

2016-2017 ANNUAL REPORT
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GENERAL FUND YEAR-END PERFORMANCE

The actual ending fund balance of \$241.8 million exceeded the estimated ending fund balance level used in the development of the 2017-2018 Adopted Budget by \$24.6 million (0.9% of the 2016-2017 Modified Budget total sources and uses). However, once adjusted for clean-up actions recommended in this report associated with the close-out of 2016-2017, a true ending fund balance of \$7.7 million (0.3% of the 2016-2017 Modified Budget total sources and uses) remains in 2016-2017 and is available for allocation in 2017-2018. The elements of the Ending Fund Balance variance are illustrated in the following estimate to actual comparison chart.

General Fund Year-End Performance (\$000s)

Sources	Estimate	Budgetary Basis Actual	Variance
Beginning Fund Balance	255,207	253,903	(1,304)
Carryover Encumbrances	37,500	37,500	-
Liquidation of Carryover			
Encumbrances	1,000	2,258	1,258
<i>Subtotal</i>	293,707	293,661	(46)
Revenues	1,109,678	1,108,260	(1,418) ¹
Total Sources	1,403,385	1,401,921	(1,464)
Uses			
Expenditures	1,186,181	1,160,152	(26,029) ¹
Ending Fund Balance	217,204	241,769	24,565

¹ In 2016-2017, \$3.8 million in grant and reimbursement-related revenues and expenditures were not expected to be received in 2016-2017 and were rebudgeted to 2017-2018. This resulted in lower actual revenues and expenditures in 2016-2017, with no net impact to the General Fund. After factoring out the lower revenues and expenditures associated with these grants and reimbursements, the revenues variance actually resulted in a surplus of \$2.4 million (0.2%), rather than a shortfall of \$1.4 million, and the expenditures variance actually resulted in savings of \$22.2 million (1.6%), rather than savings of \$26.0 million.

Note: In the chart above, the General Fund excludes the Emergency Reserve Funds and Cash Reserve Fund, which are budgeted as separate funds and reflected separately in this document. In the 2016-2017 Comprehensive Annual Financial Report (CAFR), the Emergency Reserve Fund and Cash Reserve Fund will be displayed as part of the General Fund to comply with GASB 54 reporting requirements.

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A detailed analysis of the significant variances between the 2016-2017 Modified Budget and Budgetary Basis Actuals for revenues, expenditures, transfers, and reserves is provided in the following section. The variances for the Beginning Fund Balance and Liquidation of Carryover Encumbrances category are discussed in this section.

The actual 2016-2017 Beginning Fund Balance of \$253.9 million was \$1.3 million lower than the \$255.2 million estimate. This variance primarily reflects an accounting adjustment associated with a Successor Agency to the Redevelopment Agency payment received in a prior year that had been recorded in the General Fund; however, it was later determined that a portion of the payment (\$1.6 million) should have been booked in the General Purpose Parking Fund. This downward adjustment to the Beginning Fund Balance was partially offset by an increase of \$349,000 based on the final reconciliation of 2015-2016 that was completed after the production of the 2015-2016 Annual Report. The actual 2016-2017 Liquidation of Carryover Encumbrances was \$2.3 million and reflects encumbered appropriations liquidated by the Finance Department during the period between the release of audited 2015-2016 financial statements and the end of 2016-2017. Liquidation of prior year encumbrances results in a reduction in the obligations against the fund balance. These funds then become available for reappropriation. The actual liquidations in 2016-2017 of \$2.3 million were \$1.3 million above the estimate of \$1.0 million used in the development of the 2017-2018 Adopted Budget.

As noted on the chart on the previous page, after adjusting for \$3.8 million in grants and reimbursements that were not received or expended in 2016-2017, the final General Fund Ending Fund Balance represents a positive variance of \$24.6 million (0.9% of the 2016-2017 Modified Budget total sources and uses), which includes higher than estimated expenditures savings (\$22.2 million; 1.6%), slightly higher revenues (\$2.4 million; 0.2%), liquidation of carryover encumbrances (\$1.3 million), and a 2016-2017 Beginning Fund Balance correction (-\$1.3 million). After accounting for revenue and expenditure clean-up actions recommended in the Annual Report, including additional rebudgets, to close-out 2016-2017, \$7.7 million (0.3% of total sources and uses) in additional ending fund balance is available. The \$7.7 million positive fund balance variance is comprised of net additional revenues of \$1.06 million (0.1%), net expenditure savings of \$6.68 million (0.5%), and higher than estimated liquidation of prior year encumbrances of \$1.26 million, partially offset by a lower 2016-2017 Beginning Fund Balance (\$1.3 million).

Recommendations for the allocation of the additional 2016-2017 Ending Fund Balance are provided elsewhere in this document.

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The following table details actual 2016-2017 General Fund revenue collections as compared with the modified budget estimates:

**TABLE A
2016-2017 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000s)**

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	\$ 276,537	\$ 276,388	\$ (149)	(0.1%)
Sales Tax	211,896	207,695	(4,201)	(2.0%)
Transient Occupancy Tax	18,000	18,275	275	1.5%
Franchise Fees	49,817	49,641	(176)	(0.4%)
Utility Tax	99,049	100,786	1,737	1.8%
Telephone Line Tax	19,914	20,260	346	1.7%
Business Taxes	53,550	54,159	609	1.1%
Licenses and Permits	56,973	58,075	1,102	1.9%
Fines, Forfeitures, and Penalties	16,511	16,345	(166)	(1.0%)
Rev. from the Use of Money/Property	5,564	6,787	1,223	22.0%
Revenue from Local Agencies	28,530	27,717	(813)	(2.8%)
Revenue from the State of California	14,479	13,906	(573)	(4.0%)
Revenue from Federal Government	6,199	4,394	(1,805)	(29.1%)
Departmental Charges	43,807	44,864	1,057	2.4%
Other Revenue ¹	127,046	126,174	(872)	(0.7%)
Subtotal	1,027,872	1,025,466	(2,406)	(0.2%)
Overhead Reimbursements	38,725	39,248	523	1.4%
Transfers ¹	25,208	25,588	380	1.5%
Reimbursements for Services	17,873	17,958	85	0.5%
Subtotal	81,806	82,794	988	1.2%
TOTALS²	\$ 1,109,678	\$ 1,108,260	\$ (1,418)	(0.1%)

¹ The Other Revenue category includes \$7,766,000 from Commercial Paper proceeds associated with the Energy and Utility Conservation Measures Program that will be recorded as a Transfer in the Comprehensive Annual Financial Report (CAFR).

² Excludes Beginning Fund Balance.

The General Fund revenue performance for 2016-2017 is discussed in detail in this section. The 2016-2017 actual revenue receipts for each of the major revenue categories are compared to the modified budgets and any significant variances and resulting implications for current year revenue estimates are described. In addition, comparisons with prior fiscal year collection levels are included to indicate collection trends and to provide a historical perspective.

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As shown in Table A, total revenue received in the General Fund in 2016-2017 was \$1.11 billion. This collection level was below the 2016-2017 Modified Budget level by \$1.4 million, (0.1%). After adjusting for rebudgets included as part of the 2017-2018 Adopted Budget (\$3.8 million) and rebudgets recommended in this report (\$579,000), revenues for the over 450 accounts budgeted and monitored annually ended the year \$3.0 million, or 0.3% above the 2016-2017 budget level. This positive variance primarily reflects higher than expected Utility Taxes, Revenue from the Use of Money/Property, Licenses and Permits, and Departmental Charges revenues. Once adjusted for the Development Fee Programs, which ended the year above the estimate by \$1.6 million and is a reconciling item for the Development Fee Program Reserves, and other revenue-related adjustments required to close out 2016-2017 (\$347,000), there was a net positive revenue variance of \$1.1 million (0.1%) for 2016-2017.

The 2016-2017 collection level of \$1.11 billion was up \$52.7 million (5.0%) from the actual 2016-2017 collections (\$1.06 billion). Several revenue categories experienced growth in 2016-2017 compared to the prior year, including: Business Taxes; Property Tax; Revenue from Local Agencies; Transient Occupancy Tax; and Utility Tax. These increases were partially offset by declines in Sales Tax and Revenue from the Federal Government.

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

Property Tax

Property Tax	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Secured Property Tax	252,472,000	252,330,364	(141,636)	(0.06%)
Unsecured	13,408,000	13,400,751	(7,249)	(0.05%)
SB 813 Property Tax	6,822,000	6,848,965	26,965	0.40%
Airplane In-Lieu Tax	2,835,000	2,836,027	1,027	0.04%
Homeowner's Property Tax Relief	1,000,000	972,326	(27,674)	(2.77%)
Total	276,537,000	276,388,433	(148,567)	(0.05%)

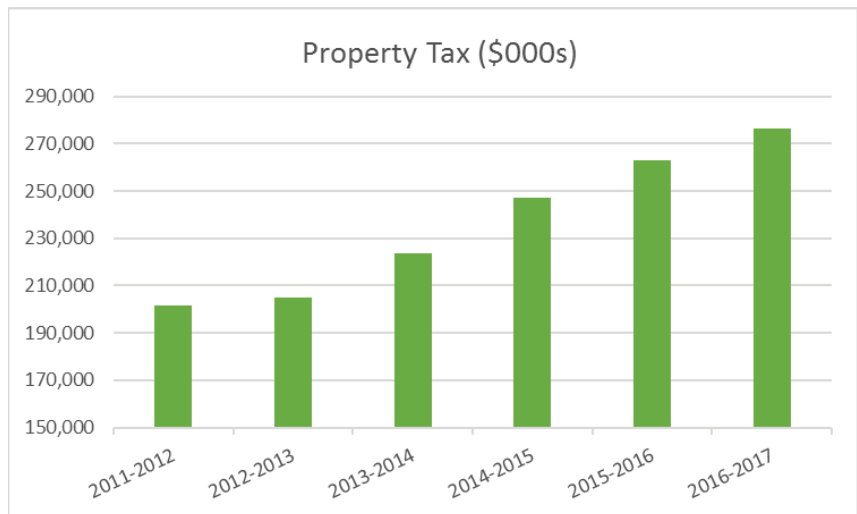
The Property Tax revenue category includes Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax, Airplane In-Lieu Tax, and Homeowner's Property Tax Relief (HOPTR). Property Tax receipts for the 2016-2017 fiscal year totaled \$276.4 million. This collection level was \$149,000 (0.05%) below the budgeted estimate of \$276.5 million, and represented an increase of 5.1% from 2015-2016 actuals of \$262.95 million.

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Property Tax

Secured Property Tax receipts were the largest source of revenue in this category (\$252.3 million), which came in 0.06% (\$142,000) below the 2016-2017 Modified Budget estimate of \$252.5 million. This represents growth of 5.3% from 2015-2016, and includes a payment of \$4.4 million to the City as a result of excess Educational Revenue Augmentation Fund (ERAF) revenues.



The increase in Secured Property Tax receipts is driven by two factors: the change in the California Consumer Price Index (CCPI) and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CPI adjustment for the 2016-2017 tax roll was an increase of 2.0%. With the continued recovery in the real estate market, approximately 8,250 of the properties in San José that were valued at less than their purchase price in 2015-2016 were adjusted upwards in 2016-2017, restoring \$771.0 million in assessed value. On a County-wide basis, the 2016-2017 roll growth was primarily attributed to changes in ownership (48.9%), new construction (20.3%), and change in the CCPI (8.7%).

In the Unsecured Property Tax category, collections of \$13.4 million were at the budgeted estimate, but 3.5% below prior year collections of \$13.9 million.

The SB 813 Property Tax component represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Assessor formally revalues the property. In 2016-2017, receipts of \$6.8 million were fairly consistent with the budgeted estimate and exceeded the prior year collection level of \$6.2 million. The performance in this category has stabilized the past few years after many years of volatility due to changes in the housing market, a backlog of adjustments that has now been addressed, and a change in methodology for the SB 813 distribution.

With overall Property Tax receipts in 2016-2017 in very close alignment with expectations, no adjustments to the 2017-2018 Property Tax revenue estimates are anticipated based on 2016-2017 performance and initial information from the County of Santa Clara. These revenues will continue to be monitored and discussed with representatives from the offices of the County Assessor, the County Controller-Treasurer, and the County Tax Collector for any updated information that may affect collection levels.

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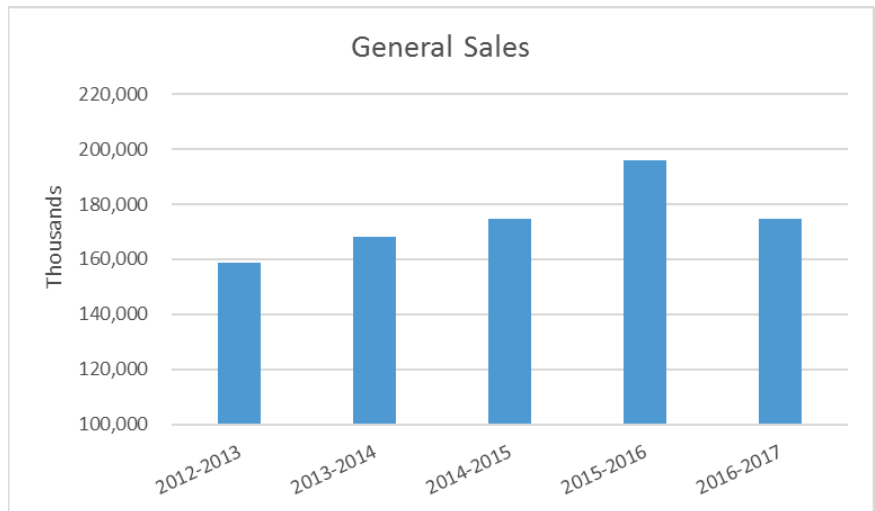
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Sales Tax

Sales Tax Category	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
General Sales Tax	180,004,553	174,697,482	(5,307,071)	(2.95%)
Local Sales Tax	26,000,000	26,519,744	519,744	2.00%
Prop 172 Sales Tax	5,891,000	6,477,807	586,807	9.96%
Total	211,895,553	207,695,033	(4,200,520)	(1.98%)

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. Overall, Sales Tax collections in 2016-2017 of \$207.7 million were \$4.2 million, or 2.0% below the 2016-2017 Modified Budget of \$211.9 million and well below the estimate included in the 2016-2017 Adopted Budget of \$224.7 million. Although this collection level reflects a 2.9% (\$5.9 million) increase from the prior year (\$201.8 million), a higher collection level was anticipated in 2016-2017 due to the implementation of the voter-approved ¼ cent Local Sales Tax, which was approved in June 2016 and implemented in October 2016. Following is a discussion of the three Sales Tax components:

- General Sales Tax** – In the General Sales Tax category, collections of \$174.7 million fell short of the 2016-2017 Modified Budget level of \$180.0 million by \$5.3 million or 3.0%. This collection level reflects a \$21.3 million (10.9%) decline from the 2015-2016 collection level of \$196.0 million. This decline is due to lower actual quarterly Sales Tax receipts as well as the impact of one-time adjustments from the prior year. In 2015-



2016, one-time funding was received due to wind down of “triple flip”. The final true-up payment associated with the triple flip wind down was made in August 2016 and accrued to 2015-2016. This true-up payment resulted in one-time funding of \$12.0 million in 2015-2016.

The 2016-2017 General Sales Tax figure of \$174.7 million reflects lower actual receipts in each quarter of 2016-2017 when compared to the same quarter in the prior year, including a decline of 9.4% (first quarter), a decline of 3.1% (second quarter), a decline of 7.4% (third quarter), and an estimated decline of 5.0% (fourth quarter). Because a three-month lag exists between the period of sales tax activity and when the City receives its quarterly Sales Tax allocation, the fourth quarter (April through June) is accrued to the following fiscal year based on estimated performance. Actual Sales Tax results

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Sales Tax

for the fourth quarter have subsequently become available and reflect a decline of 3.7%. Because the decline in the fourth quarter was slightly less than the decline assumed in the 2016-2017 accrual, the additional revenue generated from this difference will be reflected in 2017-2018 (\$0.6 million).

As has been reported in the 2017-2018 Adopted Budget, information on actual receipts for the first and second quarters of General Sales Tax was received in December 2016 and March 2017, respectively. In the first quarter (July through September activity), receipts were down 9.4% from the same quarter in the prior year. This large decline was primarily driven by a correction associated with jet fuel sales tax revenues that were allocated to San José in 2015-2016 in error and therefore reversed in the first quarter of 2016-2017. Factoring out the correction, receipts were down 3.8% from the same quarter in the prior year. This primarily reflected declines in the Business-to-Business (-8.6%) and General Retail (-0.6%) economic sectors, partially offset by an increase to the Food Products (5.0%) economic sector. In the second quarter (October through December 2016 activity), receipts were down 3.1% from the same quarter in 2015-2016. This primarily reflected declines in the Business-to-Business (-8.4%), General Retail (-4.0%), and Construction (-3.8%) economic sectors, partially offset by an increase in the Food Products (4.0%) economic sector.

The City's Sales Tax consultant, MuniServices, LLC, has provided economic performance data for the third quarter of 2016-2017, as displayed in the following chart. This 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, receipts dropped 4.0% from the same period in the prior fiscal year.

**Sales Tax Revenue Economic Performance
January – March 2017**

Economic Sector	% of Total Revenue	% Change from January – March 2016
General Retail	24.6%	(2.6%)
Transportation	23.5%	5.1%
Business-to-Business	21.0%	(19.4%)
Food Products	19.0%	5.2%
Construction	11.1%	(5.6%)
Miscellaneous	0.8%	14.2%
Total	100.0%	(4.0%)

In the fourth quarter (April through June 2017 activity), Sales Tax receipts were down 3.7% from the same quarter in 2015-2016. Details by economic sector for the last quarter's performance, however, are not yet available.

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When the 2017-2018 Adopted Budget was developed, the General Sales Tax estimate of \$187.0 million reflected growth of 3.9% from the 2016-2017 estimate of \$180.0 million. This reflected underlying quarterly growth of 3.0% as well as net upward adjustments of \$1.5 million to account for prior year accrual adjustments and to reverse a large one-time negative adjustment associated with the jet fuel correction that occurred in 2016-2017. However, because General Sales Tax ended the year below estimated levels, the 2016-2017 Annual Report includes a recommendation to decrease the 2017-2018 estimate by \$4.0 million (from \$187.0 million to \$183.0 million), which reflects approximately 3% underlying growth from the 2016-2017 actual collection level with one-time adjustments to account for the additional revenue recognized in 2017-2018 from the under-accrual of revenue in 2016-2017.

- **Local Sales Tax** – In 2016-2017, Local Sales Tax revenues totaled \$26.5 million, exceeding the Modified Budget estimate of \$26.0 million by \$520,000, or 2.0%. In June 2016, San José voters approved a ¼ cent sales tax, which began implementation in October 2016. The Adopted 2016-2017 revenue estimate for Local Sales Tax totaled \$30.0 million and assumed three quarters of activity in the first year due to the October 2016 implementation date (the annualized amount was originally estimated at \$40 million). Based on performance during the first two quarters, \$8.7 million (October – December 2016 activity) and \$8.9 million (January – March 2017 activity), the 2016-2017 revenue estimate was lowered from \$30.0 million to \$26.0 million as part of the Approval of Various Budget Actions for Fiscal Year 2016-2017 memorandum, which was approved by the City Council on June 20, 2017.

The revenue for 2016-2017 of \$26.5 million reflects actual performance for the first two quarters (\$8.7 million and \$8.9 million) and estimated receipts of \$8.9 million for the final quarter. As with the General Sales Tax, a three-month lag exists between the period of sales tax activity and when the City receives its quarterly Local Sales Tax allocation and, as a result, the fourth quarter (April through June) is accrued to the following fiscal year based on estimated performance. Actual Local Sales Tax results for the final quarter have subsequently become available and totaled \$10.2 million. Because this amount is above the \$8.9 million assumed in the 2016-2017 accrual, the additional revenue generated from this difference will be reflected in 2017-2018 (\$1.3 million). While detailed information is not yet available on the performance for the most recent quarter, the Administration will be working with the City's Sales Tax consultant, MuniServices to understand the drivers for the higher collection level.

- **Proposition 172 Half-Cent Sales Tax** – Receipts of \$6.5 million were above (10.0%) the budgeted estimate of \$5.9 million, and were \$724,000, or 12.6% above the 2015-2016 collection level of \$5.75 million. This performance reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

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Transient Occupancy Tax

In 2016-2017, receipts of \$18.3 million for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) were slightly above (1.5%) the 2016-2017 Modified Budget estimate of \$18.0 million, and 10.3% above 2015-2016 TOT receipts of \$16.6 million. This performance marks a new high, continuing the strong year-over-year growth that has been experienced for the last several years (24.1% growth in 2014-2015, 12.4% growth in 2015-2016, and 10.3% growth this year). The decelerating growth is attributable to increased room rates coupled with flat occupancy rates. In 2016-2017, the average room rate for the City's 13 largest hotels increased by \$14 (from \$196 to \$210) while the average occupancy for these same hotels essentially remained the same (76.6% in 2015-2016 and to 76.5% in 2016-2017). Moving forward, the growth rates are expected to continue to moderate from the high levels experienced in recent years.

The Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, directed the growth in General Fund Transient Occupancy Tax receipts over the 2013-2014 actual collection level be set aside in a General Fund Cultural Facilities Capital Maintenance Reserve. The 2017-2018 Adopted Budget included actions to 1) discontinue this practice and eliminate the portion of the reserve that is supported by the growth in TOT in 2017-2018; and 2) establish an ongoing allocation to the General Fund Cultural Facilities Capital Maintenance Reserve of \$450,000. This action did not impact the existing reserve, which was expected to increase by the end of 2016-2017 based on actual TOT receipts in that year. As the final reconciling item, a budget action is recommended in this report to allocate the additional 2016-2017 TOT revenues above the estimate to this reserve (\$274,899).

The 2017-2018 Adopted Budget estimate of \$18.7 million was built assuming approximately 4% growth in TOT collections over 2016-2017 estimated receipts of \$18.0 million. Given the slightly higher receipts in 2016-2017, growth of approximately 2.4% above 2016-2017 collections is needed in 2017-2018 to meet this budgeted estimate.

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Franchise Fees

Franchise Fees	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Electric Franchise Fee	21,313,200	21,682,625	369,425	1.73%
Gas Franchise Fee	5,184,000	4,789,146	(394,854)	(7.62%)
Commercial Solid Waste Franchise Fee	11,368,611	11,358,587	(10,024)	(0.09%)
Cable Franchise Fee	10,608,000	10,432,426	(175,574)	(1.66%)
Tow Franchise Fee	1,000,000	1,051,456	51,456	5.15%
Nitrogen Franchise Fee	62,000	60,844	(1,156)	(1.86%)
Great Oaks Water Franchise Fee	281,000	266,467	(14,533)	(5.17%)
Total	49,816,811	49,641,551	(175,260)	0.035%

Franchise Fee collections of \$49.6 million were slightly below (0.35%) the 2016-2017 Modified Budget level of \$49.8 million and were \$693,000, or 1.4%, above the 2015-2016 collection level of \$48.9 million.

Utility Tax

Utility Tax	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Electricity Utility Tax	45,878,000	45,977,574	99,574	0.22%
Gas Utility Tax	10,400,000	11,114,796	714,796	6.87%
Water Utility Tax	14,160,000	14,783,027	623,027	4.40%
Telephone Utility Tax	28,611,500	28,910,839	299,339	1.05%
Total	99,049,500	100,786,236	1,736,736	1.75%

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$100.8 million were 1.75% above the 2016-2017 Modified Budget level and \$7.4 million, or 7.9%, above the 2015-2016 actual level of \$93.4 million. Following is a discussion of the major variances in this category.

- *Gas Utility Tax* – Receipts in this category of \$11.1 million were 6.9% above the modified budget level of \$10.4 million and 25.0% (\$2.2 million) above the 2015-2016 collection level of \$8.9 million. This increase in revenue primarily reflects higher rates and increased consumption.
- *Water Utility Tax* – Receipts in this category of \$14.8 million were 4.4% above the modified budget level of \$14.2 million and 20.35% (\$2.5 million) above the prior year actual collection level of \$12.3 million. The higher collection level is primarily due to the water rate increases and changing consumption levels as a result of the drought being declared over.

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Telephone Line Tax

In 2016-2017, Telephone Line Tax collections of \$20.3 million were \$346,000 (1.7%) above the budgeted estimate of \$19.9 million and were approximately 1% above the 2015-2016 collection level of \$20.1 million.

Business Taxes

Business Tax	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Cardroom Tax	18,100,000	18,483,521	383,521	2.12%
Business Tax	13,000,000	13,047,014	47,014	0.36%
Disposal Facility Tax	12,300,000	12,156,884	(143,116)	(1.16%)
Marijuana Business Tax	10,150,000	10,471,208	321,208	3.16%
Total	53,550,000	54,158,627	608,627	1.14%

Revenues in the Business Taxes category include the Cardroom Tax, Business Tax, Disposal Facility Tax, and Marijuana Business Tax. Overall, collections of \$54.2 million were 1.1% above the 2016-2017 Modified Budget estimate of \$53.6 million, and 6.5% (\$3.3 million) above the 2015-2016 collection level of \$50.9 million. Following is a discussion of the major variances in the Business Tax category:

- **General Business Tax** - Collections in this category of \$13.0 million ended the year at the Modified Budget estimate and 10.2% above the 2015-2016 collection level of \$11.8 million. The higher collection level is attributed to increased new business tax accounts created in 2016-2017.
- **Marijuana Business Tax** – Collections of \$10.5 million were 3.2% (\$321,000) above the 2016-2017 Modified Budget level of \$10.15 million and 18.0% (\$1.6 million) above the 2015-2016 collection of \$8.9 million. The substantial increase in collections from 2015-2016 to 2016-2017 results from the market stabilizing after the 2014-2015 Code Enforcement closures of dozens of medical marijuana dispensaries. The collectives that are currently open and registered with the City have absorbed the customers whose collectives were shut down during the regulatory process.

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Licenses and Permits

Licenses and Permits	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Building Permits	31,500,000	32,061,278	561,278	1.78%
Fire Permits	12,611,000	12,747,657	136,657	1.08%
Other Licenses and Permits	12,861,553	13,265,944	404,391	3.14%
Total	56,972,553	58,074,879	1,102,326	1.93%

Revenues in the Licenses and Permits category include the Building Permits, Fire Permits, and various other licenses and permits. Overall, Licenses and Permits collections of \$58.1 million were 1.9% (\$1.1 million) above the 2016-2017 Modified Budget level of \$57.0 million and 8.0% above (\$4.3 million) the 2015-2016 collection level of \$53.8 million. Both the Building and Fire Development Fee Programs continued the solid performance experienced over the past few years with receipts exceeding the budgeted estimates and the prior year collection levels. Below is a discussion of the Building Permits and Fire Permits revenue categories.

Building Permits – Receipts of \$32.1 million ended the year 1.8% (\$561,000) above the Modified Budget level of \$31.5 million, and 5.1% (\$1.6 million) above the prior year’s level of \$30.5 million. As identified in previous Bi-Monthly Financial Reports and the 2016-2017 Mid-Year Budget Review, Building Permit revenue throughout 2016-2017 was above anticipated levels due to a continued high level of development activity in the residential and commercial land use categories. In recognition of increased permit revenues, the 2016-2017 budget estimate was increased by \$4.0 million (from \$27.5 million to \$31.5 million) in the Approval of Various Budget Actions For Fiscal Year 2016-2017 memorandum, which was approved by the City Council on June 20, 2017.

The total valuation of projects submitted in 2016-2017 was \$1.9 billion, 24.3% above the \$1.5 billion valuation of projects that were received in 2015-2016. Total valuation for all land use categories ended the year above estimates. Residential valuation of \$599.1 million in 2016-2017 was higher than the 2015-2016 level of \$440.9 million. A total of 2,712 new residential units received permits in 2016-2017, which was above 2015-2016 actuals of 1,692 units. Commercial valuation of \$702.6 million tracked above the prior year level of \$474.0 million. However, industrial activity of \$574.5 million was lower than last year’s level of \$594.7 million. Notable activity that took place in 2016-2017 include: Building permits for Silvery Towers, a 640 unit condominium and loft high rise on St. James Street; Hanover Cannery Park Apartment Building, a 403 unit apartment complex on Taylor Street; Ohlone Block C Apartment Building; a 268 unit apartment building on Sunol Street; Marshall Squares Apartment Building, a 190 unit apartment building on North 1st Street; Balbach Condos, a 101 unit condominium complex on Balbach Street; and two Hyatt Hotels, a 7-story building on Karina Court and a 5-story building on North 1st Street.

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Licenses and Permits

A recommendation to increase the Building Development Fee Program Earmarked Reserve by \$2.2 million is included as part of the 2016-2017 Annual Report. This increase was derived from a combination of additional revenues of \$613,000, expenditure savings of \$1.4 million, and interest earnings attributed to the program of \$205,000. This increase to the Reserve is partially offset by a rebudget of \$20,000 for temporary analytical staff funding related to the integrated permit system implementation. With these recommended adjustments, the net increase to the Building Development Fee Program Earmarked Reserve will be \$2.2 million, bringing the Reserve from \$18.1 million to \$20.3 million.

When the 2017-2018 Adopted Budget was developed, it was assumed that base collections would reach \$28.5 million, and because of fee adjustments, increase to \$32.5 million. To meet the budgeted estimates, receipts must increase by approximately 1% in 2017-2018 from 2016-2017 levels.

- **Fire Permits** – Fire Fee receipts of \$12.7 million slightly exceeded the 2016-2017 Modified Budget estimate of \$12.6 million and were 8.1% above the prior year’s revenue of \$11.8 million. Following is a discussion of Development and Non-Development revenues in this category.

Development revenues from Architectural Plan Check and Inspection, Engineering Systems (Alarms and Sprinklers) Permits and Inspections, and miscellaneous revenues ended the year at \$8.6 million, which was 4.0% (\$331,000) above the 2016-2017 Modified Budget estimate of \$8.3 million. The excess revenues along with expenditure savings are set aside in the Fire Development Fee Program Reserve, and the Annual Report includes actions to allocate \$831,000 to the Reserve from these sources. This increase, however, is offset by a negative Reserve rebudget of \$1.0 million due to a double count of new revenue in the 2017-2018 Adopted Budget. With these actions, the Fire Development Fee Program Earmarked Reserve is recommended to be decreased from \$8.2 million to \$8.0 million.

Non-Development revenue of \$4.1 million from Annual Renewable Permits, Non-Renewable Permits and Inspections, and other miscellaneous activities were below the 2016-2017 Modified Budget estimate of \$4.3 million. Annual renewable permits revenue of \$3.5 million, which includes a bad debt reserve adjustment of \$874,000, was \$266,000 (7.1%) below estimated levels and \$470,000 (11.9%) lower than the collections in the prior year. Combined revenues of \$617,000 from non-renewable permit and other inspection activities (such as after-hours inspections for fire regulatory enforcement and hazardous materials) and permits for pyrotechnics, tents, canopies, and temporary membrane structures were \$67,000 (12.2%) higher than budgeted levels of \$550,000 and \$57,000 (10.2%) higher than last year’s year-end revenue of \$560,000.

The 2017-2018 Adopted Budget estimate of \$13.5 million was built based on a sustained level of activity from the 2016-2017 year-end estimates along with fee adjustments in both Development and Non-Development programs.

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GENERAL FUND REVENUE PERFORMANCE

Fines, Forfeitures and Penalties

Fines, Forfeitures and Penalties	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Parking Fines	11,550,000	11,811,603	261,603	2.26%
Vehicle Code Fines	1,240,000	1,068,353	(171,647)	(13.84%)
Administrative Citation Fines	175,000	129,900	(45,100)	(25.77%)
False Alarm Fines	40,000	40,975	975	2.44%
Other Fines	700,000	1,051,768	351,768	50.25%
Penalties	2,805,600	2,242,134	(563,466)	(20.08%)
Total	16,510,600	16,344,733	(165,867)	(1.00%)

The primary sources of revenue in the Fines, Forfeitures, and Penalties revenue category are Parking Fines, Vehicle Code Fines, Administrative Citation Fines, and Other Fines and Penalties. Collections of \$16.3 million in this category were slightly below (1.0%) the 2016-2017 Modified Budget level of \$16.5 million, but were 1.6% (\$254,000) above the prior year collection level of \$16.1 million.

Parking fines, the largest component of this revenue category, ended the year at \$11.8 million. This collection level was 2.3% (\$262,000) above the Modified Budget level of \$11.55 million. Vehicle Code Fines, however, ended the year at \$1.1 million, which was 13.8% below the Modified Budget level of \$1.2 million and 30.4% below the 2015-2016 collections of \$1.5 million. The remaining categories ended the year at \$3.5 million, which was 6.9% below the Modified Budget estimate of \$3.7 million, but were \$160,000 (4.9%) above the prior year collections of \$3.3 million.

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Revenue from Use of Money and Property

Use of Money and Property	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Interest Earnings	1,990,000	2,246,722	256,722	12.90%
Use of Property	3,073,935	3,570,459	496,524	16.15%
Subrogation Recovery	500,000	969,625	469,625	93.93%
Total	5,563,935	6,786,806	1,222,871	21.98%

The Use of Money and Property category includes interest income earned in the General Fund, rental income from various City properties, and subrogation recovery revenues. Collections of \$6.8 million ended the year 22.0% above the Modified Budget level of \$5.6 million and 33.1% (\$1.7 million) above the prior year collection level of \$5.1 million.

Rental income of \$3.6 million was 16.2% above the budgeted estimate of \$3.1 million and 22.5% above prior year collections of \$2.9 million. Interest income of \$2.2 million was above budgeted levels of \$2.0 million, and above the prior year levels of \$1.3 million; however, revenues continue to track below historic levels prior to the implementation of the prefunding of retirement contributions and the significant decline in interest rates. Subrogation recovery revenues to \$970,000 ended the year above the budgeted estimate of \$500,000 and the prior year collection level of \$884,000.

Revenue from Local Agencies

Revenue from Local Agencies	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Successor Agency	15,261,000	15,261,000	0	0.00%
Central Fire District	6,173,000	6,469,653	296,653	4.81%
Local Agency Grants	7,095,732	5,985,988	(1,109,744)	(15.64%)
Total	28,529,732	27,716,641	(813,091)	(2.85%)

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

Revenue collections of \$27.7 million ended the year \$813,000 (2.85%) below the budgeted estimate of \$28.5 million. This collection level was \$10.6 million (61.7%) above the 2015-2016 collections of \$17.1 million, which is primarily due to Successor Agency contributions in 2016-2017. Below is a more in-depth discussion of the Successor Agency.

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Revenue from Local Agencies

In 2016-2017, the Successor Agency to the Redevelopment Agency (SARA) reimbursed the City for the Convention Center Debt Service payment of \$15.3 million that is budgeted in City-Wide Expenses; while in 2015-2016, only \$5.5 million of the \$15.3 million obligation was reimbursed. The level of annual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) in 2016-2017 was enough for the Successor Agency to pay this entire debt service. In 2015-2016, RPTTF was insufficient for the Successor Agency to pay all of its debt service and required a loan from the City's General Fund for the Convention Center Debt Service payment. The loan was anticipated to be paid back in full that fiscal year but a balance of \$9.8 million remained at year-end as a result of a change in a redevelopment dissolution law that disallowed the mechanism allowing SARA to reimburse the City on an intra-year basis. After this one-time impact in 2015-2016, it was anticipated that SARA would have sufficient funding to pay all its debt service going forward.

In 2016-2017, the Central Fire District payment of \$6.5 million ended the year \$297,000 (4.8%) above the Modified Budget and 5.7% above the prior year collection of \$6.1 million. These payments represent property taxes collected by the Central Fire District for areas of the County served by the San José Fire Department. The year-over-year increase of payments is due to the change in Property Tax valuation in those areas.

Animal Care Services collections of \$1.1 million ended the year \$137,000 (14.7%) above the Modified Budget level of \$930,000 and 11.4% above the prior year collection of \$958,000.

The revenues in this category does not include reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program). Because the City's performance falls only slightly below the performance standards set forth in the agreement with the County, no reimbursement was provided to the City for either the equipment reimbursement component (Annex B, Category A funds) or the service-related component (Annex B, Category B funds).

The 2017-2018 Adopted Budget included the rebudget of revenues and associated expenditures for various local agency grants in the amount of \$222,000, and an additional \$12,000 in rebudget adjustments are recommended in this report to account for the anticipated receipt of revenue in 2017-2018 that were not received in 2016-2017. Additional information on the rebudget of local agency grants, as well as budget actions to recognize new grants and reimbursements are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

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Revenue from the State of California

Revenue from the State of California	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Other State Revenue	11,404,403	11,727,331	322,928	2.83%
State Grants	2,614,546	1,712,070	(902,476)	(34.52%)
Motor Vehicle In-Lieu Tax	460,000	466,843	6,843	1.49%
Total	14,478,949	13,906,244	(572,705)	(3.96%)

The major State revenues include the Tobacco Settlement Revenue and State Grants. Revenue from the State of California of \$13.9 million ended the year 4.0% below the 2016-2017 Modified Budget estimate of \$14.5 million, but 14.2% (\$1.7 million) above the prior year actual level of \$12.2 million.

Within the Other State Revenue category, the Tobacco Settlement revenues of \$9.2 million were consistent with the 2016-2017 Modified Budget estimate, and 2.9% above the prior year level of \$8.9 million.

State grants and other reimbursements totaled \$1.7 million, which was \$902,000, or 34.5%, below the Modified Budget level of \$2.6 million. This was the result of a timing difference of many grants (and their associated expenditures).

The 2016-2017 Adopted Budget included the rebudget of revenues and associated expenditures for various State grants in the amount of \$1.3 million to account for the anticipated receipt of revenue in 2017-2018 that were not received in 2016-2017. Based on actual 2016-2017 performance, net negative rebudget adjustments of \$335,000 are recommended in this report. Additional information on the rebudget of State grants, as well as budget actions to recognize new grants and reimbursements are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Revenue from the Federal Government

The revenue in this category is generated by various federal grants and reimbursements. In 2016-2017, Revenue from the Federal Government of \$4.4 million was 29.1% (\$1.8 million) below the Modified Budget level of \$6.2 million and 58.4% (\$6.2 million) below the 2015-2016 collection level of \$10.6 million. This negative variance from the Modified Budget was primarily the result of the timing of various grants (and their associated expenditures) where the work was not yet completed in 2016-2017. The 2017-2018 Adopted Budget included the rebudget of revenues and associated expenditures for various Federal grants in the amount of \$1.2 million, and an additional \$84,000 of rebudget adjustments are recommended in this report to account for revenues that were not received in 2016-2017 but are now expected to be received in 2017-2018. Additional information on the rebudget of Federal grants, are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

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GENERAL FUND REVENUE PERFORMANCE

Departmental Charges

Departmental Charges	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Parks, Recreation and Neighborhood Services Fees	21,373,351	20,958,236	(415,115)	(1.94%)
Public Works Fees	10,315,000	10,913,457	598,457	5.80%
Planning Fees	4,500,000	4,448,440	(51,560)	(1.15%)
Police Fees	1,264,034	1,205,737	(58,297)	(4.61%)
Transportation Fees	1,836,938	1,594,755	(242,183)	(13.18%)
Library Fees	889,044	650,343	(238,701)	(26.85%)
Miscellaneous Fees	3,628,607	5,092,867	1,464,260	40.35%
Total	43,806,974	44,863,835	1,056,861	2.41%

Revenues in this category include fees and charges assessed by several departments. Overall, Departmental Charges collections of \$44.9 million were 2.4% (\$1.1 million) above the 2016-2017 Modified Budget level of \$43.8 million, but 4.7%, or \$2.2 million, below the 2015-2016 collection level of \$47.1 million. The Public Works Fee Program exceeded its budgeted estimate by 5.8%, however, the Transportation and Library Departments revenue collections fell below their budgeted estimate by 13.2% and 26.9%, respectively. Miscellaneous Fees exceeded the budgeted estimate by \$1.5 million primarily due to higher Solid Waste Enforcement Fees and General Plan Update Fees.

- **Public Works Departmental Fees** – Collections of \$10.9 million ended the year 5.8% above the Modified Budget level of \$10.3 million, but 3.9% below the \$11.4 million collected in 2015-2016. The 2016-2017 collections are comprised of \$6.5 million from the Development Services Program and \$4.4 million from the Utility Fee Program. Revenues related to Engineering categories such as Residential and Non-Residential performed at lower than estimated levels as a result of lower activity levels. However, these revenues are offset by higher than estimated levels in the Utility Excavation, Grading Permits, and Geologic Fees categories. In 2016-2017, \$969,000 from additional fee revenues (\$344,000), expenditure savings (\$569,000), and interest earnings (\$56,000) attributed to the Public Works Development Fee Program are recommended to be set aside in the Public Works Development Fee Program Earmarked Reserve. A negative rebudget to the Public Works Development Fee Program Reserve is also recommended, resulting in a net change of \$37,000 to the \$5.2 million reserve.
- **Transportation Departmental Fees** – Collections of \$1.6 million ended the year 13.2%, or \$242,000, below the Modified Budget level of \$1.8 million, but was consistent with the 2015-2016 collection level. Revenues fell below the estimate in 2016-2017 primarily due to lower than anticipated collections for the Sidewalk Repair Program (\$481,000), which was partially offset by higher collections for Traffic Signal Design and Review fees (\$142,000) and Special Event fees (\$102,000). Sidewalk Repair Program fee performance is attributable to fewer permit issuances for sidewalk repair work adjacent to private property, and Traffic Signal Design and Review and Special Event collections were driven by higher activity levels during 2016-2017.

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Departmental Charges

- **Library Departmental Fees** – Collections of \$650,000 ended the year 26.9% below the Modified Budget level of \$889,000, and 45.8% below the 2015-2016 receipts of \$1.2 million due to lower fine revenue. Fines revenues accounted for \$512,000 of the total receipts for 2016-2017 and were down from \$1.1 million in the prior year. The decrease in Fine revenues is primarily the results of the Reducing Economic Barriers to Library Access recommendation that was approved by the City Council on May 17, 2016. The recommendation included a one-month fine forgiveness program, programs that allow patrons to have their Library cardholder debt reduced or eliminated through volunteering at a library, and one-time forgiveness of overdue fines for patrons who register for the 2016 Summer Reading Challenge.
- **Planning Departmental Fees** – Collections of \$4.4 million ended the year 1.2% below the adopted budget estimate of \$4.5 million and 29.4% below the prior year level of \$6.3 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Planning Fee revenues throughout 2016-2017 were at anticipated levels. Actual receipts, however, were below the adopted budget estimate as a result of lower than anticipated permit issuance in May and June 2017. Fee categories where the actual collections exceeded the estimate include Non-Residential Tentative Maps, Preliminary Review, Non-Residential General Plan Amendments, Residential and Non-Residential Conventional Prezonings/Rezoning, Residential Environmental Clearance, Annexations, Residential and Non-Residential Site Development Permits, Residential Development Permit Adjustments, Residential and Non-Residential Conditional Use Permits, and Single-Family Design Review. Categories where actuals fell short of the estimate include Residential Tentative Maps, Public Noticing, Public Information Services, Residential General Plan Amendments, Residential Prezonings/Rezoning, Non-Residential Planned Development Prezonings/Rezoning, Residential and Non-Residential Planned Development Permits, Non-Residential Development Permit Adjustments, and Miscellaneous Permits. A recommendation to increase the Planning Development Fee Program Earmarked Reserve by \$394,000 is included as part of this report. This increase was derived from a combination of expenditure savings of \$428,000 and interest earnings attributed to the program of \$20,000 offset by less revenue than anticipated (\$52,000) and a rebudget of \$3,000 for temporary analytical staff funding related to the integrated permit system implementation. With the recommended adjustment, the Reserve will increase from \$1.4 million to \$1.8 million.

Other Revenue

The Other Revenue category contains a number of unrelated revenue sources and totaled \$126.2 million in 2016-2017. As was the case in 2015-2016, Tax Revenue Anticipation Notes (TRANs) accounted for \$100.0 million of the receipts in this category and have an offsetting expenditure to repay the TRANs. Total collections of \$126.2 million were 0.7% (\$871,000) below the budgeted estimate of \$127.0 million, and 2.3% (\$2.8 million) above the 2015-2016 collection level of \$123.4 million. The Other Revenue category ended the year below the Modified Budget level primarily due to lower proceeds from the sale of real properties, which totaled \$156,000 compared to the budgeted estimate of \$1.0 million. This lower

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Other Revenue

collection level was due to the deferral of the sale of property (Almaden Blvd. and Carlyle Street) totaling \$1.3 million from June 2017 to August 2017.

The 2016-2017 Adopted Budget includes the rebudget of revenues and associated expenditures for various grants and reimbursements in the amount of \$1.1 million, and an additional \$818,000 of rebudget adjustments are recommended in this report to account for the anticipated receipt of revenue in 2017-2018 that were not received in 2016-2017. Additional information on the rebudget of these grants as well as the recognition of new grant revenues and their associated expenditures, are described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Transfers and Reimbursements

Overhead, Transfers , and Reimbursements	2016-2017 Budget (\$)	2016-2017 Actuals (\$)	2016-2017 Variance (\$)	2016-2017 Variance %
Overhead Reimbursements	38,724,983	39,247,609	522,626	1.35%
Transfers	25,207,731	25,588,188	380,457	1.51%
Reimbursements for Services	17,873,510	17,957,940	84,430	0.47%
Total	81,806,224	82,793,737	987,513	1.21%

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall, collections of \$82.8 million ended the year 1.2%, or \$1.0 million above the 2016-2017 Modified Budget estimate of \$81.8 million. The Overhead Reimbursement category was above the budgeted estimate due to slightly higher capital fund overhead based on actual activity in 2016-2017. Transfers exceeded the budgeted estimate in 2016-2017 by \$380,000 primarily due to additional funding from the Parks Construction and Conveyance Tax Funds (\$713,000) as 15.0% of the Construction and Conveyance Tax revenues are transferred to the General Fund for parks maintenance and these revenues exceeded the budgeted estimate. Reimbursements for Services also ended the year slightly above the budget primarily due to higher Gas Tax receipts (\$17.3 million actual receipts versus the budgeted estimate of \$17.2 million).

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Summary

In 2016-2017, total revenues received by the General Fund of \$1.11 billion were lower than the 2016-2017 Modified Budget level by \$1.4 million (0.1%). After adjusting for \$4.4 million in grant and reimbursement-related revenues not received in 2016-2017, but rebudgeted to 2017-2018 as part of the 2017-2018 Adopted Budget as well as additional rebudget and clean-up adjustments recommended in this report, revenues actually ended the year \$3.0 million (0.3%) above the budgeted estimate. This is an extremely small variance given the diversity of over 450 City revenues and the overall size of the General Fund.

The 2016-2017 collection level of \$1.11 billion was up \$52.7 million (5.0%) from the actual 2015-2016 collections (\$1.06 billion). The 2016-2017 revenue estimates were built on the assumption that the economically-sensitive revenues would continue to experience growth. Actual performance in 2016-2017 was generally consistent with this assumption. A number of economically-sensitive revenue categories, such as Property Tax, Utility Taxes, Business Taxes, and Transient Occupancy Tax, continued to experience solid growth; however, General Sales Tax declined in 2016-2017.

Continued positive revenue performance is expected to again be experienced in 2017-2018. The Administration will actively monitor economic indicators and revenues in 2017-2018 through the Bi-Monthly Financial Report and the Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions, if necessary.