



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Jennifer A. Maguire

**SUBJECT:** BI-MONTHLY FINANCIAL  
REPORT FOR JULY/AUGUST 2009

**DATE:** October 7, 2009

Approved

*Debra Santana*

Date

10/8/09

The Bi-Monthly Financial Report (MFR) for July/August 2009 was jointly prepared by the City Manager's Budget Office and the Finance Department and is presented for the Public Safety, Finance and Strategic Support Committee's review.

## OVERVIEW

Through the first two months of the fiscal year, the City's overall financial position remains relatively stable, although on careful watch. The Administration will continue to closely monitor economic conditions and the performance in the City's funds and will bring forward budget adjustments to the City Council during the year as necessary. Following are key highlights in this report:

- Property Tax receipts are currently anticipated to meet or slightly exceed the 2009-2010 budgeted estimates based on the most recent projections provided by the County of Santa Clara. In 2009-2010, the Property Tax category will be impacted by the emergency suspension of Proposition 1A that was passed by the Legislature and signed by the governor as part of the 2009-2010 State Budget package on July 28, 2009. Under this provision, the State will borrow 8%, or approximately \$20.4 million, of the amount of property tax revenue that would have been distributed to San Jose in 2009-2010. To fully offset this impact, the Administration is recommending participation in the Proposition 1A Securitization Program that is scheduled to be considered by the City Council on October 20, 2009.
- The 2009-2010 Adopted Budget was built on the assumption that Sales Tax receipts would decline 5% from the estimated 2008-2009 collection level. However, actual 2008-2009 Sales Tax receipts in the last two quarters of the fiscal year ended well below the estimate used in the development of the 2009-2010 budget. As a result, Sales Tax receipts would have to increase by 3.1% in 2009-2010 to meet the budget estimate. Given the current economic environment, it is unlikely that this growth would be realized. To adjust for the lower collection level in 2008-2009 (total actual decline of 14.5%), a \$10.7 million reduction to the Sales Tax revenue estimate is recommended as part of 2008-2009 Annual Report actions (City Council Agenda: October 20, 2009), bringing the budget estimate to \$121 million. This adjustment will allow for a 5% decline in 2009-2010 from actual 2008-2009 receipts as originally intended.

**OVERVIEW (Cont'd.)**

- In the Development Fee Programs, activity through August continued to drop. The Annual Report recommends specific expenditure reductions as an initial response to the significant declines in activities in the Planning, Building, and Fire Development Fee Programs, as well as a reduction to the Fire Development Fee Program Reserve for the Fire Fee Program. In response to the continued decline in development activity, the four Development Fee Programs (Planning, Building, Fire, and Public Works) will bring additional rebalancing actions forward for City Council consideration in November 2009.
- Many departments are currently experiencing higher than budgeted personal services expenditures. This is primarily due to the employment placement process where employees at higher salary levels were placed into vacant positions budgeted at a lower level or into positions previously held by lower step employees and the historically low number of vacant positions in the organization (as of September 1, 2009, there were 225 positions vacant city-wide; 126 positions in the General Fund). Departments will be directed to absorb these additional costs to the extent possible through savings from normal employee turnover, overtime controls, and/or identifying potential offsets through non-personal/equipment appropriation savings. However, additional funding may need to be distributed to some departments by the end of the fiscal year to prevent appropriation over-runs. In the 2008-2009 Annual Report, a budget action is recommended to increase the Vacancy/Filled Position Elimination Impacts Reserve from \$316,000 to \$1.0 million to address this potential cost. Through proactive cost management, the Administration will attempt to retain as much of this \$1.0 million as possible for potential use in the 2010-2011 budget process.
- The severe economic downturn continues to impact activity and revenue collections in the General Fund as well as several special and capital funds, including: Construction and Conveyance Tax Funds; funds that account for development-related taxes and fees (Construction Excise Tax Fund and Building and Structure Tax Fund); Transient Occupancy Tax Fund; the Airport; and the Community Facilities Revenue Fund (Hayes Mansion). The financial performance of these funds will be carefully monitored during the year to determine if any adjustments are necessary. In addition, the Administration will continue to identify any potential budget impacts associated with State budget actions that may be brought forward during the year and any San Jose Redevelopment Agency budget balancing actions.
- The Administration will continue to report to the City Council any and all significant developments through this reporting process.

**OVERVIEW (Cont'd.)**

**Economic Environment**

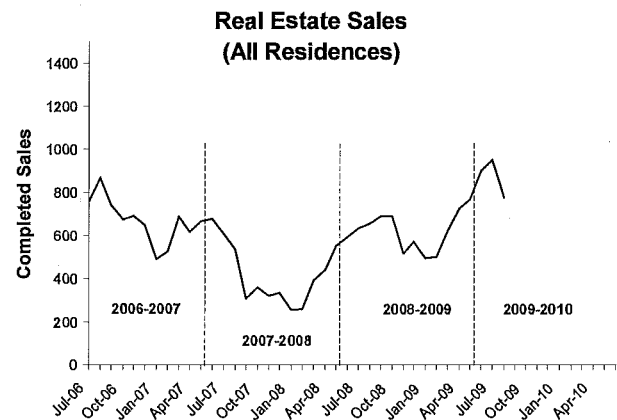
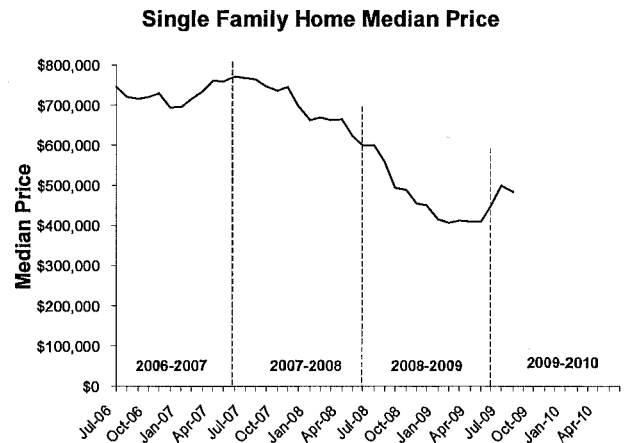
Although some observers believe the global recession has ended, its effects are expected to continue to negatively impact the City's financial performance well into 2010.

The key economic indicators are extremely weak, but there are a few signs of improvement. The August 2009 median home price of \$485,000 for single family homes within the City is 13% below the August 2008 median of \$560,000. However, the market has improved over the last six months and the August median home price is now 19% above the low point reached in February 2009.

With the significant decline in home prices, there has been an increase in the number of property sales. In August 2009, the 777 property transfers for all types of residences were up 18% from the 656 properties transferred in August 2008.

Although the precipitous decline in the number of jobs has slowed since May 2009, employment in the San José metropolitan area remains well below the prior year level. The employment figure for August 2009 (811,700) was 5.4% below the August 2008 employment level of 858,000. This decrease marked the eighth consecutive month of year-over-year job losses for this region.

The unemployment rates at the local, State, and national levels have gone up significantly over the past year to some of the highest rates in decades. The San José metropolitan area continues to experience double-digit unemployment with a rate of 12.0% in August 2009. This figure is almost double the 6.4% rate experienced a year ago. The August 2009 unemployment rate in this region is equivalent to the unadjusted unemployment rate for the State, but continues to track above the nation, which currently has an unadjusted unemployment rate of 9.6%.



**Unemployment Rate (Unadjusted)**

	August 2008	July 2009	August 2009
San José Metropolitan Statistical Area	6.4%	11.8%	12.0%
State of California	7.7%	12.1%	12.1%
United States	6.1%	9.7%	9.6%

Source: California Employment Development Department

**OVERVIEW (Cont'd.)**

Consistent with the mixed data on the housing market and employment, The Conference Board Consumer Confidence Index, which had increased in August, dipped somewhat in September. Lynn Franco, Director of the Conference Board Consumer Research Center, noted: "While not as pessimistic as earlier this year, consumers remain quite apprehensive about the short-term outlook and their incomes."

Looking forward, the economic outlook is improving, but slow employment growth will likely delay the recovery in California until late 2010. Indeed, in the UCLA Anderson Forecast third quarterly report of 2009, Senior Economist David Shulman notes that, "Although the worst recession in seven decades likely ended in the current quarter, its negative effects will linger well into the next decade." The UCLA California Forecast predicts statewide unemployment rising through the end of 2009 and remaining relatively high through 2010.

Given these projections, economic conditions will continue to be closely monitored and will be factored into the assessment of the City's performance in 2009-2010 as well as development of the 2011-2015 General Fund Forecast. A preliminary 2010-2011 forecast is expected to be released in late October 2009, with a final 2011-2015 General Fund Forecast planned to be released in February 2010.

**GENERAL FUND**

**REVENUES**

General Fund revenues through August 2009 totaled \$54.5 million. This was an increase of \$1.6 million (3.0%) from the August 2008 level of \$52.9 million. Collections were higher than the prior year in a few categories, including Property Tax, Sales Tax, Franchise Fees, and Fines and Forfeitures. However, for the majority of these categories, the higher collection level is the result of differences in the timing of payments rather than real growth. Several categories are tracking below the prior year level, including Transient Occupancy Tax, Utility Tax, Licenses and Permits, Use of Money and Property, Revenue from Other Agencies (Local, State, and Federal), Departmental Charges, Other Revenue, and Transfers and Reimbursements. Many of these declines, particularly in the economically sensitive categories, were anticipated when the 2009-2010 budget was developed. Close monitoring of the 2009-2010 performance will be necessary to determine if any adjustments to these revenue estimates will be necessary during the year.

The following discussion highlights General Fund revenue activities through August.

**KEY GENERAL FUND REVENUES**

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Property Tax</b>	<b>\$ 198,249,000</b>	<b>\$ 600,844</b>	<b>\$ 0</b>

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); and Homeowners Property Tax Relief. Through August, \$0.6 million has been received, reflecting less than 1% of the budget for this category. The variance from the prior year was primarily the result of the timing of payments in the Unsecured Property Tax and the SB 813 Property Tax categories.

For 2009-2010, Secured Property Taxes were estimated to drop 4% from the 2008-2009 estimated collections, for an Adopted Budget total of \$183.6 million. While no actual payments had been received through August for the Secured Property Tax, the County of Santa Clara has provided a preliminary Secured Property Tax estimate for 2009-2010 that shows a drop of 3.5% from the actual 2008-2009 collection level. Based on this updated estimate, collections may exceed the adopted estimate by approximately \$2.0 million. The 2009-2010 collections are based on the value of property assessed on January 1, 2009, with any tax roll corrections. In developing this most recent estimate, the County has made a projection on the value of downward adjustments that will be made during the year. Because tax roll adjustments are still occurring and will continue to take place until the end of May 2010, the Budget Office will continue to work with the County to assess what implications any fluctuation in revenues due to this factor might have for the prospects of total collections in the overall Secured Property Tax category.

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

In the Unsecured Property Tax category, the largest payment is received in October of each year. Based on preliminary information from the County, collections in this category may exceed the budgeted estimate of \$10.0 million by as much as \$1 million. A small amount of revenue (\$297,000) was received through August to account for the final reconciliation of the 2008-2009 fiscal year. In 2008-2009, this true-up payment for the prior fiscal year totaling \$81,000 was received in September 2008.

For the SB 813 Property Tax category, the first payment of \$271,000 was booked in August 2009, while last fiscal year, the first payment of \$405,000 was booked in September 2008. Receipts in the first month dropped 33%. While not reflected in the revenue booked through August due to the lag in payments, collections for the second month experienced a greater decline of 66% from \$234,000 last fiscal year to \$78,000 this year. Cumulatively, actual receipts for the two months are down 41%. Collections in this category were expected to fall in 2009-2010 based on the decline in housing prices and the 2009-2010 budget estimate of \$3.5 million allows for a drop of 38% from the \$5.7 million collected in 2008-2009. The actual decline in the first two months is larger than anticipated. If current trends continue, a downward adjustment to this revenue estimate may be necessary during the year.

It is anticipated that Homeowners Property Tax Relief revenue will be received at approximately the budgeted level of \$1.1 million.

It should be noted that the Property Tax category will be impacted in 2009-2010 by the emergency suspension of Proposition 1A that was passed by the Legislature and signed by the Governor as part of the 2009-2010 State Budget package on July 28, 2009. Under this provision, the State will borrow 8% or approximately \$20.4 million of the amount of property tax revenue that would have been distributed to San José in 2009-2010. To fully offset this impact, the Administration is recommending participation in the Proposition 1A Securitization Program that is scheduled to be considered by the City Council on October 20, 2009.

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Sales Tax</b>	<b>\$ 135,795,000</b>	<b>\$ 6,939,156</b>	<b>(\$ 1,833,909)</b>

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax.

General Sales Tax receipts through August of \$6.6 million reflect the net impact of accruals and deferrals necessary as part of the final accounting of the 2008-2009 fiscal year. This figure is significantly higher than the negative amount of \$2.3 million received last fiscal year through August because of the large deferral of Sales Tax revenue from 2008-2009 to 2009-2010 associated with the triple flip payment from the State that was too high in 2008-2009. The

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

overage was deferred to 2009-2010 and the State will true-up this payment with a negative adjustment in 2009-2010 that will be processed in January 2010. The current receipts do not yet reflect actual performance in 2009-2010. Information on the first quarter collections for this fiscal year will not be received until late December.

While there is no data for the current fiscal year, the City received preliminary information on San José's performance in the last quarter of 2008-2009, representing sales activity for April through June 2009. This data, which was received in September, showed a decline of 28.2% from the same quarter in the prior year. A portion of this decline, however, was the result of a Sales Tax recording error that will be corrected in the first quarter of 2010. Factoring out that error, Sales Tax receipts would have dropped by 22.8% in the fourth quarter. Downward trends were also experienced by Santa Clara County (down 23.5%), and the San Francisco Bay Area (down 23.2%), Northern California (down 22.0%), and the State as a whole (down 20.8%).

On an economic basis, Sales Tax collections were down 24.5% in the last quarter of 2008-2009. The City's Sales Tax consultant, MuniServices Company, recently provided the City with economic performance data, which is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding State and county pools and adjusts for anomalies, payments to prior periods, and late payments.

On an economic basis, the drop in the most recent quarter was the result of declines in every economic sector:

- General Retail: down 12.4%
- Business-to-Business: down 34.0%
- Transportation: down 34.8%
- Construction: down 27.3%
- Food Products: down 9.7%
- Miscellaneous: down 25.0%

The 2009-2010 Adopted Budget was built on the assumption that Sales Tax receipts would decline 5% from the estimated 2008-2009 collection level. However, actual 2008-2009 Sales Tax receipts in the last two quarters of the fiscal year (receipts declined -29.3% and -28.2%, respectively) ended well below the estimated used in the development of the 2009-2010 budget. As a result, Sales Tax receipts would have to increase by 3.1% in 2009-2010 to meet the Adopted Budget estimate. Given the current economic environment, it is unlikely that this growth would be realized. To adjust for the lower collection level in 2008-2009 (total actual decline of 14.5%), a \$10.7 million reduction to the Sales Tax revenue estimate is recommended as part of the 2008-2009 Annual Report actions, bringing the budget estimate to \$121 million. This adjustment will allow for a 5% decline in 2009-2010 from actual 2008-2009 receipts as originally intended.

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

Through August, the Proposition 172 Sales Tax receipts of \$361,000 were tracking 14.9% below the prior year collection level of \$425,000. The 2009-2010 budgeted estimate, however, allows for a drop of only 3.4%. A downward adjustment to the budget estimate of \$4.1 million may be necessary during the year if current collection trends continue.

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Transient Occupancy Tax</b>	<b>\$ 6,553,000</b>	<b>\$ 549,125</b>	<b>\$ 966,250</b>

Through August, Transient Occupancy Tax (TOT) collections of \$549,000 were tracking 43.2% below the prior year collection level of \$966,000 for the same period. A portion of this decline was the result of accrual differences. After accounting for these adjustments, collections in July were down 31%. The 2009-2010 budget estimate allows for a drop of only 15.9% from the prior year. It is assumed, however, that larger declines will be experienced in the first quarter of 2009-2010 as this quarter will be compared to a comparatively strong first quarter last fiscal year.

Over the course of 2008-2009, room rates and occupancy rates steadily declined, with occupancy rates at the 14 largest hotels averaging 54% and room rates averaging \$130. Through August 2009, data is only available for 13 of these hotels, with occupancy rates continuing to average 54% but room rates declining 12.3% to \$114.

TOT receipts will be closely monitored as the year progresses, and any necessary budget adjustments will be brought forward for City Council consideration.

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Utility Tax</b>	<b>\$ 84,959,000</b>	<b>\$ 8,438,403</b>	<b>\$ 9,175,059</b>

Through August, Utility Tax receipts of \$8.4 million were down 8.0% from last year's collection level of \$9.2 million. The largest decline was in the Water Utility category due to an under-accrual at the end of 2007-2008 in the Water Utility Tax category that resulted in higher receipts in 2008-2009. To meet the 2009-2010 budgeted estimate, receipts can decline 1.0% from the prior year.

In the Electric Utility Tax category, collections of \$4.2 million were tracking 3.8% above the prior year level of \$4.05 million. Growth of 5.2% is needed, however, to meet the Electric Utility budget estimate of \$39.5 million. In the Gas Utility Tax category, receipts of \$393,000 were tracking 56% below the prior year level of \$892,000 through August. A portion of this decline was the result of accrual adjustments from 2008-2009. Factoring out those adjustments,



**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

receipts for the month of July were down 39%. However, the budgeted estimate of \$10.4 million requires growth of 7.6% from the actual 2008-2009 collection level. When the 2009-2010 Adopted Budget was developed, it was assumed that Gas Utility Tax collections would remain flat at the 2008-2009 estimated collection level. Actual receipts in 2008-2009, however, fell below this estimate, and, as a result, growth in this category is needed to meet the 2009-2010 revenue estimate. Based on commercial and residential forecasts provided by Pacific Gas and Electric Company, average gas costs are expected to remain below prior year levels for the majority of 2009-2010 with improvement expected in the last four months of the fiscal year. Based on these projections and the limited collection data, it is anticipated that Gas Utility Tax receipts may fall below the budgeted estimate. Collections in the next several months will provide a much better indicator of receipts in this category since approximately two-thirds of the revenue in this category is typically collected in the second half of the year.

Collections of \$0.9 million in the Water Utility category are tracking well below the prior year level of \$1.7 million. This lower collection level was primarily due to an accrual adjustment at the end of 2007-2008 that resulted in one-time higher receipts in 2008-2009. Factoring out accrual adjustments, collections in 2008-2009 ended the year at \$8.8 million. The 2009-2010 estimate of \$8.5 million would allow a decline of approximately 3.4% from this collection level. Receipts for the month of July 2009 of \$907,000 were 4.6% above the prior year level of \$867,000. At this point, collections are within estimated levels. It should be noted, however, that this category is always subject to fluctuations related to the amount of precipitation received, particularly in the spring. This category may also be impacted by conservation efforts.

Collections in the Telephone Utility Tax category of \$2.9 million were tracking 16.9% above the prior year collection level of \$2.5 million. Based on the 2008-2009 actual receipts of \$29.2 million and the current collection trends, receipts are expected to exceed the budgeted estimate of \$26.5 million by year-end. Collections in this category have been impacted by Measure K that was approved by voters in November 2008 and became effective in April 2009. This measure lowered the tax rate by 10% and modernized the tax base. Based on recent collection trends, the modernization of the tax base, which included adding international and interstate calls as well as toll free numbers and fax machines, appears to have more than offset the decline in revenues associated with the 10% reduction in the tax rate.

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Licenses and Permits</b>	<b>\$ 70,862,027</b>	<b>\$ 11,268,761</b>	<b>\$ 12,713,352</b>

Through August, Licenses and Permits revenue of \$11.3 million tracked 11.4% below the prior year level of \$12.7 million. To meet the 2009-2010 budget estimate, however, slight growth over the 2008-2009 collection level of \$70.4 million is needed. The Business Tax category had the largest negative variance due primarily to a change in the billing cycle. Other categories that

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

fell below the prior year included Building Permits, Fire Permits, Cardroom Tax and Disposal Facility Tax. These negative variances were partially offset by higher collections in the Miscellaneous Licenses and Permits category due to the earlier receipt of the \$2.0 million for the Cardroom Table Fees. Following is a discussion of the major components of this category.

Cardroom Tax receipts of \$1.08 million through August were 3.3% below the prior year level of \$1.12 million. This collection level is consistent with the 2009-2010 budget estimate, which allows for a drop of 3.4% from 2008-2009 receipts. In the Business Tax category, revenues of \$2.7 million through August were tracking well below the prior year level of \$5.1 million due primarily to changes in the billing cycle.

Disposal Facility Tax revenue of \$1.0 million through August is tracking 5.6% below the prior year level of \$1.1 million. The 2009-2010 Adopted Budget, however requires growth of 6.3% in this category because the actual 2008-2009 receipts fell below the levels assumed in the development of the 2009-2010 Adopted Budget. Receipts are experiencing declines due to the slowdown in economic activity, which has led to the disposal of fewer tons of solid waste. Given the current economic conditions, collections in this category may end the year below the budgeted estimate.

Building Permit revenues of \$2.7 million through August were tracking 21.6% below the 2008-2009 collection level of \$3.4 million for the same period. The modified budget estimate of \$17.0 million allows for a drop of only 3.1%. Development activity was extremely slow in 2008-2009 and remains at these depressed levels through the first quarter of 2009-2010. Revenues in most categories are performing below anticipated levels. In the residential development area, building permits were issued for only two new residential units in July followed by four units in August 2009. Commercial building permit activity in August, however, rose to an eight-month high as a superstructure permit was issued for a hotel in North San José that broke ground in June. Industrial activity for August fell to a 5 ½ year low. If current collection trends continue, year-end receipts may fall below the adopted revenue estimate by as much as \$2.5 million. As an initial response to this potential shortfall, actions are recommended in the 2008-2009 Annual Report to reduce the revenue estimate by \$0.4 million, a portion of which (\$0.2 million) is a necessary technical correction while \$0.2 million would be offset by a reduction in the Non-Personal/Equipment appropriation. Additional rebalancing actions are expected to be brought forward for City Council consideration in November 2009 and will include further reductions in positions funded by Building fees and the Non-Personal/Equipment budget. The Building Fee Program Reserve, which will total \$1.45 million after the 2008-2009 Annual Report reconciliation, also remains available to address potential revenue shortfalls.

Through August, Fire Permit collections of \$1.4 million were tracking approximately 19% below estimated levels and 15% below the prior year receipts of \$1.6 million. Development-related collections of \$522,000 are 24% below levels received through August 2008, and 31% below

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

estimated levels primarily due to lower than anticipated plan check activities. Through August, plan check revenue of \$236,000 was tracking 27% below the estimate of \$325,000 and the prior year level of \$325,000. As development activities are well below anticipated levels, recommendations are being brought forward as part of the 2008-2009 Annual Report including a \$470,000 downward adjustment to revenue, offset by reductions to budgeted costs (\$100,000), and use of the Fire Fee Program Reserve (\$370,000). At this time, the Fire Department projects that it will end the year below budgeted revenue levels. As with the Building Fee Program, the Administration plans to bring forward rebalancing actions in the Fire Fee Program in November 2009 to align projected revenues and expenditures.

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Revenue from Local Agencies</b>	<b>\$ 50,722,734</b>	<b>\$ 1,469,919</b>	<b>\$ 1,754,838</b>

This category includes reimbursement from the Redevelopment Agency for City services, grants from various agencies, reimbursement for fire suppression services in unincorporated County pockets, and reimbursement for emergency medical services. Revenues through August of \$1.5 million were below the prior year level of \$1.8 million due to differences in the timing of payments and budgeted reimbursements.

The budgeted reimbursements from the San Jose Redevelopment Agency total \$20.5 million for City support services and an additional \$14.7 million for the Convention Center debt service payments. Through August, the City has received \$0.7 million from the Redevelopment Agency to reimburse the City for eligible expenditures, which is above the prior year level of \$0.3 million due to the timing of payments. At this point, no loss in reimbursements is assumed in the City's budget as a result of the significant budget issues facing the Redevelopment Agency. The 2009-2010 budget for the Redevelopment Agency is expected to be brought forward for City Council consideration in December 2009 and any resulting impacts on City reimbursements that require rebalancing actions will be brought forward accordingly.

At this early point in the fiscal year, revenues in this category are expected to end the year close to the budgeted estimates.

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Departmental Charges</b>	<b>\$ 30,438,723</b>	<b>\$ 4,104,312</b>	<b>\$ 6,048,356</b>

Through August, Departmental Charges revenues of \$4.1 million were tracking 32.1% below the 2008-2009 collection level of \$6.0 million. However, to meet the modified budget estimate of \$30.4 million, growth of 11.6% is needed. The largest declines were experienced in the Planning, Public Works, and Parks, Recreation and Neighborhood Services Departmental Fees as

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

discussed below. Based on the continued slowdown in development activity, revenue in this category is currently expected to fall below the budgeted estimate. The Administration plans to bring forward a rebalancing plan for the Development Fee Programs in November 2009 to reflect the lower revenue collections.

Planning fee revenue of \$0.4 million was 35% below the prior year collection level of \$1.0 million. The modified budget estimate of \$4.0 million allows for a drop of only 7.2%. Similar to the Building Permits activity, collections in this category have been tracking well below expectations from the beginning of the fiscal year and are currently projected to fall below the budgeted estimate by approximately \$1.5 million. To begin addressing this lower collection level, the 2008-2009 Annual Report includes actions to reduce the revenue estimate by \$67,000, offset by reductions to overtime and non-personal/equipment. As discussed above, additional rebalancing actions are expected to be brought forward for City Council consideration in November 2009. This plan will include a proposed reduction to the revenue estimate and corresponding reductions in positions that support the Planning Fee Program and the Non-Personal/Equipment appropriation.

Public Works revenues through August of \$0.6 million were 38% below the prior year level of \$1.0 million. To meet the 2009-2010 budget estimate of \$5.6 million, collections can decline 12.8% over the prior year. With the significant slowdown in development activity, collections in this category are tracking to end the year below the budgeted estimate by approximately \$1.1 million. The rebalancing plan for this program that will be brought forward in November is expected to include shifting employees from the Public Works Fee Program to the capital program to support various capital projects under development.

Collections in the Parks, Recreation and Neighborhood Services fee program of \$1.9 million through August were tracking well below the \$3.0 million collection through the same period last year and the budgeted estimate. This lower collection level was due primarily to variances in the Family Camp and Fee Activity categories. The majority of the Family Camp revenue of \$643,000 had not yet been reflected in the revenue figures through August. Once those revenues are included, the Family Camp category will be tracking slightly above the budgeted estimate. Collections in the Fee Activity category are being analyzed to determine the cause of the lower receipts. It should be noted that lower Fee Activity revenue collections are generally offset by Fee Activity expenditure savings. On an overall basis, the Parks, Recreation and Neighborhood Services fees will be closely monitored this year to ensure that the new Pricing and Revenue Strategy implemented this year is meeting its targets.

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND REVENUES (Cont'd.)**

Revenue	2009-2010 Estimate	YTD Actual	Prior YTD Collections
<b>Transfers and Reimbursements</b>	<b>\$ 83,492,331</b>	<b>\$ 10,451,852</b>	<b>\$ 12,045,064</b>

This category includes overhead reimbursements from operating and capital funds, transfers, and other reimbursements. Transfers and Reimbursement collections of \$10.5 million through August were tracking below the prior year level of \$12.0 million due to lower budgeted transfers from other funds and the timing of payments.

Overall, collections in the Transfers and Reimbursements category are expected to meet or exceed budgeted estimates by year-end based on higher overhead reimbursements from capital funds. While the operating overhead reimbursements are typically received at the Adopted Budget level, the capital overhead reimbursements are received based on actual capital expenditures. These reimbursements are currently tracking slightly above anticipated levels based on activity through August.

**EXPENDITURES**

Through August, General Fund expenditures of \$116.0 million were 21.0% below the prior year level of \$146.9 million. Encumbrances of \$43.1 million were 31.5% below the prior year level of \$62.9 million. Expenditures and encumbrances (\$159.1 million) through August constitute 17.6% of the total 2009-2010 revised budgeted uses of funds (\$905.5 million, excluding reserves). On an overall basis, cumulative departmental and non-departmental expenditures are tracking approximately 5.4% above budgeted levels.

Many departments are currently experiencing higher than budgeted personal services expenditures. This is primarily due to the employment placement process where employees at higher salary levels were placed into vacant positions budgeted at a lower level or into positions previously held by lower step employees and the historically low number of vacant positions in the organization (as of September 1, 2009, there were 225 positions vacant city-wide; 126 positions in the General Fund). A certain level of vacancies is assumed in the development of the budget for each department and if there are insufficient vacancies to meet this budgeted vacancy factor, departments can over-expend their Personal Services appropriations. Departments will be directed to absorb these additional costs to the extent possible through savings from normal employee turnover, overtime controls, and/or identifying potential offsets through non-personal/equipment appropriation savings. However, additional funding may need to be distributed to some departments by the end of the fiscal year to prevent appropriation overruns. In the 2008-2009 Annual Report, a budget action is recommended to increase the Vacancy/Filled Position Elimination Impacts Reserve from \$316,000 to \$1 million to address this potential cost. Through proactive cost management, the Administration will attempt to retain as much of this \$1.0 million as possible for potential use in the 2010-2011 budget process.

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND EXPENDITURES**

Department	2009-2010 Budget	YTD Actual	Prior YTD Actual
<b>Police</b>	<b>\$ 298,337,203</b>	<b>\$ 42,329,563</b>	<b>\$ 39,393,579</b>

On an overall basis, Police Department expenditures appear to be tracking close to estimated levels. Personal Services expenditures of \$40.5 million tracked slightly above anticipated levels (14.7% compared to the par of 14.6%). Total salaries and benefits expenditures were tracking below budgeted levels while overtime expenditures were exceeding estimates through August. It should be noted that the 2008-2009 Annual Report includes a \$1.3 million downward adjustment to the Police Department's Personal Services appropriation to spread salary and benefit reductions related to furlough/reduced work week participation and employee concessions in the 2009-2010 Adopted Budget. Factoring in this adjustment, salaries and benefits expenditures are still tracking within estimated levels. Overtime expenditures of \$2.2 million through August, however, tracked above anticipated levels with 19.9% expended. The higher overtime expenditure level was due, in part, to automated payouts for staff with compensatory time over Fair Labor Standards Act (FLSA) levels (240 hours for non-sworn and 480 for sworn personnel) that were implemented at the beginning of 2008-2009. These payouts totaled \$467,119 through August. Active management of these overtime budget is necessary to ensure overall Personal Services expenditures will remain within budgeted levels.

The Police Department has 1,392 authorized sworn staff and graduated 40 Police recruits from the January 2009 Academy, with the officers street-ready by October 2009. Based on anticipated sworn vacancies, the Department hired 27 Police recruits for the July 2009 Recruit Academy and 26 recruits were still in the academy as of August 2009. Currently, Police recruits fill all sworn vacancies and there are 9 overstrength sworn recruits available to fill vacancies as they occur. Once the 40 officers who graduated from the Academy in January become street ready (anticipated October 2009), 17 sworn positions (1.2%) will remain that are not filled with street-ready sworn personnel (not taking into account additional sworn separations).

The compensatory time balance at the end of August 2009 was 280,819 hours for sworn personnel. This represents a decrease of 1,987 hours (0.7%) from the July 2009 balance of 282,806, and a 38,149 hour increase (15.7%) compared to the August 2008 balance of 242,670. The increase in sworn compensatory time balances is attributed to a number of factors including responses to specific types of crimes which require immediate and intensive investigations, and the need to backfill for street-ready vacancies. At the direction of the City Manager, the Police Department is in the process of developing a proactive plan to implement measures to curb the levels of overtime and compensatory time accrued as well as to lower the current compensatory time liability to the City.

A total of \$6.1 million (25.8%) of the Department's Non-Personal/Equipment budget was expended or encumbered through August. Excluding the remaining balances for centrally-

**GENERAL FUND (Cont'd.)**

**KEY GENERAL FUND EXPENDITURES (Cont'd.)**

determined details, including electricity, gas, and vehicle operation and replacement, the Department has approximately \$7.0 million, or 29.6% of the non-centrally-determined appropriation, available for the remainder of the fiscal year. The Budget Office and the Department will monitor expenditures closely to ensure expenditures are within appropriated levels by year-end.

Department	2009-2010 Budget	YTD Actual	Prior YTD Actual
<b>Fire</b>	<b>\$ 155,176,416</b>	<b>\$ 23,600,516</b>	<b>\$ 23,192,835</b>

Overall, expenditures for the Fire Department were tracking within budgeted estimates through August, with 14.4% expended. Personal Services expenditures through August tracked within budgeted levels with \$21.4 million, or 14.5%, expended. Salary and benefit expenditures tracked slightly below par level while overtime expenditures tracked above estimated levels with \$2.4 million expended (18.3%). The higher overtime expenditure level is due to strike team deployments to fires at the Watsonville Fairgrounds and in Los Angeles National Park. In addition, the Department conducted two Fire Engineer academies at a cost of approximately \$495,000 in overtime from August through early September. Expenditures for salary and benefits through August tracked lower than anticipated levels due to the timing of budgeted activities. Two budgeted Firefighter Recruit academies are planned for October 2009 and April 2010, so these expenditures will occur later in the year. Additionally, the 2008-2009 Annual Report includes a \$181,000 downward adjustment to Fire's Personal Services appropriation to account for and appropriately spread salary and benefit savings related to furlough/reduced work week participation and employee concessions in the 2009-2010 Adopted Budget. Factoring in this anticipated budget adjustment and overtime activities that will occur after this reporting period, the Fire Department currently anticipates ending the year within the budgeted Personal Services allocation. The Fire Department's Non-Personal/Equipment budget of \$7.6 million was 29.1% expended or encumbered through August and is expected to end the year within the budgeted allocation.

Through August, the Fire Department was staffed with 231 filled Firefighter Paramedic positions (176 front-line, 5 Supervisors, and 50 support) compared to the 157 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. Paramedic accreditation is currently ongoing for the 30 Firefighters from the April 2009 Academy who graduated in August 2009. The Department projects it will have no issues maintaining the target staffing level of 157 front-line Firefighter Paramedics.

**CONTINGENCY RESERVE**

- The General Fund Contingency Reserve remains at \$30.7 million through August, with no revisions through the first two months of the fiscal year.

**OTHER FUNDS**

**Airport Funds**

On a fiscal year-to-date basis, the Norman Y. Mineta San José International Airport (SJC) has enplaned and deplaned 1.6 million passengers, a decrease of 16.4% from the figures reported through August of the prior year.

Year-to-date mail, freight and cargo totaled 17.2 million pounds, which represents a 32.9% decrease from 2008-2009. Traffic Operations (landings and takeoffs) trailed the prior year by 9.4%, Landed Weights by 16.4%, and Taxicab operations trailed last fiscal year by 28.3%. Passenger Facility Charge (PFC) revenues were 9.2% less than the prior year.

California destinations account for 41.4% of available seats into and out of Mineta San José International Airport. Destinations between the Pacific Coast and Denver account for an additional 41.3%.



<b>SJC Passengers</b>	<b>Aug. 2009</b>	<b>Aug. 2008</b>	<b>% Change</b>
Enplaned YTD	778,655	936,988	-16.9%
Deplaned YTD	788,092	938,025	-16.0%
<b>YTD Passengers</b>	<b>1,566,747</b>	<b>1,875,013</b>	<b>-16.4%</b>
Monthly Enplanements	385,742	470,412	-18.0%
Monthly Deplanements	391,136	468,289	-16.5%
<b>August</b>	<b>776,878</b>	<b>938,701</b>	<b>-17.2%</b>

The declines in passenger activity experienced at the San José Airport are also being felt at the Oakland Airport. On a regional basis for August 2009 (the most current data), total passenger activity is down by 5.7%. More specifically, that represents a drop in passenger traffic at Oakland of 17.9%, at San José, traffic dropped by 17.2% and at San Francisco, traffic actually increased by 0.8% from August 2008.

Given current trends, the 2009-2010 passenger activity projections for San José are being revised downward by 7% from 8.8 million passengers to 8.2 million passengers. This translates to a \$4.5 million reduction to revenues (landing fees, terminal rentals and parking and roadway) recommended as an 2008-2009 Annual Report adjustment that will be considered by the City Council on October 20, 2009. The projected revenue reductions in 2009-2010 can be offset by additional fund balance available at the end of 2008-2009. Airport staff will continue to monitor the impacts of the economy on the airline industry and report on activity and the resulting impact to revenues on an ongoing basis through the Monthly Financial Report, information memos and the budget process.

Airport expenditures are expected to remain at budgeted levels in 2009-2010. In 2008-2009, the Airport was able to generate significant savings through active cost management.



## **OTHER FUNDS (Cont'd.)**

### **Construction and Conveyance Tax Funds**

Construction and Conveyance Tax revenues are continuing to experience significant declines due to the national recession and decline of the financial market, which is affecting the local real estate market. Nearly 98% of the total C&C taxes are comprised of conveyance receipts, or property transfers, which are the main driver in this revenue category. In August, the number of property transfers for all types of residences increased by approximately 18% from the prior year, which may be a positive indicator for this revenue stream. This increase is likely due to the median home price for single family homes within the City, which has dropped significantly, thereby making homes more affordable. The median home price in August 2009 totaled \$485,000, down 13% from the August 2008 price of \$560,000. However, it has taken more time to sell these homes, with the average days-on-market increasing by 54% from 56 days in August 2008 to 86 days in August 2009.

The 2009-2010 Construction and Conveyance Tax estimate of \$20 million allows for a decline of 2% compared to 2008-2009 actual performance of \$20.5 million. Collections through August totaled \$2.1 million (11% of the 2009-2010 estimate), which represents a decline of 15% from the \$2.5 million collected through August 2008. In addition to these revenues, the City has since received September Conveyance Tax receipts totaling \$1.8 million. This amount is 10% lower than the September 2008 amount of \$2.0 million and would bring year-to-date collections down 12.1% from the prior year. With this decrease, Construction and Conveyance collections have now experienced decreases in 38 out of the last 41 months when compared to the same months in the prior year. As mentioned above, the 2009-2010 Adopted Budget was built on the assumption that collections had bottomed out and would only slightly decline into 2009-2010. However, through the first few months of the fiscal year, collections have experienced much sharper declines than originally anticipated. If collections continue to perform at this depressed level, a decrease to the 2009-2010 Construction and Conveyance Tax estimate will likely be recommended in the 2009-2010 Mid-Year Budget Review, which will be presented to the City Council on February 9, 2010.

### **Other Construction-Related Revenues**

Through August, permit valuation for residential, commercial, and industrial construction activity are below prior year levels. Residential activity has been slow, with the total construction of four units in August (and only two units in July for a total of six units to date), and is well below the number of units constructed in the same month last year (66 units). Commercial activity rose to an eight-month high with valuation for commercial permit activity at \$30.1 million in the month of August, though tracking lower than at this point last year (\$47.6 million). A superstructure permit was issued for *Hotel Sierra*, the seven-story, 160-room project on Headquarters Drive in North San José. Industrial activity fell to a five-and-a-half year low with valuation for industrial permit activity at \$2.5 million. This permit activity drives the revenue collection in several categories, including the Construction Excise Tax, the Building and

**OTHER FUNDS (Cont'd.)**

Structure Construction Tax, and the Residential Construction Tax, and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

Through August, actual receipts for the eight revenue sources monitored for this report totaled \$2.4 million, which represented a decrease of 40.7% from the \$4.0 million collected through the same period last year. While it is early in the fiscal year to make firm determinations, downward adjustments to several of these revenue categories may be necessary during 2009-2010 if current collection trends continue. These adjustments would be offset by rebalancing plans or the use of ending fund balance. Following is a discussion of the performance for the individual revenue categories:

- *Building and Structure Construction Tax* – Receipts through August totaled \$1.0 million, which is 12.7% of the 2009-2010 revenue estimate of \$8.0 million. This collection level is down from prior year collections (\$1.9 million) through August. It should be noted that collections in the first quarter of 2008-2009 reflected strong performance prior to the financial market collapse and this level of activity did not continue through the rest of the rest of the year. The budgeted estimate for this category represents an increase of 13.5% in 2009-2010 (valuation table change effective August 2009 actually increase the basis for these taxes 25-30%). It may be necessary to reduce this \$8.0 million revenue estimate during the year if current collection trends continue.
- *Construction Excise Tax* - Receipts of \$1.3 million through August dropped 24.4% from the \$1.8 million collected during the same period last year. It should be noted that collections in the first quarter of 2008-2009 reflected strong performance prior to the financial market collapse and this level of activity did not continue through the rest of the rest of the year. The budgeted estimate for this category allows for a drop of only 1.5% in 2009-2010 (valuation table change effective August 2009 actually increase the basis for these taxes 25-30%). It may be necessary to reduce this \$8.0 million revenue estimate during the year if current collection trends continue.
- *Residential Construction Taxes* – Receipts totaled \$3,000, which represented 3.1% of the current 2009-2010 estimate of \$100,000, and were down 83.0% from the fees received through the same period last year (\$18,000).
- *Municipal Water Service Connection Fees* – Receipts totaled \$8,000 through August, which represented 2.1% of the current 2009-2010 estimate of \$380,000. Because Municipal Water Service Connection Fees recover actual costs to install new services, this lower collection level is offset by lower costs.
- *Municipal Water Major Facilities Fees* – The 2009-2010 Adopted Budget revenue estimate totals \$100,000. No collections were received through August, compared to the \$237,000 collected through the same period last year.

**OTHER FUNDS (Cont'd.)**

- *Sanitary Sewer Fees* – Fees totaled \$8,000, which represents 1.6% of the current 2009-2010 estimate of \$500,000. This collection level was 67.9% below the fees collected through the same period last year (\$26,000).
- *Storm Drain Fees* – Storm Drain Fees totaled \$10,000, which represents 8.2% of the current 2009-2010 estimate of \$125,000. This collection level was 37.7% below the fees received through the same period last year (\$17,000).
- *North San José Traffic Impact Fee Fund* – No collections were received through August as a result of the slowdown in developer activity in the North San José area.

**Transient Occupancy Tax Fund**

Through August, Transient Occupancy Tax (TOT) collections of \$549,000 were tracking 43.2% below the prior year collection level of \$966,000 for the same period. This level of decline is significantly greater than the 14% drop built into the 2009-2010 Adopted Budget. It is assumed, however, that larger declines will be experienced in the first quarter of 2009-2010 as this quarter will be compared to a comparatively strong first quarter last fiscal year.

Over the course of 2008-2009, room rates and occupancy rates steadily declined, with occupancy rates at the 14 largest hotels averaging 54% and room rates averaging \$130. Through August 2009, data is only available for 13 of these hotels, with occupancy rates continuing to average 54% but room rates declining 12.3% to \$114.

The 2009-2010 allocations to the three recipient program categories (Convention and Cultural Affairs Fund, Convention and Visitors Bureau, Cultural Grants/Programs and Services) are recommended to be reduced in the 2008-2009 Annual Report, based on lower than anticipated 2008-2009 revenue receipts. Additional adjustments may be necessary if revenues fall below projected levels in 2009-2010.

TOT receipts will be closely monitored as the year progresses, and any necessary additional budget adjustments will be brought forward for City Council consideration.

**Convention and Cultural Affairs Fund**

The Convention and Cultural Affairs Fund accounts for Team San José's operation of the City's Convention Facilities. Beginning with fiscal year 2009-2010, Team San José is bringing revenues for food and beverage services in-house (previously Team San José received a fixed percentage of overall food sales). With this change, Team San José will be responsible for expenses related to food and beverage, but they anticipate the profit margin on food and beverage to exceed the percentage that was previously earned. In addition, Team San José will manage a concert series and Broadway shows in 2009-2010.

October 7, 2009

Subject: Bi-Monthly Financial Report for July/August 2009

Page 20

### **OTHER FUNDS (Cont'd.)**

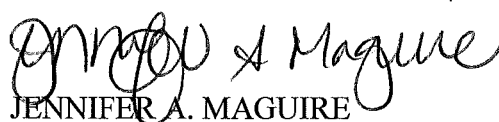
Through August, overall revenue and expenditure levels appear to be performing within estimated levels according to Team San José. However, the revenues and expenditures in this fund are economically sensitive, so the Convention Facilities operations must be carefully managed to ensure that the transfer of TOT revenues into this fund is sufficient to cover any operational shortfall and avoid any General Fund impact. Accordingly, the Budget Office will continue to work with Team San José, the Office of Economic Development, and the City's Finance Department to establish and monitor the appropriate financial indicators for this fund.

### **CONCLUSION**

The City continues to be deeply impacted by the current economic downturn. Several of the City's economically sensitive revenues continue to decline and, in some cases, rebalancing actions have been or will be brought forward for City Council consideration to ensure the fiscal health of the City.

The largest adjustment that has been brought forward to date is the \$10.7 million reduction to the Sales Tax estimate that is included in 2008-2009 Annual Report actions. This adjustment is necessary to account for the large declines experienced in the last two quarters of 2008-2009 that impacted the starting point for 2009-2010. Rebalancing plans for the Development Fee Programs are also expected to be brought forward in November 2009 to bring expenditures in line with the lower revenue projections. In addition, the Annual Report includes a recommendation to increase the Economic Uncertainty Reserve from \$4.5 million to \$10 million to offset a potential drop in General Fund revenues this fiscal year if revenues fall below current projections and budget rebalancing actions are necessary.

The administration will continue to very closely monitor economic conditions, the State's budget situation, any San Jose Redevelopment Agency budget balancing actions, the City's economically sensitive revenues, and expenditure levels, and bring forward budget recommendations as necessary. As always, staff will continue to report to the City Council any and all significant developments through this reporting process.



JENNIFER A. MAGUIRE

Budget Director