

2015 - 2016 ANNUAL REPORT
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GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2015-2016 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2015-2016 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000s)

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	\$ 262,810	\$ 262,950	\$ 140	0.1%
Sales Tax	201,840	201,797	(43)	(0.0%)
Transient Occupancy Tax	16,300	16,565	265	1.6%
Franchise Fees	48,932	48,949	17	0.0%
Utility Tax	93,825	93,397	(428)	(0.5%)
Telephone Line Tax	21,000	20,077	(923)	(4.4%)
Business Taxes	49,725	50,864	1,139	2.3%
Licenses and Permits	51,721	53,766	2,045	4.0%
Fines, Forfeitures, and Penalties	15,356	16,090	734	4.8%
Rev. from the Use of Money/Property	4,208	5,101	893	21.2%
Revenue from Local Agencies	16,582	17,143	561	3.4%
Revenue from the State of California	12,818	12,174	(644)	(5.0%)
Revenue from Federal Government	12,595	10,562	(2,033)	(16.1%)
Rev. from Fed. Govt. - Recovery Act		37	37	N/A
Departmental Charges	44,814	47,058	2,244	5.0%
Other Revenue	129,574	123,548	(6,026)	(4.7%)
Subtotal	982,100	980,078	(2,022)	(0.2%)
Overhead Reimbursements	37,112	36,050	(1,062)	(2.9%)
Transfers	22,470	22,427	(43)	(0.2%)
Reimbursements for Services	17,757	16,962	(795)	(4.5%)
Subtotal	77,339	75,439	(1,900)	(2.5%)
TOTALS¹	\$ 1,059,439	\$ 1,055,517	\$ (3,922)	(0.4%)

¹ Excludes Beginning Fund Balance.

The General Fund revenue performance for 2015-2016 is discussed in detail in this section. The 2015-2016 actual revenue receipts for each of the major revenue categories are compared to the modified budgets and any significant variances and resulting implications for current year revenue estimates are described. In addition, comparisons with prior fiscal year collection levels are included to indicate collection trends and to provide a historical perspective.

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As shown in Table A, total revenue received in the General Fund in 2015-2016 was \$1.06 billion. This collection level was below the 2015-2016 Modified Budget level by \$3.9 million, (0.4%). After adjusting for rebudgets included as part of the 2016-2017 Adopted Budget (\$4.3 million) and rebudgets recommended in this report (\$6.6 million), revenues for the over 450 accounts budgeted and monitored annually ended the year \$7.0 million, or 0.7% above the 2015-2016 budget level. This positive variance primarily reflects higher than expected Business Taxes, Licenses and Permits, and Departmental Charges revenues. Once adjusted for the Development Fee Programs, which ended the year above the estimate by \$2.9 million and is a reconciling item for the Development Fee Program Reserves, and other revenue-related adjustments required to close out 2015-2016 (\$653,000), there was a net positive revenue variance of \$3.5 million (0.3%) for 2015-2016.

The 2015-2016 collection level of \$1.06 billion was up \$6.9 million (0.7%) from the actual 2014-2015 collections (\$1.05 billion). The categories that experienced the largest increases included: Property Tax, Sales Tax, Business Taxes, Licenses and Permits, and Departmental Charges. The largest declines from the prior year were experienced in the Revenue from Local Agencies (primarily due to lower Successor Agency to the Redevelopment Agency reimbursement of \$22.5 million) and Other Revenue (lower Sale of Property proceeds of \$33.6 million due primarily to a portion of the Airport West property sold in 2014-2015) categories. These large declines are dampening overall revenue growth comparisons to the prior year.

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

Property Tax

Property Tax	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Secured Property Tax	239,353,000	239,561,248	208,248	0.09%
Unsecured	13,887,000	13,887,539	539	0.00%
SB 813 Property Tax	5,870,000	6,182,361	312,361	5.3%
Airplane In-Lieu Tax	2,670,000	2,670,952	952	0.04%
Homeowners Property Tax Relief	1,030,000	648,036	(381,964)	-37.1%
Total	262,810,000	262,950,135	140,135	0.05%

The Property Tax revenue category includes Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax, Airplane In-Lieu Tax, and Homeowner's Property Tax Relief (HOPTR). Property Tax receipts for the 2015-2016 fiscal year totaled \$263.0 million. This collection level was \$140,000 (0.05%) above the budgeted estimate of \$262.8 million, and represented an increase of 6.3% from 2014-2015 actuals of \$247.3 million.

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Property Tax

Secured Property Tax receipts were the largest source of revenue in this category (\$239.6 million), which came in 0.09% (\$208,000) above the 2015-2016 Modified Budget estimate of \$239.4 million. This represents growth of 6.8% from 2014-2015, and includes a payment of \$6.6 million to the City as a result of excess Educational Revenue Augmentation Fund (ERAF) revenues.



With the continued recovery in the real estate market, approximately 8,250 of the properties in San José that were valued at less than their purchase price in 2014-2015 were adjusted upwards in 2015-2016, restoring \$771.0 million in assessed value. Under Proposition 13, assessed values of all real property are adjusted with the Consumer Price Index (CPI), with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CPI adjustment for the 2015-2016 tax roll was an increase of 1.99%.

The SB 813 Property Tax component represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Assessor formally revalues the property. In 2015-2016, receipts of \$6.2 million were fairly consistent with the prior year collection level of \$6.3 million and slightly exceeded the budgeted estimate of \$5.9 million. This is more stable performance in this category after volatility in recent years due to changes in the housing market, a backlog due of adjustments that has now been addressed, and a change in methodology for the SB 813 distribution.

The Homeowners Property Tax Relief payments were \$382,000, or 37.1% below the budget. However, an additional payment of \$349,000 was received and will be reflected in 2016-2017. With the addition of this payment, the variance to budget was only \$33,000, or 3.2%.

With overall Property Tax actual performance in 2015-2016 in very close alignment with expectations, 2016-2017 Property Tax revenue estimates appear to be appropriate at this time. Staff will continue to regularly meet with representatives from the offices of the County Assessor, the County Controller-Treasurer, and the County Tax Collector for any update information that may affect collection levels.

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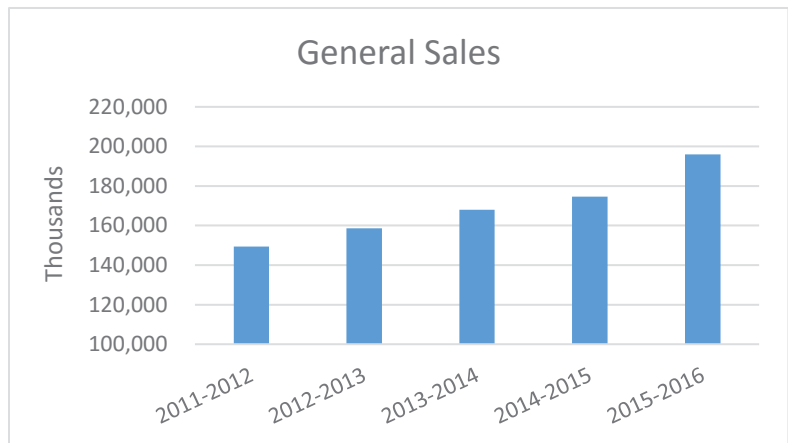
Sales Tax

Sales Tax Category	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
General Sales Tax	195,645,000	196,043,423	398,423	0.20%
Prop 172 Sales Tax	6,195,000	5,753,760	(441,240)	(7.12%)
Total	201,840,000	201,797,183	(42,817)	(0.02%)

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax. Overall, Sales Tax collections in 2015-2016 of \$201.8 million were consistent with the 2015-2016 Modified Budget with a variance of only 0.02% (-\$43,000). This collection level reflects an 11.2% (\$20.3 million) increase from collections in 2014-2015 (\$181.5 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 discussed below. Excluding this one-time true-up payment, growth of 4.5% was realized in 2015-2016. Following is a discussion of the two Sales Tax components:

- **General Sales Tax** – In the General Sales Tax category, collections of \$190.0 million reflect growth of 11.5% above 2014-2015 collection levels of \$175.8 million. This marks the fifth year of growth in this category, with receipts exceeding last year’s peak.

The 2015-2016 actual General Sales Tax figure of \$196.0 million reflects performance for the four quarters of 2015-2016, during which growth of 2.89% (1st quarter), 7.87% (2nd quarter), 5.54% (3rd quarter), and estimated growth of 3.50% (4th quarter), was experienced. Because a three-month lag exists between the period of sales activity and when the City receives its quarterly Sales Tax allocation, the fourth quarter



(April through June) is accrued to the following fiscal year based on estimated performance. Actual Sales Tax results for the fourth quarter have subsequently become available and reflect growth of 6.28% and the additional revenue will be reflected in the 2016-2017 actuals. Details by economic sector for the last quarter’s performance, however, are not yet available. In total, collections of \$196.0 million were \$398,000 above the budgeted estimate.

The City’s Sales Tax consultant, MuniServices, LLC, has provided economic performance data for the four quarters ending March 2016, as displayed in the following chart. This analysis measures sales tax receipts, excluding State and county pools, and adjusts for anomalies, payments to prior periods, and late payments. During this period, economic growth of 3.7% was realized.

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Sales Tax

**Sales Tax Revenue Economic Performance
April 2015 – March 2016**

Economic Sector	% of Total Revenue	% Change from April 2015 – March 2016
General Retail	25.4%	0.6%
Business-to-Business	24.5%	12.0%
Transportation	21.5%	(2.1%)
Food Products	16.5%	4.9%
Construction	11.3%	4.0%
Miscellaneous	0.8%	10.3%
Total	100%	3.7%

The 2016-2017 Adopted Budget revenue projection was developed based on actual 2015-2016 data for the first two quarters, and assumed growth of 4.0% to be realized in the last two quarters of 2015-2016 when compared to the same quarters in the prior year, followed by a 3.5% growth in 2016-2017. However, as discussed above, actual increases in the last two quarters of 2015-2016 were 5.54% and 6.28%, respectively. These actual growth rates generated more revenue than the assumed rates so it is possible that additional sales tax revenue will be received in 2016-2017 if the 2016-2017 growth rate assumption of 3.0% is realized.

In 2015-2016, the wind down of the “Triple Flip”¹ sales tax adjustments was completed. On August 5, 2015, the Department of Finance notified the California State Board of Equalization and the public that the State’s Triple Flip “unwinding” process will be initiated with the defeasance of the Economic Recovery Bonds. The final true-up payment associated with the Triple Flip wind down was made in August 2016 and accrued to 2015-2016. This true-up payment resulted in one-time funding of \$12 million. Excluding this one-time payment, General Sales Tax increased 4.5% in 2015-2016.

- **Proposition 172 Half-Cent Sales Tax** – Receipts of \$5.75 million were below (7.1%) the budgeted estimate of \$6.2 million, but were at the 2014-2015 collection level of \$5.74 million. This performance reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

¹ As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), one-quarter cent of the City’s one cent Bradley Burns sales tax was temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action remained in effect until the State’s bond obligations were satisfied with a final payment in August 2016. The City, however, continued to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts was tied to sales tax and because this action was temporary. This mechanism ceased in 2015-2016 with the final triple flip payment.

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Transient Occupancy Tax

In 2015-2016, receipts of \$16.6 million for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) were very slightly above (1.6%) the 2015-2016 Modified Budget estimate of \$16.3 million, and 14.2% above 2014-2015 TOT receipts of \$14.7 million. This performance level marks a new high, reflecting steady growth since 2012-2013. The higher collection levels are attributable to increased hotel room rates and occupancy. In 2015-2016, the average room rate for the City's 13 largest hotels increased by \$22 (from \$174 to \$196) and the average occupancy for these same hotels rose from 75.9% to 76.6%. As directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in TOT receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve. In accordance with the City Council direction, a budget action is recommended in this report to allocate the additional TOT revenues above the estimate to this reserve (\$265,000).

The 2016-2017 Adopted Budget Estimate of \$16.95 million was built assuming approximately 4% growth in TOT collections over 2015-2016 estimated receipts. Given the slightly higher receipts in 2015-2016, growth of approximately 2.3% above 2015-2016 collections is needed in 2016-2017 in order to meet this budgeted estimate.

Franchise Fees

Franchise Fees	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Electric Franchise Fee	20,946,054	20,985,117	39,063	0.19%
Gas Franchise Fee	4,962,000	4,962,218	218	0.00%
Commercial Solid Waste Franchise Fee	11,342,178	11,368,153	25,975	0.23%
Cable Franchise Fee	10,450,000	10,432,875	(17,125)	(0.16%)
Tow Franchise Fee	900,000	953,045	53,045	5.89%
Nitrogen Franchise Fee	72,000	0	(72,000)	(100.00%)
Great Oaks Water Franchise Fee	260,000	247,535	(12,465)	(4.79%)
Total	48,932,232	48,948,943	16,711	0.03%

Franchise Fee collections of \$48.9 million were slightly above (0.03%) the 2015-2016 Modified Budget level of \$48.9 million and were \$1.3 million, or 2.6%, above the 2014-2015 collection level of \$47.7 million.

Nitrogen payments were not received in 2015-2016. The Administration is currently reviewing this category to determine if any future payments will be received.

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Utility Tax

Utility Tax	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Electricity Utility Tax	43,750,000	44,329,111	579,111	1.32%
Gas Utility Tax	8,900,000	8,892,718	(7,282)	(0.08%)
Water Utility Tax	11,600,000	12,283,795	683,795	5.89%
Telephone Utility Tax	29,575,000	27,891,450	(1,683,550)	(5.69%)
Total	93,825,000	93,397,074	(427,926)	(0.46%)

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$93.4 million were 0.5% below the 2015-2016 Modified Budget level and 2.8% above the 2014-2015 actual level of \$90.9 million. Following is a discussion of the major variances in this category.

- *Water Utility Tax* – Receipts in this category of \$12.3 million were above the modified budget level of \$11.6 million and 6.6% (\$762,000) above the 2014-2015 collection level of \$11.5 million primarily reflecting the rising wholesale price of water.
- *Telephone Utility Tax* – Receipts in this category of \$27.9 million were below the modified budget level of \$29.6 million and \$1.3 million (4.3%) below the prior year actual collection level of \$29.1 million. This negative variance to budget is primarily due to lower telephone and cell phone receipts. Collection levels will continue to be monitored and adjustments will be brought forward as necessary during the year.

Telephone Line Tax

In 2015-2016, Telephone Line Tax collections of \$20.1 million were \$923,000 (4.4%) below the budgeted estimate of \$21.0 million and below the 2014-2015 collection level of \$21.1 million.

Business Taxes

Business Tax	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Cardroom Tax	18,000,000	17,979,330	(20,670)	-0.11%
Business Tax	11,975,000	11,839,969	(135,031)	-1.13%
Disposal Facility Tax	11,925,000	12,172,180	247,180	2.07%
Marijuana Business Tax	7,825,000	8,872,875	1,047,875	13.39%
Total:	49,725,000	50,864,354	1,139,354	2.29%

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Business Taxes

Revenues in this category include the Cardroom Tax, Business Tax, Disposal Facility Tax, and Marijuana Business Tax. Overall, collections of \$50.86 million were 2.3% above the 2015-2016 Modified Budget Estimate of \$49.7 million, and 7.7% (\$3.6 million) above the 2014-2015 collection level of \$47.2 million. Following is a discussion of the major variances in the Business Tax category:

- Disposal Facility Tax** - Collections of \$12.17 million ended the year 2.1% above the budgeted estimate of \$11.9 million but 5.5% below the prior year collection level of \$12.88 million. Revenue from the Disposal Facility Tax (DFT) is impacted by the economy, waste exports, and waste diversion activities from San José and other municipalities and members of the public that use landfills within the City. During 2015-2016, receipts decreased over the prior year due to an expected decline in DFT collections resulting from improvements in the processing of waste from San José's collection programs, increased recycling in neighboring jurisdictions, and increased disposal at out-of-county landfills. The 2016-2017 Adopted Budget estimate totals \$12.2 million and is consistent with 2015-2016 receipts.
- Marijuana Business Tax** – Collections (including compliance revenues) of \$8.9 million were 13.4% (\$1.0 million) above the 2015-2016 Modified Budget level of \$7.8 million, and 61.5% (\$3.4 million) above the 2014-2015 collection of \$5.5 million. The increase in revenue collections was the primarily due to expanded compliance efforts by the City to ensure that the Medical Marijuana dispensaries in San José adhere to all regulations required by the City's program and ordinances. During 2015-2016, the Administration conducted significant outreach, education, enforcement, and compliance efforts with all medical marijuana dispensaries, collectives, cooperatives, cultivators, and manufacturers which resulted in the significant increase in revenue.

Licenses and Permits

Licenses and Permits	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Building Permits	29,500,000	30,506,052	1,006,052	3.41%
Fire Permits	11,133,000	11,793,384	660,384	5.93%
Other Licenses and Permits	11,088,223	11,466,471	378,248	3.41%
Total	51,721,223	53,765,907	2,044,684	3.95%

Revenues in this category include the Building Permits, Fire Permits, and various other licenses and permits. Overall, Licenses and Permits collections of \$53.8 million were 4.0% (\$2.0 million) above the 2015-2016 Modified Budget level of \$51.7 million and 13.2% above (\$6.3 million) the 2014-2015 collection level of \$47.5 million. Both the Building and Fire Development Fee Programs continued the solid performance experienced over the past few years with receipts exceeding the budgeted estimates and the prior year collection levels.

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Licenses and Permits

Building Permits – Receipts of \$30.5 million ended the year 3.4% (\$1.0 million) above the modified budget estimate of \$29.5 million, and 11.2% (\$3.1 million) above the prior year's level of \$27.4 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Building Permit revenue throughout 2015-2016 was above anticipated levels due to a continued high level of development activity in the commercial and industrial land use categories. In recognition of increased permit revenues, the budget estimate was increased by \$1.5 million in the Mid-Year Budget Review and \$2.0 million at the end of 2015-2016.

The total valuation of projects submitted in 2015-2016 was \$1.5 billion, 36.6% above the estimate of \$1.1 billion and 14.3% above the \$1.3 billion valuation of projects that were received in 2014-2015. Total valuation for the commercial and industrial categories ended the year above estimates, while construction valuation for the residential land use category ended the year below the estimate. Commercial valuation of \$474.0 million tracked above the estimate of \$240.0 million and exceeded the prior year level (\$380.0 million). Industrial activity of \$594.7 million surpassed the forecasted level of \$250.0 million and was above last year's level of \$359.9 million. Residential valuation of \$440.9 million in 2015-2016 was lower than the 2014-2015 level of \$580.9 million and less than the estimate of \$615.0 million. A total of 1,692 new residential units received permits in 2015-2016, which was below the estimate of 3,400 units and 2014-2015 actuals of 3,241 units.

Notable activity that took place in 2015-2016 includes: finished interior permit for completion of the fourth floor of the Samsung R&D building on North First Street; permit for a 163,000 square foot warehouse on Piercy Road east of the Highway 101/85 split in south San José; foundation only permits for a five story, 162,000 square foot office building and a six story 194,000 square foot office building in the Coleman Highline development; foundation only permit for a 144 room hotel located on North First Street just south of Highway 237; construction started on a 23,000 square foot assembly building at the eBay campus on East Hamilton Avenue; construction started on a new 315 unit apartment building on West San Carlos Street north of Highway 280 and west of Highway 87; and construction started on three cold shell manufacturing buildings with a combined space of 563,211 square feet located on Disk Drive north of Highway 237 in North San José. The number of projects requiring plan check was 8,800 in 2015-2016, an increase of approximately 15.8% from 7,600 in the prior year. The total number of building inspections conducted in 2015-2016 was 211,500, a decrease of 13.7% compared to the 245,000 inspections during the previous year, primarily attributed to the completion of several large multi-family projects in North San José.

A recommendation to increase the Building Development Fee Program Earmarked Reserve by \$2.1 million is included as part of this report. This increase was derived from a combination of additional revenues of \$1.0 million, expenditure savings of \$983,000, and interest earnings attributed to the program of \$169,000. This increase to the Reserve is partially offset by additional expenses to align the budget with the estimated costs (\$1.0 million) associated with the compensation adjustments to the Building Inspector Combination classification. With these

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Licenses and Permits

recommended adjustments, the net increase to the Reserve will be \$1.1 million, bringing the Reserve from \$15.4 million to \$16.5 million.

When the 2016-2017 Adopted Budget was developed, it was assumed that collections would reach \$27.5 million in 2015-2016 and remain flat at that level in 2016-2017. However, because revenues exceeded expectations in 2015-2016, receipts can drop approximately 10% in 2016-2017 to meet the budgeted estimate.

- **Fire Permits** – Fire Fee receipts of \$11.8 million were 5.9% above the 2015-2016 Modified Budget estimate of \$11.1 million and 13.4% above the prior year's revenue of \$10.4 million. Following is a discussion of Development and Non-Development revenues in this category.

Development revenues from Architectural Plan Check and Inspection, Engineering Systems (Alarms and Sprinklers) Permits and Inspections, and miscellaneous revenues ended the year at \$7.3 million, which was 5.7% above the 2015-2016 Modified Budget estimate of \$6.9 million. Year-end collections were higher than the modified budget estimate by approximately \$391,000; however, when combined with the Fire Development Fee Program overhead reimbursement savings (\$179,000), expenditure savings (\$157,000), and interest earnings (\$43,000), the Fire Development Fee Program Earmarked Reserve is recommended to be increased by a total of \$770,000. This action will increase the reserve from \$5.2 million to \$5.9 million.

Non-Development revenue of \$4.5 million from Annual Renewable Permits, Non-Renewable Permits and Inspections, and other miscellaneous activities exceeded the budget estimate of \$4.2 million. Annual renewable permits revenue of about \$4.0 million was \$355,000 (9.9%) above estimated levels and \$467,000 (13.4%) higher than the collections in the prior year. Combined revenues of \$518,000 from non-renewable permit and other inspection activities (such as after-hours inspections for fire regulatory enforcement and hazardous materials) and permits for pyrotechnics, tents, canopies, and temporary membrane structures were \$17,000 (3.9%) lower than budgeted levels of \$440,000 and \$6,000 (1.4%) lower than last year's year-end revenue of \$429,000.

When the 2016-2017 Adopted Budget was developed, it was assumed that collections would reach \$11.2 million in 2015-2016 and remain flat at that level in 2016-2017. However, because revenues exceeded expectations in 2015-2016, receipts can drop approximately 5% in 2016-2017 to meet the budgeted estimate.

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Fines, Forfeitures and Penalties

Fines, Forfeitures and Penalties	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Parking Fines	11,475,000	11,250,138	(224,862)	(1.96%)
Vehicle Code Fines	1,945,000	1,535,837	(409,163)	(21.04%)
Administrative Citation Fines	275,000	559,981	284,981	103.63%
Other Fines and Penalties	1,661,042	2,744,326	1,083,284	165.2%
Total	15,356,042	16,090,283	734,241	4.78%

The primary sources of revenue in this category are Parking Fines, Vehicle Code Fines, Administrative Citation Fines, and Other Fines and Penalties. Collections of \$16.1 million in this category were 4.8% above the 2015-2016 modified budget estimate of \$15.4 million and 11.0% (\$1.6 million) above the prior year collection level of \$14.5 million.

Parking fines, the largest component of this revenue category, ended the year at \$11.25 million. This collection level was slightly below the modified estimate of \$11.48 million (\$225,000 or 2.0%). The 2016-2017 Adopted Budget estimate of \$11.48 million was set at the 2015-2016 budget level and growth of 2% over the 2015-2016 actual receipts is needed to meet this estimate.

Vehicle Code Fines ended the year at \$1.5 million, which was 21.0% below the modified budget estimate of \$1.9 million and 13.2% below the 2014-2015 collections of \$1.8 million.

Administrative Citation Fines ended the year at \$560,000, which was 103.6% above the modified budget estimate of \$275,000 but 11.2% below the 2014-2015 collections of \$630,000. Airport ground transportation fines (\$131,000) and blight fines (\$87,000) were the primary contributors to the positive variance.

Other Fines and Penalties ended the year at \$2.7 million, which was 165.2% above the modified budget estimate of \$1.7 million and 85.8% above the prior year collections of \$1.5 million. Cardroom penalties of \$620,000 had not been assumed in the budget and these transactions represent the largest positive variances in this category and Business License Penalties of \$1.2 million ended \$303,000 above the estimate.

Revenue from Use of Money and Property

Use of Money and Property	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Interest Earnings	1,080,000	1,302,503	222,503	20.60%
Use of Property	2,727,909	2,914,583	186,674	6.84%
Subrogation Recovery	400,000	883,619	483,619	120.90%
Total	4,207,909	5,100,705	892,796	21.22%

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Revenue from Use of Money and Property

The Use of Money and Property category includes interest income earned in the General Fund, rental income from various City properties, and subrogation recovery revenues. Collections of \$5.1 million ended the year 21.2% above the modified budget level of \$4.2 million and 42.3% above the prior year collection level of \$3.6 million.

Rental income (\$2.9 million) was above the budgeted estimate of \$2.7 million and above (14.3%) prior year collections of \$2.6 million. Interest income of \$1.3 million was above budgeted levels of \$1.1 million, and above the prior year levels of 848,000; however, revenues continue to track below historic levels prior to the implementation of the prefunding of retirement contributions and the significant decline in interest rates. Subrogation recovery revenues to \$884,000 ended the year above the budgeted estimate of \$400,000. The positive variance from the modified budget was primarily due to higher subrogation recovery.

Revenue from Local Agencies

Revenue from Local Agencies	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Successor Agency	5,480,000	5,480,000	-	0.00%
Central Fire District	5,600,000	6,119,181	519,181	9.27%
Local Agency Grants	5,502,141	5,543,939	41,798	0.76%
Total	16,582,141	17,143,120	560,979	3.38%

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

Revenue collections of \$17.1 million ended the year \$561,000 (3.4%) above the budgeted estimate of \$16.6 million. This collection level was \$22.7 million (56.9%) below the 2014-2015 collections of \$39.9 million.

Reimbursement from the Successor Agency of \$5.48 million ended the year at the 2015-2016 Modified Budget. When the 2015-2016 Adopted Budget was developed, it was assumed that SARA would reimburse the City for the Convention Center Debt Service payment that was budgeted in the General Fund of \$15.28 million. However, as part of the 2014-2015 Annual Report actions approved by the City Council in October 2015, the reimbursement was reduced by \$9.8 million to \$5.48 million as a result of Senate Bill 107 that disallowed the reimbursement mechanism used to pay this obligation. The General Fund has been advancing funds to SARA since 2012-2013 to pay debt service on certain City-backed

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Revenue from Local Agencies

debt, including the Convention Center payment. A reimbursement agreement was established between the City and SARA to reimburse the General Fund within the same fiscal year the advance was made for fiscal years 2012-2013 through 2014-2015, using redevelopment funds for the following period. Due to the passage of Senate Bill 107 on September 22, 2015, which amended redevelopment dissolution law, the mechanism allowing SARA to reimburse the City on an intra-year basis was disallowed. As such the City did not receive reimbursement for the 2015-2016 loan from the General Fund of approximately \$9.8 million in August 2015 to cover the Convention Center debt payment. The loan will not be repaid until there is sufficient property tax revenue to pay all other enforceable obligations, since obligations to the City are subordinate to all other enforceable obligations, which is expected in 10 to 15 years. Using the current level of annual distribution from the Redevelopment Property Tax Trust Fund (RPTTF) and the continued ability to reserve RPTTF each year for debt service, it is anticipated SARA will be able to pay all of its debt service going forward. The SARA reimbursement of \$5.48 million in 2015-2016 was well below the 2014-2015 reimbursement level of \$28.0 million.

In 2015-2016, the Central Fire District payment of \$6.1 million ended the year \$519,000 (9.3%) above the modified budget estimate and above the prior year collection of \$5.7 million (7.3%). These payments represent property taxes collected by the Central Fire District for areas of the County served by the San José Fire Department. The year-over-year increase of payments is due to the change in Property Tax valuation in those areas.

The payment of \$521,000 from the County of Santa Clara for the City's Paramedic Program was above the modified budget of \$450,000 by \$71,000 (15.7%). Beginning in 2013-2014, the County began withholding payments for the first responder advanced life support program (Paramedic Program) because the City had not met the response time performance standards set forth in the agreement with the County. In 2014, the City and the County continued to negotiate regarding this issue and executed a Second Amendment to the 911 Emergency Medical Services (EMS) Provider Agreement in December 2014 that expired December 2015. Under this agreement, the Annex B, Category A funds from July through December 2015 were paid in 2015-2016; however the associated payments from January through June 2016 were not received due to the expiration of the agreement. It should be noted the City is working with the County to receive these payments in 2016-2017. These payments are associated with EMS Resources Management and do not include any performance-based payment (Annex B, Category B funds).

Animal Care Services collections of \$958,000 ended the year \$28,000 (3.0%) above the modified budget estimate of \$930,000 and 0.9% above the prior year collection of \$950,000.

Rebudget actions to adjust revenues and expenditure budgets for various local agency grants based on actual 2015-2016 performance are recommended as well as budget actions to recognize new grants and reimbursements, as described in *Section IV -- Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

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GENERAL FUND REVENUE PERFORMANCE

Revenue from the State of California

Revenue from the State of California	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Other State Revenue	9,900,000	10,603,979	703,979	7.11%
State Grants	2,482,502	1,160,195	(1,322,307)	(53.27%)
Motor Vehicle In-Lieu Tax	435,000	410,132	(24,868)	(5.72%)
Total	12,817,502	12,174,306	(643,196)	(5.02%)

The major State revenues include the Tobacco Settlement Revenue and State Grants. Revenue from the State of California of \$12.2 million ended the year 5.0% below the 2015-2016 Modified Budget estimate of \$12.8 million, but 1.2% (\$150,000) above the prior year actual level of \$12.0 million.

Within the Other State Revenue category, the Tobacco Settlement revenues of \$8.9 million were 1.9% (\$169,000) above the 2015-2016 Modified Budget estimate of \$8.75 million, but 4.9% below the prior year level of \$9.4 million.

State grants and other reimbursements totaled \$1.2 million, which was \$1.3 million, or 53.3%, below the modified budget estimate of \$2.5 million. This was the result of a timing difference of many grants (and their associated expenditures). The 2016-2017 Adopted Budget includes the rebudget of revenues and associated expenditures for various State grants in the amount of \$361,000, and another \$369,000 in rebudget adjustments are recommended in this report to account for the anticipated receipt in 2016-2017 of revenues that were not received in 2015-2016.

These adjustments based on actual year-end performance, are described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Revenue from the Federal Government

The revenue in this category is generated by various federal grants and reimbursements. In 2015-2016, Revenue from the Federal Government of \$10.56 million was 16.1% (\$2.0 million) below the modified budget estimate of \$12.6 million and 0.6% (\$64,000) below the 2014-2015 collection level of \$10.63 million. This negative variance from the modified budget estimate was the result of various grants (and their associated expenditures) falling below the budgeted estimates.

Included in the 2016-2017 Adopted Budget was the rebudget of a portion of the revenues and associated expenditures for various federal grants in the amount of \$1.2 million, and \$160,000 in net rebudget adjustments are recommended in this report to account for the anticipated receipt in 2016-2017 of revenues that were not received in 2015-2016. These additional adjustments are described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

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Departmental Charges

Departmental Charges	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Parks, Recreation and Neighborhood Services Fees	18,770,352	18,935,021	164,669	0.88%
Public Works Fees	10,315,000	11,093,241	778,241	7.54%
Planning Fees	5,902,000	6,255,207	353,207	5.98%
Police Fees	1,198,415	1,581,337	382,922	31.95%
Transportation Fees	1,537,239	1,574,999	37,760	2.46%
Library Fees	1,320,500	1,200,942	(119,558)	(9.05%)
Miscellaneous Fees	5,770,152	6,417,182	647,030	11.21%
Total	44,813,658	47,057,929	2,244,271	5.01%

Revenues in this category include fees and charges assessed by several departments. Overall, Departmental Charges collections of \$47.1 million were 5.0% (\$2.2 million) above the 2015-2016 Modified Budget level of \$44.8 million and 12.8% above (\$5.3 million) the 2014-2015 collection level of \$41.7 million. The Police Fees category exceeded the budgeted estimate primarily due to higher than anticipated POST reimbursements, miscellaneous charges, and Photostats fees. The Public Works and Planning Development Fee Programs also exceeded the budgeted estimates as discussed below.

- Public Works Departmental Fees** – Collections of \$11.1 million ended the year 7.5% above the modified budget estimate of \$10.3 million and 21.1% above the \$9.2 million collected in 2014-2015. The 2015-2016 collections are comprised of \$7.3 million from the Development Services Program and \$3.8 million from the Utility Fee Program. Revenues related to Engineering categories such as Residential, Non-Residential, and Private all performed at lower than estimated levels as a result of lower activity levels. However, these are offset by higher than estimated levels in the Utility Excavation, Grading Permits, Geologic Fees, Traffic Reports, and Planned Development Permits categories. In 2015-2016, the additional revenues of \$778,000, expenditure savings of \$629,000 in the Public Works Fee Program, and interest earnings attributed to the program of \$42,000, results in a recommendation in this report to increase the Public Works Development Fee Program Earmarked Reserve by \$1.45 million from \$3.72 million to \$5.17 million.
- Planning Departmental Fees** – Collections of \$6.3 million ended the year 6.0% above the modified budget estimate of \$5.9 million and 26.7% above the prior year level of \$4.9 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Planning Fee revenues throughout 2015-2016 were above anticipated levels. In recognition of increased revenues, the budget estimate was increased by \$1.1 million in the Mid-Year Budget Review and \$1.3 million at the end of 2015-2016. Actual receipts, however, were above the revised budget estimate as a result of higher than anticipated permit issuance in May and June 2016. Actual collections for all fee categories met or exceeded the estimate except for Sale of Publications, Non-Residential Planned Development

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Departmental Charges

Prezonings/Rezonings, Non-Residential Environmental Clearance, Non-Residential Site Development Permits, Non-Residential Planned Development Permits, and Non-Residential Development Permit Adjustments.

A recommendation to increase the Planning Development Fee Program Earmarked Reserve by \$442,000 is included as part of this report. This increase was derived from a combination of additional revenues of \$388,000, expenditure savings of \$33,000, and interest earnings attributed to the program of \$21,000. With the recommended adjustment, the Reserve will increase from \$1.9 million to \$2.3 million.

Other Revenue

The Other Revenue category contains a number of unrelated revenue sources and totaled \$123.5 million in 2015-2016. As was the case in 2014-2015, Tax Revenue Anticipation Notes (TRANs) accounted for \$100 million of the receipts in this category and have an offsetting expenditure to repay the TRANs. Total collections of \$123.5 million were 4.65% (\$6.0 million) below the budgeted estimate of \$129.6 million, and 20.4% (\$31.7 million) below the 2014-2015 collection level of \$155.2 million, primarily due to the sale of Airport West (\$35.9 million) which occurred in the prior year, offset by higher interest (\$2.4 million) and Miscellaneous Revenue (\$863,000).

Included in the 2016-2017 Adopted Budget was the rebudget of revenues and associated expenditures for various grants and reimbursements in the amount of \$2.6 million and \$5.7 million in net rebudget adjustments are recommended in this report to account for the anticipated receipt in 2016-2017 of revenues that were not received in 2015-2016. Additional adjustments of \$599,000 are recommended in this report to adjust revenue and corresponding expenditure budgets to recognize various grants and reimbursements in 2016-2017, as described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Transfers and Reimbursements

Overhead, Transfers , and Reimbursements	2015-2016 Budget (\$)	2015-2016 Actuals (\$)	2015-2016 Variance (\$)	2015-2016 Variance %
Overhead Reimbursements	37,112,363	36,050,408	(1,061,955)	(2.86%)
Transfers	22,469,793	22,476,696	6,903	0.03%
Reimbursements for Services	17,757,341	16,961,571	(795,770)	(4.48%)
Total	77,339,497	75,488,675	(1,850,822)	(2.39%)

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall, collections of \$75.5 million ended the year 2.4%, or \$1.9 million below the 2015-2016

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Transfers and Reimbursements

Modified Budget estimate of \$77.3 million. The Overhead Reimbursement category was below the budgeted estimate due to lower capital fund overhead based on actual activity in 2015-2016. Reimbursements for Services also ended the year below the budget primarily due to lower Gas Tax receipts (\$16.3 million actual receipts versus the budgeted estimate of \$17.0 million). The 2015-2016 collection level of \$75.5 million was 0.7% (\$503,000) above the prior year due primarily to increased transfers (\$3.4 million), partially offset by lower overhead (\$1.4 million) and reimbursements (\$1.5 million).

Summary

In 2015-2016, total revenues received by the General Fund of \$1.06 billion were lower than the modified budget level by \$3.9 million (0.4%). After adjusting for \$4.3 million in grant and reimbursement-related revenues not received in 2015-2016, but rebudgeted to 2016-2017 as part of the 2016-2017 Adopted Budget as well as additional rebudget and clean-up adjustments recommended in this report, revenues actually ended the year \$3.5 million (0.3%) above the budgeted estimate. This is an extremely small variance given the diversity of over 450 City revenues and the overall size of the General Fund.

The 2015-2016 collection level of \$1.056 billion was up \$5.4 million (0.5%) from the actual 2014-2015 collections (\$1.050 billion). The 2015-2016 revenue estimates were built on the assumption that the economically-sensitive revenues would continue to experience growth. Actual performance in 2015-2016 was generally consistent with this assumption. A number of economically-sensitive revenue categories, such as Property Tax, Sales Tax, and Transient Occupancy Tax, continued to experience solid growth. Increases in these categories were offset by large declines in the Revenue from Local Agencies and Other Revenue categories, which are dampening overall revenue growth. Revenue from Local Agencies experienced a significant decline primarily due lower SARA reimbursement of \$22.5 million. This includes the reduction of \$9.8 million from the Successor Agency as a result of Senate Bill 107 that disallowed the reimbursement mechanism used to pay this obligation. The Other Revenue category also experienced a significant decline from the prior year due primarily to the sale of Airport West (\$35.9 million) and sale of real properties (\$1.2 million) in 2014-2015.

Continued positive revenue performance is expected to again be experienced in 2016-2017. The Administration will actively monitor economic indicators and revenues in 2016-2017 through the Bi-Monthly Financial Report and the Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions, if necessary.