

2016-2017 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues and transfers through December totaled \$489.4 million, or 44.8% of the budgeted estimate. Based on current collection trends and information, existing revenues are anticipated to end the year approximately \$15.0 million above budgeted levels (variance of approximately 1.4% when excluding the Beginning Fund Balance), most which represents additional revenue from the Property Tax, Utility Tax, Business Taxes, Licenses and Permits, Departmental Charges, and Use of Money and Property revenue categories. Approximately \$5.0 million is attributed to the Development Fee Programs, and any excess revenues in those programs will be set aside in the Development Fee Program Reserves. It should be noted that the remaining portion of excess revenue (approximately \$10.0 million) is planned as a funding source for the 2017-2018 budget process and is within estimated levels.

The following table details actual 2016-2017 General Fund revenue collections through December as compared with budgeted revenue estimates and 2015-2016 actual collections for the same period a year ago. It also details any proposed changes to each category:

2016-2017 General Fund Revenue Status through December (\$ in Thousands)

Category	Budget Estimate	Y.T.D Actual	% of Estimate	2015-2016 % of Actual	Proposed Changes
General Revenue					
Property Tax	\$ 271,737	\$ 75,371	27.7%	26.7%	\$ -
Sales Tax	224,696	80,901	36.0%	16.1%	-
Telephone Tax	21,614	7,894	36.5%	39.7%	-
Transient Occupancy Tax	16,952	7,265	42.9%	39.7%	-
Franchise Fees	48,917	19,640	40.1%	38.7%	-
Utility Tax	95,750	35,944	37.5%	35.1%	-
Business Taxes	48,800	24,641	50.5%	48.2%	-
Licenses and Permits	51,573	32,931	63.9%	55.6%	-
Fines, Forfeitures, and Penalties	14,910	6,857	46.0%	19.0%	-
Use of Money and Property	3,864	3,169	82.0%	39.4%	-
Revenue from Local Agencies	28,435	5,075	17.8%	24.9%	94
Revenue from the State of California	12,082	766	6.3%	8.0%	1,348
Revenue from Federal Government	6,003	973	16.2%	59.7%	63
Departmental Charges	41,732	23,441	56.2%	47.1%	465
Other Revenue	125,621	109,964	87.5%	90.2%	386
Sub-Total General Revenue	1,012,686	434,832	42.9%	38.1%	2,356
Transfers and Reimbursements					
Overhead Reimbursements	39,732	32,404	81.6%	80.3%	-
Transfers	21,223	14,582	68.7%	71.1%	472
Reimbursements for Services	18,173	7,581	41.7%	33.3%	-
Sub-Total Transfers and Reimbursements	79,128	54,567	69.0%	67.0%	472
TOTALS	\$ 1,091,814	\$ 489,399	44.8%	40.2%	\$ 2,828

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Through December, the majority of revenues are tracking to end the year at or above budgeted estimates, including: Property Tax; Transient Occupancy Tax; Franchise Fees; Utility Taxes; Business Taxes; Fines, Forfeitures, and Penalties; Use of Money and Property; Licenses and Permits; Departmental Charges and Other Revenue. These positive variances are partially offset by lower collections in a limited number of categories, including Sales Tax 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 increase revenue estimates in limited areas to bring estimates in line with revised projections. Major actions include:
 - Increase the estimate for Transfers and Reimbursements by \$472,000 to reflect an increase in anticipated interest earnings from various funds (\$272,000) and a repayment for a General Fund advance that was provided in 2012-2013 to the Neighborhood Security Bond Fund (\$200,000) associated with Fire Station 24.
- Recognize grant, reimbursement, and/or fee related funds (\$2.4 million).
 - The largest items in this category include reimbursement from the State of California to reimburse for Strike Teams deployed to assist with fires in Kern, Santa Cruz, Contra Costa, San Bernardino, Eastern Humboldt, and Santa Clara (Loma Prieta) counties (\$699,403), California Gang Reduction, Intervention, and Prevention (CALGRIP) Grant (\$474,222), Parks, Recreation and Neighborhood Services Fee Activities (\$465,000), and Emergency Street Tree Services (\$300,000).

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In total, adjustments recommended in this document result in a net addition of \$2.8 million to the General Fund revenue estimates. 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				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$271,737,000	\$75,371,485	27.7%	26.7%	\$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 \$4 million based on the most recent estimates from the County Assessor’s Office and actual performance.

The 2016-2017 Adopted Budget **Secured Property Tax** estimate of \$249.4 million includes \$247.4 million from regular Property Tax receipts and \$2.0 million from the distribution of excess 2015-2016 Education Revenue Augmentation Fund (ERAF) funds. For the regular Property Tax receipts, the estimate was based on the assumption that regular collections would increase approximately 6.0% in 2016-2017. The most recent estimate from the County of Santa Clara is tracking slightly above the Adopted Budget estimate by approximately \$340,000. This figure will be adjusted during the year based on actual experience. Because tax roll adjustments will continue to occur until the end of May 2017, the Budget Office will continue to work with the County to monitor actual performance and estimate year-end collections.

The Adopted Budget also assumed \$2.0 million from 2015-2016 excess ERAF funds. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State’s General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In 2015-2016, the City received \$6.7 million from excess funds in 2014-2015. The County has provided a preliminary estimate of \$4.0 million for the 2016-2017 payment, which is \$2.0 million above the budget estimate. Updated information regarding the payment this fiscal year is expected

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to be received from the County in March 2017. 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 2016-2017 **Unsecured Property Taxes** budget estimate is \$14.2 million, which is 2.5% above the prior year collection level of \$13.9 million. Collections through December of \$12.5 million were slightly above prior year collections of \$12.4 million. Current year receipts include an August payment in the amount of \$65,000 that accounts for the final reconciliation of the 2015-2016 fiscal year and an October payment of \$12.4 million that accounts for the majority of revenue received in this category for the year. Based on historical collection patterns, the payment in October would position this category to meet the revenue estimate of \$14.2 million by year-end. The most recent estimate from the County is \$14.0 million for 2016-2017.

SB 813 Property Tax receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) totaled \$1.9 million through December, which is significantly higher than prior year levels of \$642,000. In recent years, SB 813 revenues have been difficult to project due to a change in the distribution methodology and a backlog of adjustments in prior years. The backlog has now been addressed and the new methodology is in place, which should help reduce variances moving forward. The most recent 2016-2017 estimate from the County for this category of \$6.2 million is \$1.8 million above the budgeted estimate of \$4.4 million.

Aircraft Property Tax receipts through December totaled \$2.7 million, reflecting growth of 7.5% from the prior year (\$2.5 million). This collection level exceeds the 2016-2017 Adopted Budget estimate of \$2.6 million, which allowed for a slight decline of 1.3% from 2015-2016 receipts of \$2.67 million. Typically, collections through October reflect 95% of the annual revenue for this category. Based on this collection trend and the latest estimate from the County of Santa Clara, it is estimated that revenues will exceed the budgeted estimate by approximately \$200,000.

In the **Homeowners Property Tax Relief** category, \$146,000 was received through December, which was slightly below the prior year collection level of \$150,000. Based on the most recent estimate from the County and historical collection patterns, revenue is projected to end the year close to the 2016-2017 Adopted Budget estimate of \$1.03 million.

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SALES TAX

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$224,695,553	\$80,900,587	36.0%	16.1%	\$0

The Sales Tax category consists of General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. Overall, revenues are tracking below budgeted estimates and it is anticipated that collections will fall below the budgeted estimate by \$2 million to \$7 million by year-end.

The 2016-2017 Adopted Budget estimate for **General Sales Tax** totals \$188.8 million, which is 3.7% below from the 2015-2016 year-end figure of \$196.0 million. In 2015-2016, General Sales Tax collections of \$196.0 million were 11.5% (\$20.2 million) above the 2014-2015 collection level of \$175.8 million due in large part to the receipt of one-time funds associated with the wind down of the Sales Tax “Triple Flip” of \$12.0 million. The 2016-2017 Adopted Budget estimate assumes 3.5% growth from estimated 2015-2016 collections (excluding one-time payments in 2015-2016 associated with the Sales Tax “Triple Flip”). However, because actual collections in 2015-2016 exceeded expectations, the 2016-2017 Adopted Budget estimate requires growth of 1.5% from the 2015-2016 year-end adjusted figure (excluding the one-time Triple Flip payment of \$12.0 million and other one-time adjustments).

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 2016. The first quarter 2016-2017 General Sales Tax revenues were down 9.4% from the same quarter in the prior year. The large decline was primarily driven by a correction for prior year payments that were made in error. Specifically, the City had received \$2.7 million in sales tax allocations from American Aviation Supply in prior quarters in error. The sales of jet fuel are required to be allocated to the jurisdictions where the ‘wingtip’ is located. The City inadvertently received the sales revenue which belonged to other airport jurisdictions. Factoring out that adjustment, receipts were down 3.8% from the same quarter in the prior year. This performance falls well below the 1.5% growth needed to meet the budgeted estimate. For each of the remaining three quarters, growth of 5.2% is needed to meet the budgeted estimate. If growth of 3.5% is realized for the remaining quarters, collections would fall below the budgeted estimate by \$2.3 million. If collections are flat for the remaining quarters, receipts will fall below the budget by approximately \$7.2 million.

When comparing San José’s cash receipts to those of other jurisdictions, San José’s loss of 9.4% was lower than the growth level of the State as a whole (up 1.9%); Northern California (up 2.0%), San Francisco Bay Area (up 1.9%), and Santa Clara County (down -0.8%).

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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, a decline of 2.0% 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 2016**

Economic Sector	% of Total Revenue	% Change July – Sept 2015 to July – Sept. 2016
General Retail	25.1%	-0.6%
Transportation	22.8%	-1.9%
Business-to-Business	21.4%	-8.6%
Food Products	17.6%	+5.0%
Construction	12.3%	-1.2%
Miscellaneous	0.7%	-14.2%
Total	100.0%	-2.0%

Information on the second quarter collections (October-December sales activity) for this fiscal year will be received in March 2017.

Starting in 2016-2017, the Sales Tax category now includes **Local Sales Tax**. In June 2016, San José voters approved a ¼ cent local sales tax that is estimated to generate \$30.0 million in 2016-2017 (October 2016 implementation) and \$40.0 annually beginning 2017-2018. The additional revenue will fund essential services such as: improving police response to reduce violent crimes and burglaries; improving 911/emergency medical and fire response times; repairing potholes and streets; expanding gang prevention; and maintaining the City’s long-term financial stability. Through December, no revenue from this Local Sales Tax has been received given the lag time in payments. The first payment is expected to be received in January.

Through December, the **Proposition 172 Sales Tax** receipts of \$2.5 million are tracking 13.3% below the prior year level of \$2.9 million through the same period due to the payment timing differences (two payments were received in December of last fiscal year while one payment this fiscal year). Factoring out that timing difference, collections are up 4.0% from the prior year. The 2016-2017 budgeted estimate of \$5.9 million requires growth of 3.3% from the 2015-2016 collection level of \$5.8 million. Based on 2015-2016 actual performance and current collection trends, it is anticipated that collections will meet the budgeted estimate this year.

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TRANSIENT OCCUPANCY TAX

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$16,952,000	\$7,265,091	42.9%	39.7%	\$0

The current 2016-2017 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$17.0 million, which was built assuming growth of approximately 4% from the 2015-2016 estimated collection level of \$16.3 million. However, since 2015-2016 actual receipts came in above estimated levels at \$16.6 million, growth of only 2.3% is needed to meet the budgeted estimate. Year-to-date receipts through December of \$7.3 million are 10.5% above the prior year collection of \$6.6 million. TOT has experienced strong growth and has been consistently exceeding estimated collection levels for the last several years. Based on activity through December, TOT collections are on pace to reach \$18.0 million, exceeding the 2016-2017 budgeted estimate by approximately \$1.0 million. This estimate would represent an increase of approximately 8.4% above prior year collections of \$16.6 million.

If current collection trends continue, budget actions will be brought forward at year-end to recognize the additional revenue and set this funding aside in the Cultural Facilities Capital Maintenance Reserve. Per City Council direction approved as part of the Mayor's March Budget Message for Fiscal Year 2014-2015, the growth in TOT revenues above the established 2013-2014 base level is to be allocated for capital maintenance of the City's cultural facilities.

Through December, the average hotel occupancy rate at the 13 major hotels was 76.6%, a slight increase from the 74.3% occupancy rate for the same period in 2015-2016, and room rates have risen from \$182.24 to \$200.16 (9.8%). The year-to-date average revenue-per-available room (RevPAR) metric of \$153.94 represents an increase of 13.3% from the prior year level.

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FRANCHISE FEES

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$48,916,811	\$19,640,479	40.1%	38.7%	\$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 \$19.6 million were 3.7% above last year's collection level of \$18.9 million. The 2016-2017 budgeted estimate of \$48.9 million is consistent with 2015-2016 actual collection levels. Based on current collection trends, overall, Franchise Fees are tracking to meet or slightly exceed 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 2016-2017 are based on calendar year 2016). Actual collections through December reflect formula driven advance amounts; true receipts will not be known until April 2017. Based on current Electricity and Gas Utility Tax receipts for calendar year 2016, it is anticipated that receipts will meet or exceed the 2016-2017 Adopted Budget estimates of \$20.8 million and \$4.8 million, respectively.

Commercial Solid Waste Fees of \$4.7 million through December are tracking at the prior year levels. Collections are expected to reach the 2016-2017 Adopted Budget estimate of \$11.4 million, which reflects the revised methodology of a flat rate for assessing this fee. The revised methodology became effective July 1, 2012.

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 and actual 2015-2016 receipts of \$10.4 million, revenues are anticipated to end the year close to the budgeted estimate of \$10.6 million.

Collectively, all other franchise fees including Tow, Water, and Nitrogen Gas Pipeline are tracking to end the year close to the budgeted estimates.

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UTILITY TAX

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$95,749,500	\$35,944,411	37.5%	35.1%	\$0

Utility Tax contains the following categories: Electric, Gas, Water, and Telephone. Collections through December of \$35.9 million were tracking 9.6% above the prior year level of \$32.8 million. Most of this increase was due to higher collections in the Water Utility Tax and Telephone Utility Tax categories. To meet the 2016-2017 budgeted estimate of \$95.7 million, an increase of approximately 2.5% from the prior year is needed. Based on current collection trends, overall, Utility Tax receipts are tracking above budgeted estimates, and is anticipated to end above budgeted levels by year-end by approximately \$3.5 - 5.0 million if current collection trends continue. Below is a more detailed discussion of the revenue performance in each category.

Through December, **Electric Utility Tax** receipts of \$17.5 million were 0.7% below the prior year level of \$17.6 million and reflect activities through November 2016. The 2016-2017 Adopted Budget of \$44.8 million requires growth of 1.1% from 2015-2016 actual collections of \$44.3 million. With a 2017 rate increase that is expected to increase average bills by approximately 1.4%, collections are expected to end the year close to the budgeted estimate.

Gas Utility Tax receipts through December of \$2.0 million were 15.1% above prior year collections of \$1.8 million, primarily reflecting rate increases. The 2016-2017 Adopted Budget estimate of \$8.9 million requires growth of 0.4% from the actual 2015-2016 collections of \$8.9 million. Based on collections through December and forecasted rate increases, Gas Utility Tax receipts are expected to exceed the budgeted estimate by over \$1.0 million. It is important to note, however, that Gas Utility Tax receipts are subject to significant fluctuations from the impact of weather conditions and/or rate changes. Collections will continue to be monitored closely since over two-thirds of the revenue in this category is typically collected in the second half of the year.

Water Utility Tax collections of \$5.7 million through December are 58.0% above the prior year level of \$3.6 million. While a portion of this growth is the result of timing differences, collections are exceeding the prior year with monthly growth in the range of 30%, primarily due to higher than expected rate increases and higher consumption levels. The 2016-2017 Adopted Budget estimate of \$13.0 million was based on growth of 8.0% over the projected 2015-2016 collection level, however, because revenues in 2015-2016 of \$12.3 million ended the year slightly above the estimated collection level, growth of 5.5% is necessary to achieve the budgeted estimate. It is currently anticipated that year end actuals may exceed

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the budgeted estimate by as much as \$2 million to \$3 million. However, this category may experience significant volatility due to the impacts of drought and weather conditions.

Telephone Utility Tax receipts of \$10.8 million through December are tracking 9.3% above the prior year level of \$9.9 million. The budgeted estimate of \$29.0 million requires growth of 4.1% from 2015-2016 collections of \$27.9 million. The majority of the increase from the prior year is the result of the new revenue from pre-paid calling cards that went into effect in January 2016. From July through December 2016, pre-paid calling card revenues totaled \$716,000, while no revenue had been received last fiscal year during this same period given the January 2016 start date (in 2015-2016, pre-paid calling card revenues totaled \$398,000 from January through June 2016). Collections in the cellular and Voice over Internet Protocol (VoIP) categories are also tracking above the prior year, partially offset by lower collections in the landline category. Based on current collection trends, receipts in this category are expected to exceed the budgeted estimate by \$500,000 to \$1 million.

BUSINESS TAXES

Revenue Status				
2016-2017		2015-2016		2016-2017
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
\$48,800,000	\$24,640,668	50.5%	48.2%	\$0

Business Taxes include the following major groups of revenue: Cardroom Business Tax, General Business Tax, Marijuana Business Tax, and Disposal Facility Tax. Overall, this category is tracking to exceed the modified budget of \$48.8 million by \$2.0 - \$3.0 million.

Cardroom Business Tax collections reflect the gross receipts tax collected from the two cardrooms located in San José. Through December, receipts of \$7.5 million are 0.8% above the prior year level of \$7.4 million. The 2016-2017 Adopted Budget estimate of \$17.8 million allows for a 1% drop from the 2015-2016 actuals of \$18.0 million. It is anticipated that receipts in 2016-2017 will be similar to last year and will slightly exceed the budgeted estimate.

General Business Tax receipts of \$8.8 million are 4.2% above the prior year level of \$8.4 million. The 2016-2017 Adopted Budget estimate of \$11.65 million allows for a 1.6% drop from the 2015-2016 actuals of \$11.8 million. Revenues are currently tracking to slightly exceed the budgeted estimate by \$250,000 to \$500,000.

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Marijuana Business Tax collections reflect marijuana business tax as well as marijuana business tax compliance revenues. Receipts of \$3.5 million are 8.4% below the prior year level of \$3.8 million. The 2016-2017 Adopted Budget estimate of \$7.2 million allows for a much larger drop of 19.4% from the 2015-2016 actual collection level of \$8.9 million. Although the overall collections are slightly lower than last year, the marijuana business tax collections (excluding compliance revenues) are \$3.4 million, which is 33% higher than last year's level of \$2.6 million. On the other hand, marijuana business tax compliance collections through December total \$68,000, well below the \$1.2 million received last year during this period. With the increasing compliance of registered collectives, collections from compliance revenues are expected to come in below the 2015-2016 levels and the budgeted estimate of \$150,000 for this component reflects this anticipated drop. If current collection trends continue, receipts are projected to exceed the budgeted estimate by as much as \$1.5 million - \$2.5 million.

Disposal Facility Tax (DFT) receipts through December of \$4.9 million are tracking 0.9% above the prior year level of \$4.8 million and reflect 40.1% of the budgeted estimate of \$12.2 million. Based on current tracking, revenues are anticipated to meet the budgeted estimate of \$12.2 million, which is consistent with actual 2015-2016 receipts. Collections in this category, however, can vary as they 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.

LICENSES AND PERMITS

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$51,572,553	\$32,930,964	63.9%	55.6%	\$0

Licenses and Permits include the following major groups of revenue: Building Permits, Fire Permits and Miscellaneous Other Licenses and Permits. Through December, revenues of \$32.9 million are tracking 10.2% above the prior year level of \$29.9 million, while the budgeted estimate allows for a decline of 4.1% from the 2015-2016 collection level of \$53.8 million. Overall, revenues are tracking to exceed budgeted levels by over \$4 million due to higher collections in the development fee programs.

Building Permits revenue of \$16.9 million through December is tracking 15.7% above the 2015-2016 collection level of \$14.6 million for the same period. The 2016-2017 adopted revenue estimate of \$27.5 million allows for a 9.9% drop from prior year actual revenue collections of \$30.5 million in this category.

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LICENSES AND PERMITS

All revenues in this category are exceeding estimated levels except for building, plumbing, mechanical, and electrical permits for new residential construction and processing fees. Development permits to-date have consisted of a mix of commercial and industrial new construction and alterations and residential units. Activity levels for all categories of building use (residential, commercial, and industrial) are higher than the same period last year primarily due to strong building permit activity levels for new residential multi-family projects, new commercial construction, and industrial alteration. Due to the high collections through December, Building Permit revenues are currently tracking to exceed the 2016-2017 budget revenue estimate of \$27.5 million by over \$3 million. Any excess revenues over expenditures for this fee program will be set aside in the Building Development Fee Program Reserve.

Residential activity through December consisted of 1,292 multi-family units and 132 single-family units for a total of 1,424 units. Significant residential activity for December included permits for a 135-unit apartment building on South 2nd Street south of Keyes Street. Commercial activity through December amounted to a valuation of \$394.5 million (new construction valuation of \$272.8 million and alterations of \$121.7 million). Alterations accounted for most of the commercial activity in December. The significant new commercial project for December was a permit for the finished interior of the restaurant located in the Bay 101 cardroom building. Industrial activity through December had a valuation of \$275.5 million (new construction valuation of \$88.3 million and alterations of \$187.1 million). The significant project in December consisted of a permit for a six-story, 184,000 square foot research and development office building on North 1st Street south of Highway 237.

Fire Permits collections through December 2016 of \$7.6 million are tracking 22.9% above the 2015-2016 collection level of \$6.2 million for the same period. The 2016-2017 budgeted revenue estimate of \$11.2 million allows for a drop from the 4.9% from the prior year collection level of \$11.8 million. Fire Permit revenues are conservatively tracking to exceed the Adopted Budget estimate by \$1 million. This category consists of development and non-development related permits.

Development related receipts of \$4.4 million through December are tracking 33.6% above 2015-2016 collection levels of \$3.3 million for the same period. However, the budgeted estimate of \$6.9 million allows for a decline of 5.6% from the prior year's collections of \$7.3 million. If current collection trends continue, it is anticipated that development-related receipts will exceed the budgeted estimate by at least \$600,000 and may exceed the budget by over \$1 million. Any excess revenues over expenditures for this fee program will be set aside in the Fire Development Fee Program Reserve.

Non-development revenues of \$3.3 million primarily represent the first three major billing cycles for non-development fire permits for this fiscal year. With the remaining billing cycle, revenues at year-end are anticipated to slightly exceed the budgeted estimate of \$4.3 million by year-end by approximately \$300,000.

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Miscellaneous Other Licenses and Permits – Revenues of \$8.4 million are tracking 7.4% below prior year levels of \$9.0 million primarily due to the timing of the payments for the Cardroom/Table Fees that have not yet been received in 2016-2017 (\$1.9 million budgeted in 2016-2017; \$1.8 million received in 2015-2016). If this payment had been received as was the case last fiscal year, receipts in this category would have totaled \$10.3 million (13.4% above the prior year). The 2016-2017 budget estimate requires growth of 12.2% from the prior year actual collections. Receipts in this category are expected to end the year close to the budgeted estimate.

REVENUE FROM USE OF MONEY AND PROPERTY

Revenue Status					
	2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>	
\$3,863,935	\$3,169,003	82.0%	39.4%	\$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 \$3.2 million are tracking 42.6% above the prior year of 2.2 million. The budgeted estimate of \$3.9 million, however, allows for a decline of 26% from 2015-2016 year-end actuals of \$5.1 million. Revenues in this category are tracking to end the year above the budgeted estimate by approximately \$1.5 million, due primarily to higher than estimated interest earnings and rental income.

Interest earnings through December total \$773,000, up 64.9% from the prior year level of \$469,000. Collections in this category are expected to exceed the budgeted estimate of \$1.1 million by approximately \$700,000.

Rental income through December totals \$1.9 million, up 42.5% from the prior year level of \$1.4 million due primarily to the receipt of rental income of \$553,000 from the U.S. Patent Trade Office that had not been received through December of the prior fiscal year. The budgeted estimate of \$2.4 million, however, assumed that collections would decline in 2016-2017 from the 2015-2016 actual collection level of \$2.9 million because of lower projected rental of communications facilities. However, actual collections through December totaled \$919,000, or 75.2% above the budgeted estimate of \$524,000. This is primarily due to lease agreements that were renegotiated. Rental income from these facilities remains at prior year levels. Collections in this category are tracking to exceed the budget by approximately \$550,000.

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STATUS OF GENERAL FUND REVENUES

REVENUE FROM USE OF MONEY AND PROPERTY

Subrogation revenue totals \$469,000 through December, up 17.1% from the prior year level of \$401,000. The year-to-date receipts exceed the budgeted estimate of \$300,000. It is important to note, however, that a portion of this revenue may not be collectable from those individuals that damaged City property.

REVENUE FROM LOCAL AGENCIES

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$28,435,387	\$5,075,030	17.8%	24.9%	\$94,345

Funding in this category is provided by many local agencies. 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. Revenues are generally performing close to budgeted levels through December, however, it is anticipated that they will exceed budgeted levels by year end because of higher than anticipated reimbursements from the Central Fire District.

The largest revenue estimate in the Revenue from Local Agencies category is a reimbursement from the Successor Agency to the Redevelopment Agency for the payment of the Convention Center Debt Service. While no revenues have been received through December, it is anticipated that the 2016-2017 budgeted estimate of \$15.3 million will be received by year-end under the current accounting for this payment.

Through December, Central Fire District payments total \$3.3 million, an increase of 8.4% from the \$3.1 million received during the same period in the prior year. Growth of less than 1% from the prior year collection level of \$6.1 million is needed to meet the budgeted estimate of \$6.2 million. Based on current collection trends, Central Fire District reimbursements are expected to exceed the budgeted estimate by year-end by approximately \$200,000.

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 833 meals per day. The County funds approximately two-thirds of the program cost for the 833 meals per day. Activity level and the budgeted revenue estimate of \$1.5 million should be achieved by year-end.

2016-2017 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

However, it is important to note that, due to demand, the City currently serves an average of 920 meals per day, and this higher service level is being funded by prior year carryover funding. The City is currently in negotiations with the County to increase next year's funding to reflect this higher activity level and to adjust for increases with the Consumer Price Index and Living Wage.

A net increase of \$94,345 is recommended to recognize and allocate funding from the County of Santa Clara for the 2016 County Victim Services Program (\$142,203), to recognize and allocate funding from the Santa Clara County Homeland Security Training and Exercise Grants Advisory Group to support Urban Search and Rescue specialized training activities (\$24,790), and to reconcile various cultural affairs grants (-72,648) as discussed in further detail in Section III of this report.

DEPARTMENTAL CHARGES

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$41,731,974	\$23,440,553	56.2%	47.1%	\$465,000

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 \$23.4 million are tracking \$1.3 million above the prior year of \$22.2 million (5.7%) and are tracking to end the year above the budgeted estimate by approximately \$1.5 to \$2.0 million, due primarily to higher than estimated receipts in the Public Works Development Fee Program, Transportation Fee Program, and the PRNS Fee Program.

Planning Development-related revenues are currently below the prior year collection levels, while Public Works Development-related revenues are tracking above the prior year collection levels. Both, however, are expected to meet or exceed the budgeted estimates by year-end.

Public Works – Public Works revenues through December of \$5.3 million are 8.6% above the prior year level of \$4.9 million for the same period. The budgeted estimate of \$9.8 million allows for a 13.5% drop from prior year actual revenue collections of \$11.4 million. The revenue collections are comprised of \$3.4 million from the Development Services Fee Program and \$1.9 million from the Utility Fee Program.

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MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

DEPARTMENTAL CHARGES

Revenues in materials testing-residential, engineering residential and non-residential, and planned development pre-zoning/re-zoning categories are all tracking below estimated levels due to lower activity levels. However, these are offset by higher than estimated levels in the record retention, geologic fees, utility excavations, grading permits, parcel maps, and site development permits categories. It is anticipated that Public Works revenues will end the year above estimated levels by approximately \$1.0 million if current collection trends continue.

Planning, Building and Code Enforcement (PBCE) – Through December, Planning Fee revenues of \$2.2 million are 26.8% below the prior year collection level of \$3.0 million. This drop is in line with the adopted estimate which allows for a 28.1% decline from the prior year level (\$6.3 million) to reach the budgeted estimate of \$4.5 million. The decrease in revenues from the prior year reflects declines in the following permits: residential tentative maps, public noticing, residential general plan amendments, residential prezonings/rezonings, non-residential planned development prezonings/rezonings, residential conventional prezonings/rezonings, non-residential environmental clearances, residential site development permits, residential planned development permits, non-residential development permit adjustments, residential conditional use permits, and miscellaneous permits. These lower collections are partially offset by strong performance in the following areas: non-residential tentative maps, public information services, preliminary reviews, non-residential general plan amendments, non-residential conventional prezonings/rezonings, residential environmental clearances, annexations, non-residential site development permits, non-residential planned development permits, residential development permit adjustments, non-residential conditional use permits, and single-family design review. Planning Fee revenues are anticipated to meet the 2016-2017 budget revenue estimate of \$4.5 million if current collection trends continue.

Other Fees – In the non-development fee areas, the PRNS departmental charges of \$11.9 million are up 18.0% through December when compared to the prior year and are projected to exceed the budgeted estimate of \$20.2 million by at least \$500,000. Transportation Fees of \$911,000 are tracking 14.6% above the prior year level and should slightly exceed the budgeted estimate of \$1.6 million by year-end if current collection trends continue. Library Fees and Fines of \$175,000 are tracking well above the prior year level (\$28,000); however, to meet the budgeted estimate, collections would need to reach \$889,000 by year-end. Based on estimates from the Library Department, collections are expected to end the year close to the budgeted estimate. The Police Department Fees of \$619,000 are currently tracking 27% below the prior year level due to lower POST reimbursements; the budgeted estimate of \$1.3 million allows for a drop of 20% in this category. In addition, other Miscellaneous Departmental Charges are down 7.1% from the prior year due to lower Solid Waste Fees (\$570,000). However, the budgeted estimate allows for a drop of 44% in the Miscellaneous Departmental Charges category primarily to account for the changes in the Solid Waste Program that reduced the fees in 2016-2017.

2016-2017 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

DEPARTMENTAL CHARGES

An action to increase the PRNS budgeted revenue estimate by \$465,000 is recommended to account for increased activity from the preschool program and the Recreation of City Kids (R.O.C.K) program, which is after school programming for kids provided at school sites, and camps. This recommended budget action will increase the PRNS Fee Program estimate from \$20.2 million to \$20.7 million. An associated increase to the PRNS Fee Activities appropriation is recommended to provide for additional staff and vendor hours needed to support the increased class participation levels.

OTHER REVENUE

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$125,620,985	\$109,963,605	87.5%	90.2%	\$386,175

The Other Revenue category contains several unrelated revenue sources. Other Revenue collections through December totaled \$110.0 million compared to prior year levels of \$111.3 million. Collections in this 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. Following is a discussion of the other 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. In 2016-2017, \$100 million had to be issued, which is the same amount that was issued in in the last three years.

In the current year, the City has received \$5.05 million in **SAP Center Rental, Parking, and Naming** revenue in accordance with the terms of a new agreement, which is consistent with the budgeted estimate of \$5.05 million.

SB 90 Reimbursements totaled \$298,000 compared to the 2016-2017 Adopted Budget estimate of \$750,000. The actual reimbursements through December are well below the \$1.1 million received through the same period last year. The collection level is under review to determine if additional reimbursements are expected to be received by year-end.

Through December, revenue from the **Sale of Surplus Property** totaled \$152,000 compared to \$28,000 in the prior year. Per information from the Office of Economic Development, it is expected that the revenue estimate of \$1.0 million should be met by year-end.

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STATUS OF GENERAL FUND REVENUES

OTHER REVENUE

An increase of \$386,175 is recommended in this report to recognize and allocate the following: reimbursements from property owners for emergency street tree services (\$300,000), Council District special events sponsorship funds (\$49,255), the Neighborhood Gateways Galleries grant (\$25,000), and the Pacific Library Partnership grant (\$11,920) as discussed in further detail in Section III of this report.

TRANSFERS AND REIMBURSEMENTS

Revenue Status				
2016-2017		2015-2016		2016-2017
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$79,128,224	\$54,567,110	69.0%	67.0%	\$472,000

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 \$54.6 million through December are tracking above prior year levels of \$50.3 million primarily due to higher overhead reimbursements and reimbursement for services, partially offset by lower transfers. Overall, collections are currently tracking approximately \$1.5 - \$2.0 million below the budgeted estimate.

Overhead Reimbursements associated with special funds are currently budgeted at \$28.6 million and capital funds are budgeted at \$11.1 million for a total category revenue estimate of \$39.7 million. Through December, overhead collections of \$32.4 million were tracking 12.0% above prior year levels of \$28.9 million. Overhead reimbursements associated with special funds are expected to end the year close to the budgeted estimate; however, the overhead associated with capital funds are tracking below the budgeted estimate by approximately \$1 million due to position vacancies in various capital programs.

Budgeted **Transfers** include \$21.2 million in various transfers from other funds (\$20.7 million) and transfers of interest earnings from selected funds (\$539,000). Through December, transfers of \$14.6 million are tracking 7.1% below prior year levels of \$15.7 million and reflect differences in the timing of payments and budgeted transfers. This report includes a recommendation to increase the budgeted transfer from the Neighborhood Security Bond Fund by \$200,000 to repay the General Fund for an advance provided in 2012-2013 in that fund associated with the Fire Station 24 project. In addition, interest earnings in select funds that transfer the earnings to the General Fund are currently tracking to exceed budgeted estimate, therefore an increase of \$272,000 is recommended in this document.

**2016-2017
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STATUS OF GENERAL FUND REVENUES

TRANSFERS AND REIMBURSEMENTS

The budget estimate for **Reimbursement for Services** is \$18.2 million, of which \$17.5 million is expected to be generated from the three **Gas Tax Funds**. Currently, Gas Tax revenues of \$7.5 million are up from the prior year levels of \$5.5 million by 34.9% due to timing differences in the payments. After adjusting for these differences, Gas Tax revenues are actually down 4.7% from the prior year; however, growth of 7.1% from the 2015-2016 actual collection level of \$16.4 million is needed to meet the budgeted estimate of \$17.5 million. Based on current tracking, receipts may end the year below the budgeted estimate by \$500,000 to \$1 million. It is important to note that collections in this category can vary significantly from month to month. Other reimbursements from the Maintenance Assessment District Funds and the Deferred Compensation Program are expected to end the year close to the budgeted estimate.

CONCLUSION

A comprehensive review of all General Fund revenue accounts was performed based on activity through the first six months of the year. Based on current collection trends and information, existing revenues are anticipated to end the year approximately \$15.0 million above budgeted levels (variance of approximately 1.4% when excluding the Beginning Fund Balance), the majority of which represents additional revenue from the Property Tax, Utility Tax, Business Taxes, Licenses and Permits, Departmental Charges, and Use of Money and Property revenue categories. Sales Tax receipts and Transfers and Reimbursement revenue may end the year below the budget, partially offsetting the higher collections in other categories. Approximately \$5.0 million is attributed to the Development Fee Programs, and any excess revenues in those programs will be set aside in the Development Fee Program Reserves. It should be noted that the remaining portion of excess revenue (approximately \$10.0 million) is planned as a funding source for the 2017-2018 budget process and is within estimated levels.

In total, a net increase of \$2.8 million to the General Fund revenue estimates is recommended in this document. This increase primarily reflects a \$2.36 million increase as a result of net-zero Grants Reimbursements and Fees adjustments as well as a net increase of \$472,000 in Transfers as described 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 2018-2022 General Fund Forecast, due to be released in late February, as well as the 2017-2018 Proposed Budget, due to be released on May 1, 2017. 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.