustments, a reduction of $142,000 to complete clean-up actions, and an increase to the Beginning Fund Balance of $663,000 (of which $363,000 is due to final reconciliation of the Public Works Development Fee Program and $142,000 is due to ASES grant revenue received at the end of 2017-2018) based on a reconciliation to the final audited 2017-2018 Comprehensive Annual Financial Report (CAFR). Further information regarding these adjustments can be found in Section III of this report.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2020-2024 General Fund Forecast, due to be released on February 28, 2019, as well as the 2019-2020 Proposed Budget, due to be released on May 1, 2019. 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 2019.