2017-2018
MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues and transfers through December totaled $574.6 million, or 47.5% of the budgeted estimate. Based on current collection trends and information, existing revenues are anticipated to end the year approximately $12 million above budgeted levels (variance of approximately 1.0% when excluding the Beginning Fund Balance). The primary drivers of this additional revenue are higher than estimated Property Taxes, Sales Tax, Business Taxes, Utility Taxes, Use of Money and Property, and Other Revenue. Overall, development-related revenues in the General Fund are generally on pace to meet budgeted levels. However, Planning revenues are expected to fall well below the budget.

The following table details actual 2017-2018 General Fund revenue collections through December as compared with budgeted revenue estimates and 2016-2017 actual collections for the same time period in the previous year. Also included are changes to each category (excluding the Beginning Fund Balance adjustment) that are recommended as part of this report:

2017-2018 General Fund Revenue Status through December
($ in Thousands)

Category	Budget Estimate	Y.T.D Actual	% of Estimate	2016-2017 % of Actual	Proposed Changes
General Revenue					
Property Tax	$ 288,990	$ 78,855	27.3%	27.3%	$ -
Sales Tax	224,000	75,324	33.6%	39.0%	-
Telephone Tax	20,000	6,714	33.6%	39.0%	-
Transient Occupancy Tax	18,720	6,905	36.9%	39.8%	-
Franchise Fees	50,813	20,171	39.7%	39.6%	-
Utility Tax	101,320	38,474	38.0%	35.7%	-
Business Taxes	63,300	34,968	55.2%	45.5%	85
Licenses and Permits	59,753	36,637	61.3%	57.3%	(83)
Fines, Forfeitures, and Penalties	15,336	6,459	42.1%	42.0%	-
Use of Money and Property	5,705	3,651	64.0%	46.7%	-
Revenue from Local Agencies	26,782	4,598	17.2%	18.3%	(3,040)
Revenue from the State of California	13,086	1,319	10.1%	5.3%	1,097
Revenue from Federal Government	4,298	1,322	30.8%	25.7%	320
Fees, Rates, and Charges	48,499	23,598	48.7%	52.2%	933
Other Revenue	182,673	174,392	95.5%	92.9%	1,285
Sub-Total General Revenue	1,123,275	513,387	45.7%	42.8%	597
Transfers and Reimbursements					
Overhead Reimbursements	45,467	37,833	83.2%	82.6%	-
Transfers	24,067	17,126	71.2%	43.7%	915
Reimbursements for Services	17,970	6,274	34.9%	42.2%	-
Sub-Total Transfers and Reimbursements	87,504	61,233	70.0%	60.3%	915
TOTALS	**$ 1,210,779**	**$ 574,620**	**47.5%**	**44.2%**	**$ 1,512**

Status of General Fund Revenues

OVERVIEW

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

Recommended Adjustments

As described below, limited revenue adjustments are recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; (2) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures; and (3) complete clean-up actions.

- Implement required technical and rebalancing actions to revise revenue estimates in limited areas to bring estimates in line with revised projections (net decrease of $2.0 million). Significant actions include:
    - Recognize funding from the Successor Agency to the Redevelopment Agency (SARA) to reimburse the General Fund for past administrative costs ($10.75 million) that was made available as a result of the SARA debt refunding completed in December 2017; eliminate the Convention Center Lease Payment ($15.2 million) revenue estimate, however, a corresponding elimination of the Convention Center Lease Payments expenditure appropriation is also recommended in this report resulting in a net-zero impact to the General Fund also recommended as part of the SARA debt refunding actions; and recognize funding of $1.5 million from Santa Clara County for Emergency Medical Services (Paramedic) reimbursement.
- Recognize grant, reimbursement, and/or fee related funds ($3.5 million). Significant actions include:
    - Recognize funding to advance broadband strategies and add Public Works development staff to prioritize the permitting of small cell antennae pursuant to a value exchange partnership ($1.85 million); recognize revenue from the State of California to reimburse for Strike Teams deployed to 15 sites in 12 counties throughout the State during the summer and fall of 2017 to assist with fire and disaster problems ($824,000), and recognize funding for the Northern California Regional Intelligence Center grant ($242,000) and the Internet Crimes against Children grant ($200,000).
- Reduce the Beginning Fund Balance by $597,000 based on a reconciliation to the final audited 2016-2017 Comprehensive Annual Financial Report (CAFR).

STATUS OF GENERAL FUND REVENUES

OVERVIEW

In total, adjustments recommended in this document result in a net addition of $1.5 million to the General Fund revenue estimates (excluding the Beginning Fund Balance reduction of $597,000). With the Beginning Fund Balance adjustment, total sources are recommended to increase by $915,000. Additional detail on these recommended adjustments can be found in Section III of this document. The following discussion highlights major General Fund activities through December in various revenue categories.

PROPERTY TAX

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$288,990,000	$78,855,010	27.3%	27.3%	$0

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), Airplane In-Lieu Tax, and Homeowners Property Tax Relief. Overall, Property Tax revenues are projected to slightly exceed the budgeted estimate by approximately $3 million based on the most recent estimates from the County Assessor's Office and actual performance.

Secured Property Taxes represent over 90% of the revenue in the Property Tax category. The 2017-2018 Adopted Budget estimate of $265.8 million was based on assumed growth of 5.3% from the 2016-2017 estimated collection level. The 2017-2018 budgeted estimate includes $261.8 million from regular Property Tax receipts and $4.0 million from the distribution of excess Education Revenue Augmentation Fund (ERAF) funds. The preliminary estimate from the County of Santa Clara of $267.7 million is approximately $1.9 million above the 2017-2018 Adopted Budget estimate, primarily due to higher projected ERAF payment ($2.9 million), partially offset by lower projected regular Secured Property Tax receipts (-$1.0 million). This figure will continue to be adjusted during the year based on actual performance. Because tax roll adjustments will continue to occur until the end of May 2018, the Budget Office will continue to work with the County to monitor actual performance and estimate year-end collections.

The Adopted Budget assumed $4.0 million from excess ERAF funds, which is slightly below the 2016-2017 actual collection level of $4.4 million. The preliminary estimate from the County of Santa Clara for excess ERAF funds is $6.9 million, which exceeds the budgeted estimate by $2.9 million. Beginning in

Status of General Fund Revenues

PROPERTY TAX

1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In November 2017, the County provided preliminary information that a payment of approximately $6.9 million may be received in March 2018. The Administration will continue to monitor the distribution of ERAF receipts and may adjust the budget once further information is provided by the County.

The 2017-2018 **Unsecured Property Taxes** budget estimate is $13.8 million, which is approximately 5% above the prior year collection level of $13.1 million. Collections through December of $13.6 million were 10.1% above the prior year collections of $12.3 million. Current year receipts include an August payment of $350,000 that accounts for the final reconciliation of the 2016-2017 fiscal year and an October payment of $13.5 million, which accounts for the majority of the revenue received in this category for the year. The preliminary estimate from the County of Santa Clara for 2017-2018 of $14.7 million exceeds the budget estimate by approximately $900,000.

SB 813 Property Tax receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) totaled $1.8 million through December, which is 6.1% below the prior year levels of $1.9 million. The 2017-2018 Adopted Budget estimate of $5.5 million allows for an almost 20% drop from the 2016-2017 actual collection level of $6.8 million as collections in this category ended 2016-2017 stronger than anticipated. The preliminary 2017-2018 estimate from the County for this category totals $6.2 million, which is $700,000 above the budgeted estimate.

Aircraft Property Tax receipts through December totaled $2.5 million, which is 5.3% below the prior year collection level of $2.7 million. Typically, collections through December reflect 95% of the annual revenue for this category. The 2017-2018 Adopted Budget estimate of $2.9 million assumed receipts would remain consistent with 2016-2017 collections. However, based on current year collections and the latest estimate from the County of Santa Clara, receipts are anticipated to end the year at $2.7 million, which is $200,000 below the budgeted estimate.

In the **Homeowners Property Tax Relief** category, $142,000 was received through December, which was 2.6% below the prior year collection level of $146,000. Based on the most recent estimate from the County and historical collection patterns, revenue is projected to end the year at $935,000, which is slightly below the 2017-2018 Adopted Budget estimate of $1.0 million.

Status of General Fund Revenues

SALES TAX

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$224,000,000	$75,323,844	33.6%	39.0%	$0

The Sales Tax category consists of General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. General Sales Tax revenue is tracking slightly below budgeted levels, however, Local Sales Tax revenue is tracking stronger than budgeted. Overall, collections are tracking to exceed budgeted levels by $2 million to $4 million by year-end; however only one quarter of sales tax data is available for the current fiscal year.

When the 2017-2018 Adopted Budget was developed, it was projected that Sales Tax receipts would increase 7.6% from the 2016-2017 estimate of $211.9 million to $228.0 million, reflecting anticipated economic growth of 3% and the annualization of the Local Sales Tax. However, because 2016-2017 actual receipts of $207.7 million ended the year $4.2 million, or 2.0%, below estimated levels, additional growth would be necessary in 2017-2018 to meet the budgeted estimate. To account for the lower performance in 2016-2017, a downward adjustment of $4.0 million to the Sales Tax revenue estimate was approved as part of the 2016-2017 Annual Report. Following is a discussion of the three Sales Tax components.

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, a $4.0 million reduction (from $187.0 million to $183.0 million) was approved as part of the 2016-2017 Annual Report. The modified estimate 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 and to reverse the large one-time correction in 2016-2017.

STATUS OF GENERAL FUND REVENUES

SALES TAX

Information on actual receipts for the first quarter of General Sales Tax for the current year was received in December and represented activity for July through September 2017. The first quarter 2017-2018 General Sales Tax revenues reflected growth of 8.8% from the same quarter in the prior year. However, the first quarter of 2016-2017 included a negative $2.7 million correction from prior year payments that were made in error. Factoring out that adjustment, receipts in the first quarter of 2017-2018 reflect growth of 2.1% from the prior year. To meet the budget estimate of $183.0 million, each of the remaining three quarters would require growth of approximately 4%. If growth of 2% - 3% is realized, collections will fall below the budgeted estimate by $1.2 million to $2.6 million. Based on current collection trends, it is estimated General Sales Tax will end the year $1 million - $3 million below the budgeted level.

The City's Sales Tax consultant, MuniServices, provides economic performance data to the City, 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, growth of 0.5% was realized in the most recent quarter. The chart below outlines the various sectors of sales tax and the percentage of the total receipts received.

Sales Tax Revenue Economic Performance
July – September 2017

Economic Sector	% of Total Revenue	% Change July – Sept 2016 to July – Sept. 2017
General Retail	24.8%	-0.6%
Transportation	23.5%	+1.5%
Business-to-Business	20.0%	-2.2%
Food Products	18.1%	+3.0%
Construction	12.8%	+1.2%
Miscellaneous	0.8%	+6.1%
Total	**100.0%**	**+0.5%**

Information on the second quarter collections (October-December sales activity) for this fiscal year will be received in March 2018.

Starting in 2016-2017, the Sales Tax category includes **Local Sales Tax**. In June 2016, San José voters approved a ¼ cent local sales tax that was estimated to generate $30.0 million in 2016-2017 (October 2016 implementation) and $40.0 annually beginning 2017-2018. However, based on the lower than anticipated performance during the first two quarters of 2016-2017, the 2016-2017 revenue estimate was lowered from $30.0 million to $26.0 million. Actual collections ended 2016-2017 at $26.5 million, which reflected 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. Actual Local Sales Tax results for the final quarter of 2016-2017 totaled $10.2 million, which is $1.3 million above the amount assumed for the 2016-2017 accrual. The additional revenue generated from this difference is reflected in 2017-2018.

Status of General Fund Revenues

SALES TAX

Information on actual receipts for the first quarter of Local Sales Tax for the current year was received in December and represented activity for July through September 2017. The first quarter 2017-2018 Local Sales Tax revenues totaled $10.5 million. Based on 2016-2017 collection trends as well as the receipts for first quarter of 2017-2018 it is estimated Local Sales Tax will end the year above the budgeted estimate of $35.0 million by at least $5 million.

Through December, the **Proposition 172 Sales Tax** receipts of $2.1 million are 14.5% below the prior year level of $2.5 million through the same period. The 2017-2018 budgeted estimate of $6.0 million allows for a 7.4% decrease from the prior year collection level of $6.5 million. It is currently anticipated that collections will meet or slightly exceed the budgeted estimate by year-end.

TRANSIENT OCCUPANCY TAX

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$18,720,000	$6,904,814	36.9%	39.8%	$0

The 2017-2018 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is $18.7 million, which was built assuming growth of approximately 4% from the 2016-2017 estimated collection level of $18.0 million. However, since 2016-2017 actual receipts came in above estimated levels at $18.3 million, growth of only 2.4% is needed to meet the 2017-2018 budget estimate. Year-to-date TOT receipts through December of $6.9 million are 5.0% below the prior year collection of $7.3 million. This drop from the prior year can be attributed to changes in the accrual methodology and the timing of payments, which is due by the end of the month following the preceding month of assessment. Several remittances for the month of November are delayed and are not reflected in the figures above. Adjusting for this timing difference, year-to-date collections through November 2017 exceed prior year levels for the same period by 5.9%. Given the adjusted first quarter performance for 2017-2018 and consistent hotel occupancy and room rates, collections are anticipated to end the year close to the budgeted estimate.

Through December, the average hotel occupancy rate at the 13 major hotels was 75.4%, a slight decrease from the 76.6% occupancy rate for the same period in 2016-2017. However, average room rates have risen from $200.16 to $202.20 (1.0%). Year-to-date average revenue-per-available room (RevPAR) of $153.07 is comparable to prior year levels, representing a slight decrease of 0.6%.

Status of General Fund Revenues

FRANCHISE FEES

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$50,813,083	$20,170,605	39.7%	39.6%	$0

Franchise Fees are collected in the Electric, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. Through December, Franchise Fee receipts of $20.2 million were 2.7% above the prior year collection level of $19.6 million. The 2017-2018 budgeted estimate of $50.8 million is approximately 2% above the 2016-2017 actual collection levels. Based on current collection trends, Franchise Fees are overall tracking to meet budgeted estimates.

Electric and Gas Franchise Fees provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in a calendar year (revenues in 2017-2018 are based on calendar year 2017). Actual collections through December reflect formula driven advance amounts; true receipts will not be known until April 2018. Based on current Electricity and Gas Utility Tax receipts for calendar year 2017, it is anticipated that Electricity Utility Tax receipts will exceed the 2017-2018 Adopted Budget estimate of $21.7 million by approximately $700,000 - $800,000. Gas Utility Tax receipts are anticipated to fall slightly below the 2017-2018 Adopted Budget estimate of $5.4 million by approximately $300,000.

Commercial Solid Waste Fees of $4.8 million through December are tracking 1.2% above collections at the prior year levels. Collections are expected to reach the 2017-2018 Adopted Budget estimate of $11.5 million, which reflects the flat rate for assessing this fee.

Cable Franchise Fees of $2.6 million through December are tracking at prior year levels and reflect a payment for one quarter. Based on current collection trends, revenues are anticipated to end the year consistent with 2016-2017 collections of $10.4 million, which is $400,000 below the 2017-2018 budgeted estimate of $10.8 million.

City Generated Tow Fees of $276,000 through December are tracking 34.4% below prior year levels. As detailed in the Amendments to City Generated Tow Agreements memorandum that was approved by the City Council on October 31, 2017, City Generated Tow Fees have significantly declined. Fee amendments approved as part of the memorandum became effective January 1, 2018. Based on current collection trends and anticipated impacts of the approved fee amendments, revenues are estimated to end the year at $628,000, which is significantly below the 2017-2018 Adopted Budget estimate of $1.0 million.

Remaining franchise fees (Water and Nitrogen Gas Pipeline) are tracking to end the year close to the budgeted estimates.

STATUS OF GENERAL FUND REVENUES

UTILITY TAX

Revenue Status

	2017-2018		2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$101,320,000	$38,473,721	38.0%	35.7%	$0

Utility Tax contains the following categories: Electric, Gas, Water, and Telephone. Collections through December of $38.5 million were tracking 7.0% above the prior year level of $35.9 million, primarily due to higher collections in the Electric, Gas, and Water Utility Tax categories, partially offset by lower collections in the Telephone Utility Tax category. The 2017-2018 budgeted estimate of $101.3 million requires an increase of less than 1% from the prior year collection level of $100.8 million. Based on historical collection trends and the current collection trends, it is anticipated that the overall Utility Tax revenue will meet or slightly exceed the budgeted levels by year-end. Below is a more detailed discussion of the revenue performance in each category.

Through December, **Electric Utility Tax** receipts of $18.9 million were 8.1% above the prior year level of $17.5 million and reflect activities through November 2017. The 2017-2018 Adopted Budget estimate of $46.8 million requires growth of 1.8% from the actual 2016-2017 collection levels of $46.0 million. If current collection trends continue, revenues may exceed the budgeted estimate by $1 million- $2 million.

Gas Utility Tax receipts through December of $2.1 million were 2.6% above prior year collections of $2.0 million. The 2017-2018 Adopted Budget estimate of $10.1 million assumed a 3% increase from the 2016-2017 estimate of $9.8 million. However, revenues in 2016-2017 ended the year at $11.1 million, therefore the 2017-2018 estimate allows for a 9.4% drop from the prior year collections. While receipts through December are within estimated levels, revenue in the Gas Utility Tax area are subject to significant fluctuations from the impact of weather conditions and/or rate changes. Therefore, collections in the next several months will provide a much better indicator of receipts since approximately two-thirds of the revenue in this category is typically collected in the second half of the year. If collections match the prior year level, revenues may exceed the budgeted estimate by $1 million by year-end.

Water Utility Tax collections of $7.2 million through December are 27.1% above the prior year level of $5.7 million. While the majority of this growth is the result of payment timing differences, collections are also exceeding the prior year with monthly growth ranging from 5%-10%, primarily due to higher consumption levels and rate increases. The 2017-2018 Adopted Budget estimate of $14.85 million requires growth of only 0.5% from the actual 2016-2017 receipts of $14.78 million. Based on historical performance and current collection trends, it is anticipated that year-end actuals will exceed budgeted levels by approximately $1 million.

Status of General Fund Revenues

UTILITY TAX

Telephone Utility Tax receipts of $10.3 million through December are tracking 4.5% below the prior year level of $10.8 million which is primarily due to a decline in the cellular category. This drop reflects the competition between cellular carriers and the move from some cellular customers to VOIP and pre-paid cellular services which are less expensive. The 2017-2018 Adopted Budget estimate of $29.6 million requires growth of 2.4% from the actual 2016-2017 collection levels of $28.9 million, however, it is currently anticipated that year-end actuals may fall below the budgeted estimate by over $2.0 million.

BUSINESS TAXES

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$63,300,000	$34,967,942	55.2%	45.5%	$85,000

Business Taxes include the following sub-categories: General Business Tax, Cardroom Business Tax, Marijuana Business Tax, and Disposal Facility Tax. Through December, overall collections of $35.0 million are 41.9% above the prior year collection levels of $24.6 million, primarily reflecting higher collections in Marijuana Business Tax and General Business Tax categories. The 2017-2018 Adopted Budget estimate of $63.3 million requires growth of almost 17% from the actual 2016-2017 collection levels of $54.2 million. The growth in revenue in 2017-2018 is anticipated due to the modernization of the San José business tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017. If current collection trends continue, Business Tax receipts will exceed the budget by approximately $3 million.

General Business Tax receipts of $17.9 million are $9.1 million, or 103.4% above prior year levels of $8.8 million. The 2017-2018 Adopted Budget estimate of $23.7 million reflects an increase of 81.3% from the 2016-2017 actual collection level of $13.0 million. The growth in revenue in 2017-2018 reflects the modernization of the San José business tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017. The adjustments to the business tax include increasing the base tax, increasing the incremental tax and making it more progressive, increasing the cap (the maximum amount of the tax affecting large businesses), updating the application of the tax to more classes of business, and adding inflation based adjustments for future tax rates. Based on the remaining billing cycles and proposed outreach efforts, receipts are anticipated to slightly exceed the budgeted estimate. Included in this report is a recommendation to increase the General Business Tax estimate by $85,000

STATUS OF GENERAL FUND REVENUES

BUSINESS TAXES

(from $23.65 million to 23.74 million) that will be used to fund the business tax outreach efforts. A corresponding increase to the Finance Department's Non-Personal/Equipment allocation is also recommended in this report.

Cardroom Business Tax collections reflect the gross receipts tax collected from the two cardrooms located in San José. Through December, receipts of $7.7 million are 3.7% above the prior year level of $7.5 million. Receipts in 2016-2017 slightly exceeded expectations, therefore, collections in the category can drop by 1% in 2017-2018 and reach the budgeted estimate of $18.3 million. Receipts are currently tracking to slightly exceed the budget by $300,000.

Marijuana Business Tax collections reflect marijuana business tax as well as marijuana business tax compliance revenues. Receipts of $4.4 million are 24.8% above the prior year level of $3.5 million. The 2017-2018 Adopted Budget estimate was built on the assumption that 2016-2017 collections would total $9.4 million and remain relatively flat in 2017-2018. However, actual collections in 2016-2017 totaled $10.5 million, therefore the 2017-2018 budget estimate of $9.4 million allows for a 10.7% drop from 2016-2017 actual receipts. Based on prior year collection trends, activity for the first half of the year are anticipated to exceed the budgeted estimate by at least $2.5 million - $3.0 million. This figure does not incorporate additional revenue that may be received associated with the sale of recreational cannabis at the 16 licensed dispensaries that started in January 2018 as there is insufficient information regarding the impact of that change. Activity and potential increased revenue associated with the sale of recreational cannabis will continue to be closely monitored and factored into the 2017-2018 year-end estimates and 2018-2019 budget process.

Disposal Facility Tax (DFT) receipts through December of $5.0 million are tracking 2.0% above the prior year level of $4.9 million and reflect 41.5% of the budgeted estimate of $12.0 million. The budgeted estimate allows for a decline of 1.3% from the 2016-2017 receipts of $12.2 million. Based on historical collection trends and recent activity at the landfills, revenues are anticipated to end the year approximately $200,000 below the budgeted estimate. Collections in this category are impacted by waste exports, waste diversion efforts from San José, and other municipalities and members of the public that use landfills within the City, and the economy.

Status of General Fund Revenues

LICENSES AND PERMITS

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$59,753,254	$36,636,622	61.3%	57.3%	($83,338)

Licenses and Permits include the following major groups of revenue: Building Permits, Fire Permits, and Miscellaneous Other Licenses and Permits. Through December, revenues of $36.6 million are tracking 11.3% above the prior year level of $32.9 million. The 2017-2018 Adopted Budget estimate of $59.8 million requires growth of 4.0% from the 2016-2017 actual collection level ($57.5 million). If current collection trends continue, Licenses and Permits receipts are estimated to meet budgeted levels by year end.

This report includes a technical adjustment to reallocate $83,338 from Licenses and Permits (Building Permits) to Fees, Rates, and Charges (Planning Department) to align Adopted Budget revenue estimates to the appropriate category.

Building Permits revenue of $17.5 million through December is tracking 3.2% above the 2016-2017 collection level of $16.9 million for the same period. To meet the 2017-2018 Adopted Budget estimate of $32.5 million, an increase of 1.2% is needed from prior year actual revenue collections ($32.1 million) in this category.

All Building Permit categories are tracking above expected levels except commercial and industrial building plan check fees and Building Standards Administration Special Revolving Fund (BSARF) fees, which is a fee imposed by the State for carrying out the provisions of the State Building Standards Law and provisions of State Housing Laws that relate to building standards. The 2017-2018 budgeted estimate incorporated fee increases that were projected to increase overall revenues by approximately 14%. These rate increases were implemented in August 14, 2017. Activity levels for all categories of building use (residential, commercial, and industrial) are higher than the same period last year. Building Permit revenues are anticipated to meet the 2017-2018 budget revenue estimate of $32.5 million.

Residential activity through December 2017 consisted of 1,677 multi-family units and 132 single-family units for a total of 1,809 units. Major residential projects for November and December included: permits issued for six of 26 single-family detached homes approved for construction on Edenvale Avenue (between Monterey Road and Chynoweth Avenue); the balance of a 19-story, 260-unit apartment building located on the corner of W. San Carlos Street and S. 3rd Street; and a four story, 162-unit supportive

Status of General Fund Revenues

LICENSES AND PERMITS

affordable housing project located on Senter Road (south of Tully Road). Commercial activity through December amounted to a valuation of $406.3 million (new construction valuation of $291.7 million and alterations of $114.7 million). Significant new commercial projects for November and December include: permits for common interior mall finishes for a 535,000 square foot addition to the Valley Fair Shopping Mall; the balance of a five story, 144 guest room hotel located on N. 1st Street; and for two new hotels 1) a 151,000 square foot, 174 room project located on North 1st Street, which is part of the Bay 101 project, and 2) a 49,000 square foot hotel project located near the intersection of Cherry Avenue and Almaden Expressway. Industrial activity through December had a valuation of $291.9 million (new construction valuation of $175.7 million and alterations of $116.2 million). A notable project for December was a permit issued for a 209,000 square foot light industrial building on Ridder Park Drive (east of Highway 880).

Fire Permits collections through December 2017 of $7.6 million are consistent with the 2016-2017 collection level for the same period. The 2017-2018 Adopted Budget estimate of $13.5 million requires a 6.0% increase over the 2016-2017 actual collection levels. This category consists of development and non-development related permits.

Development related receipts of $4.0 million are tracking 8.6% below the 2016-2017 collection levels of $4.4 million for the same period. The 2017-2018 Adopted Budget estimate of $8.6 million aligns with the prior year's collections of $8.6 million. If current collection trends continue, it is anticipated that development-related receipts will end the year within or slightly below budgeted levels.

Non-development revenues of $3.6 million are 10.9% above revenues received through December 2016. This collection primarily represents the first three major billing cycles for non-development fire permits for this fiscal year. It is currently anticipated non-development revenues will end the year within or slightly above the budgeted estimate of $4.9 million.

Miscellaneous Other Licenses and Permits revenues of $11.5 million are tracking 38.0% above prior year levels of $8.4 million primarily due to the timing of the payments. The 2017-2018 Modified Budget estimate requires growth of 8.9% from the prior year actual collections. It is currently anticipated revenues will end the year within budgeted levels.

Status of General Fund Revenues

REVENUE FROM USE OF MONEY AND PROPERTY

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$5,705,000	$3,650,795	64.0%	46.7%	$0

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.

Total revenues of $3.7 million are tracking 15.2% above the prior year collection level of $3.2 million. The 2017-2018 Adopted Budget was built on the assumption that 2016-2017 collections would total $5.0 million and grow to $5.7 million in 2017-2018. However, since 2016-2017 actual receipts came in above budgeted levels at $6.9 million, the 2017-2018 estimate allows for a 17.7% decline. Based on current collection trends, revenues in this category are anticipated to end the year above the budgeted estimate by approximately $1.0 million, due primarily to higher than estimated interest earnings and rental income.

Interest earnings on the General Fund through December total $1.0 million, up 65.2% from the prior year level of $608,000. The budgeted estimate of $2.0 million allows for a decline of 3.2% from the 2016-2017 actuals of $2.1 million. If current collection trends continue, interest earnings are anticipated to exceed the budgeted estimate of $2.0 million by approximately $1 million.

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

Subrogation revenue totals $461,000 through December, down 1.8% from the prior year level of $469,000. Subrogation revenue can fluctuate monthly as a portion of anticipated revenues may not be collectable from those individuals that damaged City property. Based on historical data and current collection trends, it is currently anticipated that revenues may exceed the budgeted estimate of $500,000. Receipts in 2016-2017 totaled $969,000.

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$26,781,738	$4,597,603	17.2%	18.3%	($3,040,000)

Funding in the Revenue from Local Agencies category is provided by many local agencies. In the 2017-2018 Adopted Budget, the largest sources include reimbursement from the Successor Agency to the Redevelopment Agency of the City of San José, a public entity, reimbursement from the Central Fire District for fire services provided by the City to County properties, and Senior Nutrition Program reimbursement. Overall, revenues in this category are anticipated to meet budgeted levels by year-end.

The largest revenue estimate in the Revenue from Local Agencies category is a reimbursement from the Successor Agency to the Redevelopment Agency (SARA) of $15.24 million for the payment of the Convention Center Debt Service. Included in this report is a recommendation to eliminate the revenue estimate related to this reimbursement and the associated Convention Center Debt Service payment budgeted in City-Wide Expenses. With the refunding of the SARA debt in December 2017, this payment and associated reimbursement will no longer be needed. A more detailed description of these recommendations can be found in Section III of this report.

Through December, Central Fire District payments total $3.5 million, an increase of 5.3% from the $3.3 million received during the same period in the prior year. Growth of 7.6% from the 2016-2017 receipts of $6.5 million is needed to meet the budgeted estimate of $7.0 million. Based on current collection trends as well as information provided by Santa Clara County, Central Fire District reimbursements are anticipated to meet the budgeted estimate by year-end.

The City's Senior Nutrition Program is a partnership between the City and Bateman Senior Meals to serve nutritious meals to seniors at 13 different community center locations. Meals are served weekly from Monday through Friday (with one site serving Saturday), at reduced costs to seniors. Funding for this program is made possible by the City's contract with the County of Santa Clara to provide approximately 920 meals per day. The County funds approximately two-thirds of the program cost for the 920 meals per day. The budgeted revenue estimate of $1.6 million should be achieved by year-end. The City is currently in negotiations with the County to increase 2018-2019 funding to reflect increases with the Consumer Price Index and the Living Wage.

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

In addition to the Convention Center Debt Service reduction discussed above, this report includes an increase of $10.75 million from the Successor Agency to the Redevelopment Agency for reimbursements related to past administrative expenses, with a corresponding increase to the 2018-2019 Future Deficit Reserve. This action is also possible due to the December 2017 SARA debt refunding. Other recommended actions include recognizing $1.5 million from Santa Clara County for Emergency Medical Services (Paramedic Program) reimbursements; and reducing the estimate for a grant related to Viva Parks ($25,000). A more detailed description of these recommendations can be found in Section III of this report.

FEES, RATES, AND CHARGES

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$48,498,645	$23,597,722	48.7%	52.2%	$933,338

Contained in this revenue category are the various Fees and Charges levied to recover costs of services by several City departments. The mid-year status of collections in over 150 different fee types in this category was reviewed.

Total revenues of $23.6 million are tracking less than 1% above the prior year collection level through December 2016 of $23.4 million. Based on current collection trends and historical data, it is anticipated overall Fees, Rates, and Charges revenue will end the year at or slightly above budgeted levels.

Through December, **Planning, Building and Code Enforcement (PBCE)** Planning Fee revenues of $3.0 million are 34.2% above the prior year collection level of $2.2 million. However, to meet the 2017-2018 Adopted Budget estimate of $7.7 million, an increase of 73.8% is needed from prior year actual revenue of $4.4 million. The significant increase in revenue was anticipated in 2017-2018 due to City Council-approved fee changes, which were implemented on August 14, 2017. Through December, performance was strong for residential and non-residential tentative maps, sale of publications and record retention, public information services, residential planned development prezonings/rezonings, non-residential conventional prezonings/rezonings, annexations, non-residential site development permits, non-residential planned development permits, non-residential development permit adjustments, residential conditional use permits, and single family design review. Lower than estimated revenues were received

STATUS OF GENERAL FUND REVENUES

FEES, RATES, AND CHARGES

for the following permits: Public noticing; preliminary review; residential general plan amendments; non-residential planned development prezoning/rezoning; residential conventional prezonings/rezonings, residential and non-residential environmental clearances, residential site development permits; residential planned development permits; residential development permit adjustments; non-residential conditional use permits; and miscellaneous permits. Taking into account historical collection trends, revenues received through December, and upcoming anticipated activity, it is currently anticipated Planning Fee revenues may fall below the budget estimate by approximately $1.5 million. Projected expenditure savings resulting from vacant positions may offset approximately $750,000 of this lower collection level. An action to use a portion of the Planning Development Fee Program Reserve that currently totals $1.8 million may be recommended at year-end to address any net shortfall between revenues and expenditures.

Through December, **Public Works Fee** revenues of $6.1 million are 15.3% above the prior year levels of $5.3 million for the same time period. The 2017-2018 Adopted revenue estimate of $11.6 million requires growth of 6.2% from 2016-2017 actual collection levels of $10.9 million. The revenue collections are comprised of $2.6 million from the Development Services Fee Program and $1.4 million from the Utility Fee Program. Revenues in the utility excavation, grading permits, and sidewalk repairs categories are significantly higher than anticipated through December. However, this increased revenue is partially offset by lower than anticipated activity levels in the engineering residential and non-residential, parcel maps-residential, and residential development electricity reimbursement categories. It is currently anticipated Public Works Fee revenues will meet or slightly exceed budgeted levels by year-end.

Parks, Recreation and Neighborhood Services Departmental Charges revenues through December of $11.3 million are 4.4% below the prior year level of $11.9 million for the same time period. The 2017-2018 Adopted Budget revenue estimate of $21.7 million requires growth of 3.8% from 2016-2017 actual collection levels of $21.0 million. The lower than anticipated revenues received through December are primarily due to decreased fee activity and operating revenues at Happy Hollow Park and Zoo (HHPZ).

Happy Hollow Park and Zoo (HHPZ) fee activity revenues (including food & beverage, fee classes, and special events) through December are approximately $200,000 lower than estimated. This is due to a slow start in corporate rental activity, which is currently projecting a net loss of $60,000 by year end based on actual and likely rentals, offset by good performance in the food & beverage and fee class lines of business. This net loss reflects the full cost of the Events Coordinator, who promotes the private rentals program, offset by anticipated 2017-2018 revenues. The full-time costs associated with the program's Food Service Coordinator is being absorbed by Happy Hollow's catering activities (in lieu of budgeted part-time staff) and using the revenues generated by food & beverage fee activities to offset those costs, pending corporate rental events. For other budgeted Non-Personal/Equipment and Personal Services expenses (temporary & seasonal staff), these costs will not be incurred without offsetting revenues from booked events. Despite the projected 2017-2018 loss in corporate rentals, the program is gaining momentum as staff continues to market the facility to the private business and non-profit community. To

Status of General Fund Revenues

FEES, RATES, AND CHARGES

date, staff has conducted 14 walk-through tours to prospective clients in the last several months. Of these, 10 events have been costed through August/early-September 2018, so far totaling $147,000 in potential revenues. Consequently, prospects continue to remain promising and heightened interest and revenue growth is anticipated in the spring and summer seasons. This will be led by several key drivers, including: 1) the opening of the new Jaguar exhibit by late-March; 2) the new Alligator exhibit, which is opening in May; 3) the possibility of baby wallabies and lemurs in the coming months; and, 4) a diverse offering of public events and activities at the park starting in the spring and continuing through the summer months.

Happy Hollow Park and Zoo's projected year-end operating revenues are approximately $410,000 below anticipated levels. While memberships are consistent with what was experienced in 2016-2017 and are on-target for 2017-2018, year-to-date Admissions and Parking revenue through December 2017 are lower than estimated by approximately 3% and 4%, respectively. This lag is attributable to multiple factors that led to reduced attendance this summer, including environmental events such as several triple-digit summer days and smoke from the Sonoma County fires. For example, Labor Day is typically one of the highest grossing weekends of the year; however, due to 100-degree plus weather, the park was closed early for public health reasons, which resulted in an estimated loss of $134,000 in revenue (one weekend). Similarly, due to the poor air quality driven by the Sonoma County fires in October 2017, HHPZ estimates that revenues for Columbus Day week were down approximately $16,000 due to reduced attendance. Both incidents impacted gate and parking revenues, as well as concessions (Food & Beverage). Furthermore, HHPZ Parking revenues are down due to the loss of revenue associated with the Japanese Friendship Garden (JFG) closure due to the flood damage. Since the JFG re-opened in September 2017, parking revenues are increasing and starting to be consistent with seasonal par levels. Despite the straight-line projection above, when adjusted for December 2017 revenues booked in January 2018, performance for these two months are tracking close to HHPZ's 2014-2015 year, which were the highest December and January months in recent years. Consequently, if January 2018 month-to-date revenues are taken into account (as of 1/25/2018), the projected revenue shortfall drops to $335,000. With the increased emphasis on HHPZ marketing and promotions, along with heightened interest in several key gate revenue drivers anticipated for spring and summer (including the new jaguar and alligator exhibits; a diverse series of public events and activities; and, the possibility of baby wallabies and lemurs), and mild weather for the remainder of the winter and spring seasons, it is anticipated that the current $410,000 revenue gap will be close to budgeted estimates by year-end.

Through December, **Other Fees, Rates and Charges** are primarily tracking with estimated levels. Transportation Fees of $915,000 are tracking 0.5% above the prior year level and are anticipated to meet the budgeted estimate of $1.7 million by year-end. The Police Department Fees of $636,000 are tracking 2.8% above the prior year level and are anticipated to meet the budget estimate of $1.4 million by year-end. However, Library Fees and Fines of $92,000 are below the prior year level of $175,000. The Adopted Budget estimate of $775,000 requires growth of 19.2% from 2016-2017 collection levels of $650,000. Based on collection trends and anticipated activity, revenues are estimated to end the year

Status of General Fund Revenues

FEES, RATES, AND CHARGES

approximately $150,000 below budgeted levels. Other Miscellaneous Fees, Rates, and Charges of $1.5 million are down 36% from the prior year, primarily due to lower Solid Waste Fees. However, the budgeted estimate for the overall category allowed for a drop of 29% from the 2016-2017 collection level, primarily to account for the changes in the Solid Waste Program. It is currently anticipated the overall Miscellaneous Fees, Rates, and Charges category will fall slightly below budgeted levels.

An action to increase the Public Works Development Fee budgeted revenue estimate by $850,000 (from $11.6 million to $12.4 million) is recommended in this report to account for revenues received from a broadband provider to support the implementation of small cell technology as part of the City's Broadband Strategy. A corresponding increase to Public Works Development Fee Program Personal Services, Non-Personal/Equipment, and Earmarked Reserves appropriations are also recommended as discussed in further detail in Section III of this report. In addition, this report includes a technical adjustment to reallocate $83,338 from Licenses and Permits (Building Permits) to Fees, Rates, and Charges (Planning Department) to align Adopted Budget revenue estimates to the appropriate category.

OTHER REVENUE

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$182,673,405	$174,392,290	95.5%	92.9%	$1,284,762

The Other Revenue category contains several unrelated revenue sources. Other Revenue collections through December totaled $174.4 million compared to prior year levels of $110.0 million. This increase in revenue is primarily the result of the change in borrowing proceeds from Tax and Revenue Anticipation Notes (TRANs), which totaled $100.0 million in 2016-2017 and increased to $150.0 million in 2017-2018. TRANs are issued for cash flow purposes each fiscal year. In 2017-2018, this category also includes a one-time payment of $13.1 million to reflect the Successor Agency prevailing in litigation against Santa Clara County regarding the withholding of the PERS and Water District levies by the County. Overall, collections in the Other Revenue category are expected to end the year within or above the budgeted estimate, including the various adjustments recommended in the report that are described in more detail in Section III.

Status of General Fund Revenues

OTHER REVENUE

Following is a discussion of the major sub-categories in the Other Revenue category.

Beginning in 2010-2011, the City has had to issue **Tax and Revenue Anticipation Notes (TRANs)** annually for cash flow purposes due to the pre-payment of the City's retirement contributions. As previously mentioned, in 2017-2018, the City increased the TRANS issuance from $100 million to $150 million, to allow for higher cash flow.

In the current year, the City has received the budgeted revenue of $5.05 million in **SAP Center Rental, Parking, and Naming** revenue in accordance with the terms of the contractual agreement.

The 2017-2018 Adopted Budget estimate for **SB 90 Reimbursements** totaled $350,000, which is $52,000 higher than 2016-2017 receipts of $298,000. Actual reimbursements through December total $301,000 and receipts are anticipated to end the year below budgeted levels.

Revenue from the **Sale of Surplus Property** totaled $118,000 through December, which is 22.6% lower than revenue of $152,500 received in the same time period in the prior year. It is estimated revenues will total $1.3 million by year-end ($500,000 above the budgeted estimate), due to a large sale that recently occurred. The proceeds from that sale were originally expected to be received in 2016-2017.

Through December, revenue from **Litigation Settlements** totaled $1.14 million, which is significantly higher than the budgeted estimate of $100,000 and higher than 2016-2017 total receipts of $481,000. Large settlements were received in August and September 2017, resulting in the significantly higher than anticipated current year revenue. It is anticipated Litigation Settlements will end the year at $1.15 million.

An increase of $1.3 million is recommended in this report to recognize and allocate the following: revenue from a broadband provider to support the City's Smart City Vision goals and the implementation of small cell technology ($1.0 million); San Jose Creates and Connects funds ($140,000); Parks, Recreation and Neighborhood Services grants ($75,000); and Council District special events sponsorship funds ($42,762); as discussed in further detail in Section III of this report.

Status of General Fund Revenues

TRANSFERS AND REIMBURSEMENTS

Revenue Status

2017-2018			2016-2017	2017-2018
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
$87,503,883	$61,233,386	70.0%	60.3%	$915,000

The following are sources of revenue in this category: reimbursements to the General Fund for Overhead costs, revenue received as Transfers from other City funds, and Reimbursements for services rendered. Collections of $61.2 million through December are 12.2% above prior year levels of $54.6 million due to higher than budgeted overhead and transfers, partially offset by lower gas tax revenues. Overall, collections are currently tracking to end the year close to the budgeted estimate.

Overhead Reimbursements associated with special funds are currently budgeted at $33.6 million and capital funds are budgeted at $11.85 million for a total category revenue estimate of $45.5 million. Through December, overhead collections of $37.8 million were 16.8% above prior year levels of $32.4 million. Overall, Overhead reimbursements are expected to end the year close to the budgeted estimate.

Budgeted **Transfers** include $24.1 million in various transfers from other funds ($23.03 million) and transfers of interest earnings from selected funds ($1.04 million). Through December, transfers of $17.1 million are 17.5% above the prior year levels of $14.6 million and reflect differences in the timing of payments and budgeted transfers. This report includes a recommendation to increase the budgeted transfer from the Parks Central and Park Yards Construction and Conveyance Tax Funds by $587,000 to reflect the Council-approved 15% transfer of Parks related C&C revenue to the General Fund for Operating and Maintenance costs. The overall C& C revenue estimate is recommended to be increased by $6.0 million and this represents the General Fund share for parks maintenance. In addition, an increase in the transfer from the Airport Maintenance and Operations Fund of $328,000 is recommended to fund aircraft rescue and fire fighting services overtime and training; a corresponding increase to the Fire Department budget is also recommended in this report

The budget estimate for **Reimbursement for Services** is $18.0 million, of which $17.3 million is expected to be generated from the three **Gas Tax Funds**. Currently, Gas Tax revenues of $6.1 million are down from the prior year levels of $7.5 million by 17.9%. The Adopted Budget estimate for the Gas Tax Funds total $17.3 million, which is consistent with the 2016-2017 collection level. It is important to note that collections in this category can vary significantly from month to month. Therefore, this revenue will continue to be closely monitored to determine if the large drop experienced through December reflects timing differences in the payments or if collections will not meet budgeted levels. Other reimbursements from the Maintenance Assessment District Funds and the Deferred Compensation Program are expected to end the year close to the budgeted estimate.

Status of General Fund Revenues

CONCLUSION

A comprehensive review of all General Fund revenue accounts was performed based on activity through the first six months of the year. Based on current collection trends and information, existing revenues are anticipated to end the year approximately $12 million above budgeted levels (variance of approximately 1.0% when excluding the Beginning Fund Balance). The primary drivers of this additional revenue are higher than estimated Property Taxes, Sales Tax, Business Taxes, Utility Taxes, Use of Money and Property, and Other Revenue. Overall, development-related revenues in the General Fund are generally on pace to meet budgeted levels. However, Planning revenues are expected to fall well below the budget.

In total, a net increase of $915,000 to the General Fund Sources is recommended in this document. This increase primarily reflects a $3.5 million increase related to net-zero grants reimbursements and fees adjustments, a net decrease of $2.0 million in technical and rebalancing actions, and a reduction to the Beginning Fund Balance of $597,000 based on a reconciliation to the final audited 2016-2017 Comprehensive Annual Financial Report (CAFR). Further information regarding these adjustments can be found in Section III of this report.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2019-2023 General Fund Forecast, due to be released on February 28, 2018, as well as the 2018-2019 Proposed Budget, due to be released on May 1, 2018. As always, staff will continue to closely monitor the City's current year financial status and report to the City Council any significant developments through the Bi-Monthly Financial Reports. The January/February Bi-Monthly Financial Report will be brought to the Public Safety, Finance and Strategic Support Committee in April.