

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues and transfers through December totaled \$468.7 million, or 39.2% of the budgeted estimate. Based on current collection trends and information, existing revenues are anticipated to end the year approximately \$15 million - \$20 million above budgeted levels (variance of approximately 2% when excluding the Beginning Fund Balance). The primary drivers of this additional revenue are higher than estimated Property Tax, Sales Tax, Business Taxes, and Other Revenue, partially offset by lower than anticipated Transient Occupancy Tax and Utility Tax receipts.

The following table details actual 2019-2020 General Fund revenue collections through December as compared with budgeted revenue estimates and 2018-2019 actual collections for the same time period in the previous year. Also included are changes to each category (excluding the Beginning Fund Balance adjustment) that are recommended as part of this report:

2019-2020 General Fund Revenue Status through December (\$ in Thousands)

Category	Budget Estimate	YTD Actual	% of Estimate	2018-2019 % of Actual	Proposed Changes
General Revenue					
Property Tax	\$ 354,000	\$ 88,642	25.0%	25.1%	\$ 10,000
Sales Tax	258,300	84,016	32.5%	35.4%	-
Telephone Line Tax	20,000	7,631	38.2%	37.5%	-
Transient Occupancy Tax	22,500	7,364	32.7%	36.8%	(2,500)
Franchise Fees	48,641	20,399	41.9%	43.2%	-
Utility Tax	99,645	40,454	40.6%	37.2%	-
Business Taxes	72,200	37,449	51.9%	47.5%	-
Licenses and Permits	62,009	43,485	70.1%	54.0%	-
Fines, Forfeitures, and Penalties	16,213	7,854	48.4%	37.9%	-
Use of Money and Property	13,144	6,860	52.2%	38.7%	-
Revenue from Local Agencies	17,499	7,068	40.4%	31.5%	(209)
Revenue from the State of California	15,417	8,302	53.8%	0.1%	6,603
Revenue from Federal Government	5,267	358	6.8%	29.9%	(56)
Fees, Rates, and Charges	59,102	25,880	43.8%	50.0%	(6)
Other Revenue	31,647	21,217	67.0%	70.2%	5,130
Sub-Total General Revenue	1,095,584	406,979	37.1%	41.8%	18,962
Transfers and Reimbursements					
Overhead Reimbursements	56,273	45,091	80.1%	16.3%	-
Transfers	27,409	10,773	39.3%	4.9%	319
Reimbursements for Services	17,275	5,877	34.0%	26.1%	-
Sub-Total Transfers and Reimbursements	100,957	61,741	61.2%	14.1%	319
TOTALS	\$ 1,196,541	\$ 468,720	39.2%	39.7%	\$ 19,281

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Through December, the majority of revenues are anticipated to end the year at or above budgeted estimates, including; Property Tax, Sales Tax, Business Taxes, and Other Revenue. These positive variances are partially offset by lower collections in a limited number of categories, including Transient Occupancy Tax and Utility Taxes.

Recommended Adjustments

As described below, revenue adjustments totaling \$19.3 million are recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; and (2) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures.

- Implement required technical and rebalancing actions to revise revenue estimates in limited areas to bring estimates in line with revised projections (net increase of \$11.3 million). Significant actions include:
 - Increase the Property Tax estimate by \$10.0 million (from \$354.0 million to \$364.0 million), to reflect higher estimated Secured Property Tax receipts. Based on the most recent information provided by Santa Clara County, Secured Property Tax receipts in 2019-2020 are estimated at \$340 million, which is approximately \$10 million over the budgeted estimate.
 - Increase the Sale of Properties revenue estimate (Other Revenue) by \$3.8 million (from \$1.1 million to \$4.9 million). The 2019-2020 Adopted Budget was built on the assumption that a total of \$1.1 million would be received in 2019-2020 for property sales, however, as a result of the recent sale of 200 Park Avenue, it is now anticipated that a total of \$4.9 million will be received.
 - Decrease the Transient Occupancy Tax estimate by \$2.5 million (from \$22.5 million to \$20.0 million), to align the budgeted estimate with anticipated receipts. The lower Transient Occupancy Tax estimate is primarily attributable to declining hotel occupancy and the softening of room rates.
- Recognize grant, reimbursement, and/or fee related funds (\$8.0 million). Significant actions include:
 - Recognize revenue from the State of California/California Governor's Office of Emergency Services (Cal OES) to help supplement the Fire Training Center project (\$3.0 million) and Emergency Operations Center project (\$2.5 million); recognize grant revenue from the State of California for the 2018-2020 Internet Crimes Against Children (ICAC) grant program (\$950,000); and recognize revenue received to support the purchase and installation of vehicle telematic equipment (\$750,000).

Additional detail on all General Fund revenue adjustments can be found in Section III of this document. The following discussion highlights major General Fund activities through December in various revenue categories.

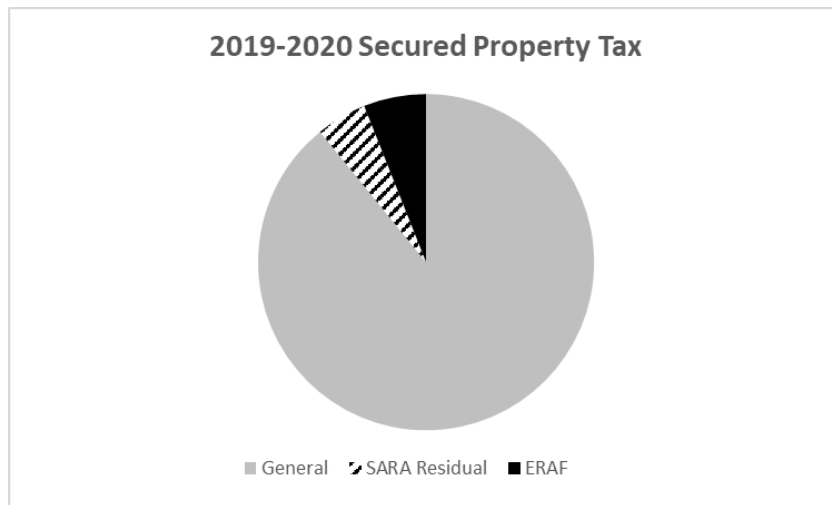
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PROPERTY TAX

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$354,000	\$88,642	25.0%	25.1%	\$10,000

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), Aircraft Property Tax, and Homeowner’s Property Tax Relief. Overall, Property Tax revenues are projected to exceed the budgeted estimate by approximately \$10 million based on the most recent information received from Santa Clara County and actual performance through the first half of the fiscal year. A recommendation is included in this report to increase the Property Tax revenue estimate by \$10.0 million (from \$354.0 million to \$364.0 million) to more closely align the Secured Property Tax budget with estimated receipts. Each of the Property Tax sub-categories are further described below.



Secured Property Tax represents over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Educational Revenue Augmentation Fund (ERAF) revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax. The 2019-2020 Secured Property Tax budgeted estimate totals \$329.4 million, however; based on information provided by the County, collections

are anticipated to exceed the budgeted estimate by approximately \$10 million. As described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, to more closely align the budgeted estimate with the anticipated collection level, a recommendation is included in this report to increase the Secured Property Tax estimate by \$10.0 million. This increase is comprised of general Secured Property Tax (\$4.8 million), ERAF (\$3.2 million), and SARA Residual Property Tax (\$2.0 million).

The general Secured Property Tax budgeted estimate totals \$293.6 million in 2019-2020, which assumes growth of 5.5% from the 2018-2019 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2% and increased valuation

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PROPERTY TAX

due to changes in ownership or new construction. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The most recent general Secured Property Tax estimate provided by the County totals approximately \$300 million, which is roughly \$5 million above the budgeted estimate.

Beginning in 1992, agencies are 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. Once there are sufficient funds in ERAF to fulfill obligations, the remainder of the funding is returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. The 2019-2020 ERAF budgeted estimate totals \$19.8 million; however, updated payment information provided by Santa Clara County totals \$23.0 million, which is \$3.2 million over the budgeted estimate.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. In 2019-2020, SARA Residual Property Tax revenue is estimated at \$16.0 million; however, the most recent information provided by Santa Clara County indicates that \$18.0 million may actually be received in the current year.

Through the first half of the year, **Unsecured Property Tax** collections have totaled \$14.6 million, which is approximately 5% above the prior year collection level. Typically, a majority of the revenue for this category is received in October of each year, with the final payment being received in April. Based on information provided by Santa Clara County, it is anticipated revenues will end the year at \$14.8 million, which is approximately \$200,000 below the budgeted level of \$15.0 million

SB 813 Property Tax receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) totaled \$1.5 million through December, which is 13.9% below the prior year level. The 2019-2020 Adopted Budget estimate of \$6.3 million is well below the 2018-2019 actual collection level of \$8.6 million as collections in this category ended 2018-2019 stronger than anticipated. However, the preliminary 2019-2020 estimate from Santa Clara County for this category of \$6.0 million is approximately \$300,000 below the budgeted estimate.

Aircraft Property Tax receipts through December totaled \$2.9 million, which is 25.3% above the prior year collection level of \$2.3 million. Typically, collections through December reflect 95% of the annual revenue for this category. Based on current year collections and the latest estimate from Santa Clara County, receipts are anticipated to end the year at approximately \$3 million, which is \$550,000 above the budgeted estimate.

In the **Homeowner's Property Tax Relief** category, \$139,000 was received through December, which is fairly consistent with the prior year collection level. Based on the most recent estimate from the County and historical collection trends, revenue is projected to end the year close to the budgeted estimate of \$900,000.

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SALES TAX

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$258,300	\$84,016	32.5%	35.4%	\$0

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax. The 2019-2020 Adopted Budget for Sales Tax totals \$258.3 million, which allows for a 2.0% drop from the 2018-2019 collection level of \$263.5 million. It is important to note that the 2019-2020 Sales Tax estimate does not include any revenue related to the Revenue Capture Agreement between the City and eBay that was approved by the City Council on September 24, 2019. Any funding the City may receive as a result of the agreement would not be disbursed by the California Department of Tax and Fee Administration (CDTFA) until February 2020; and as there continues to be uncertainty regarding the revenue, a revenue adjustment will not be recommended until the funds are received from the CDTFA and analyzed by the City.

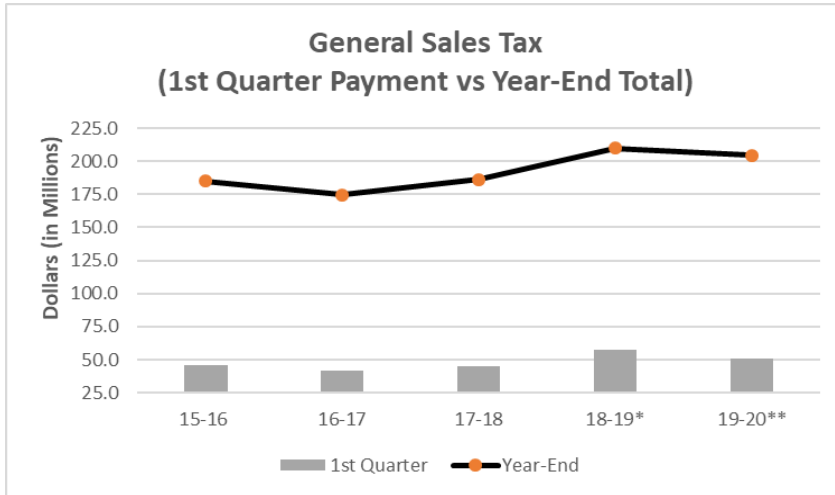
In June 2018, the United States Supreme Court made a historic ruling with the South Dakota vs. Wayfair, Inc. decision, which provides states with the authority to require online retailers to collect sales tax even without a local presence in that state. The 2019-2020 budget was built on the assumption revenue totaling \$5.0 million would be received (\$4.0 million for General Sales Tax and \$1.0 million for Local Sales Tax) as a result of the Supreme Court's ruling. Out-of-state online retailers began complying with the new Sales Tax guidelines beginning in April 2019; however, marketplace facilitators were not required to comply until October 2019. The impact of marketplace facilitators, including eBay, is still unknown as compliance just recently began. As additional information is received and analyzed, it will be included in future Bi-Monthly Financial Reports and the 2020-2021 Proposed Operating Budget. Below is a discussion of the three Sales Tax sub-categories: General Sales Tax, Local Sales Tax, and Proposition 172 Sales Tax.

When the 2019-2020 Adopted Budget was developed, **General Sales Tax** was anticipated to total \$204.8 million in 2018-2019 and drop slightly to \$204.6 million in 2019-2020. The 2019-2020 estimate was the result of factoring out one-time adjustments related to a 2018-2019 overpayment from the CDTFA attributable to 2017-2018 activity (\$9.0 million), assumed 2.5% underlying growth from the 2018-2019 estimate, and an estimated \$4.0 million anticipated to be received for out-of-state internet sales. However, because 2018-2019 receipts ended the year at \$209.8 million, the 2019-2020 budgeted estimate allows for a 2.5% decline. The first quarter General Sales Tax receipts (which represents sales tax activity for July-

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SALES TAX



September) was received in November 2019. Receipts totaled \$51.1 million, which is 11.8% below the prior year level. However, after adjusting prior year receipts attributable to 2017-2018 sales activity (approximately \$2 million), growth of almost 5% was experienced. Due to the limited information currently known about Sales Tax, an updated year-end General Sales Tax estimate has not been determined.

* Includes overpayment attributable to 2017-2018 activity
 **2019-2020 Budgeted Estimate

On September 24, 2019 the City Council approved the Revenue Capture Agreement Between City of San José and eBay, Inc. As part of this memorandum, the City Council adopted a resolution authorizing the City Manager to negotiate and execute a Revenue Capture Agreement between the City and eBay, beginning in 2019 and ending in 2034. This agreement may result in the City receiving additional General Sales Tax revenue ranging from \$5.0 million up to possibly \$29.5 million annually. As previously discussed, revenue adjustments related to this category will not be brought forward for City Council consideration until the funds are distributed from the CDTFA and analyzed by the City.

In June 2016, San José voters approved a ¼ cent **Local Sales Tax**, which was implemented in October 2016. The 2019-2020 Local Sales Tax budgeted estimate totals \$47.0 million, which was the result of factoring out one-time adjustments of approximately \$2 million related to the 2018-2019 overpayment from the CDTFA attributable to 2017-2018 activity, assumed 2.5% underlying growth from the 2018-2019 estimate, and an estimated \$1.0 million anticipated to be received for out-of-state internet sales. The 1st quarter Local Sales Tax receipts were received in November 2019, and totaled \$11.7 million, which is 10.0% below the prior year level. However, after adjusting the prior year receipts attributed to 2017-2018 sales tax activity (approximately \$2 million), growth of over 10% was experienced. Due to the limited information currently known about Sales Tax, an updated year-end Local Sales Tax estimate has not been determined.

Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Through December, the Proposition 172 Sales Tax receipts of \$2.2 million reflects growth of 1.2% growth from the prior year collection level. The 2019-2020 budgeted estimate of \$6.7 million requires growth of approximately 2.5% from the 2018-2019 collection level of \$6.5 million. It is currently anticipated that collections will meet or fall slightly below the budgeted estimate by year-end.

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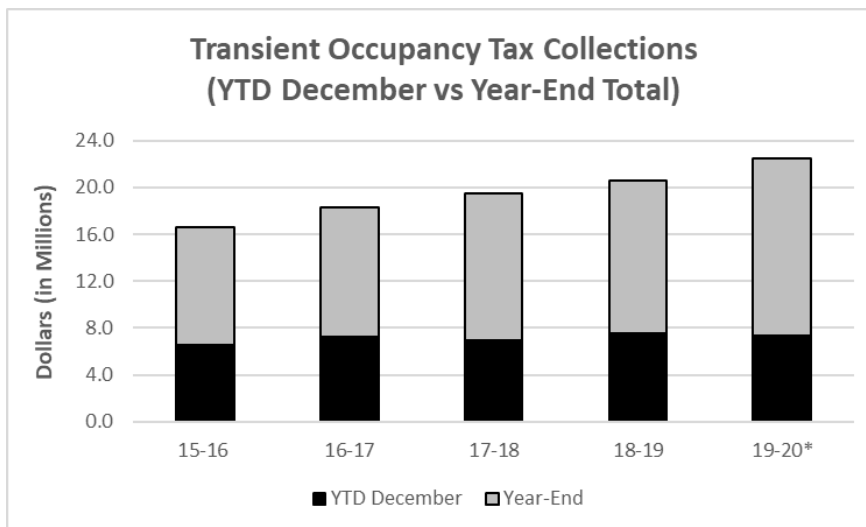
STATUS OF GENERAL FUND REVENUES

TRANSIENT OCCUPANCY TAX

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$22,500	\$7,364	32.7%	36.8%	(\$2,500)

The 2019-2020 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) totals \$22.5 million, which was initially built assuming growth of approximately 7% from the 2018-2019 estimated collection level of \$21 million. However, since actual 2018-2019 receipts were slightly below at \$20.5 million, growth of approximately 9.6% is needed to meet the 2019-2020 budget estimate. As reported in previous Bi-Monthly Financial Reports, collections through the first half of the year have not been performing at anticipated levels. Through December, TOT receipts totaled \$7.4 million, which were 2.7% below the prior year's collection level of \$7.6 million. This year-over-year variance is attributable to declining hotel occupancy and the softening of average room rates. Based on year-to-date collections and current occupancy and rate trends, TOT collections are anticipated to end the year at \$20.0 million. Therefore, as described further in *Section III. Recommended Budget Adjustments and Clean-up Actions*, this report includes a recommendation to decrease the Transient Occupancy Tax budgeted estimate by \$2.5 million, from \$22.5 million to \$20.0 million.

Through December, the average hotel occupancy rate for the San José market hotels was 74.1%, a decrease from the 78.5% occupancy rate reported for the same period in 2018-2019, which is partly attributable to



an increase in the hotel room supply in late summer 2019 (450 rooms). Although supply has increased, reported average room rates have decreased from \$195.08 to \$191.58 (-1.8%). Additionally, and more indicative of year-to-date performance, the average revenue-per-available room (RevPAR) through December 2019 totaled \$141.96, which represented a 7.3% decrease from the prior year level of \$153.10.

* 2019-2020 Budgeted Estimate

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FRANCHISE FEES

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$48,641	\$20,399	41.9%	43.2%	\$0

Franchise Fees are collected in the Cable Television, City Generated Tow, Commercial Solid Waste, Great Oaks Water, Nitrogen Gas Pipeline, PG&E Electric, and PG&E Gas categories. Through December, Franchise Fee receipts of \$20.4 million are 2.4% below the prior year collection level of \$20.9 million, which is primarily due to lower Gas and Electric Franchise Fee collections. As further discussed below, Gas and Electric Franchise Fees collected through December are formula driven advance amounts, with the true-up occurring in April 2020. Based on historical collection trends, it is currently anticipated that overall Franchise Fees will meet budgeted levels by year-end. Each of the Franchise Fees sub-categories are further described below.

Cable Television Franchise Fees of \$2.2 million through December are fairly consistent with the prior year level and reflect one quarter's payment. The 2019-2020 Adopted Budget estimate was built on the assumption that 2018-2019 revenues would total \$8.8 million and drop 4.5% in 2019-2020. However, 2018-2019 collections were stronger than anticipated in the last half of the fiscal year, and ended the year at \$9.0 million. Therefore, the 2019-2020 budgeted estimate allows for a 7% decline from the prior year actual collections. Based on current collection trends and historical patterns, revenues are anticipated to exceed the budgeted estimate by approximately \$300,000.

Commercial Solid Waste Fees of \$5.0 million through December are approximately 2% above prior year receipts and are anticipated to meet the budgeted estimate of \$12.0 million by year-end.

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 2019-2020 are based on calendar year 2019). Collections through December of \$12.9 million reflect formula driven advance amounts; true receipts will not be known until April 2020. The 2019-2020 Adopted Budget for Electric Franchise Fees (\$22.4 million) and Gas Franchise Fees (\$5.0 million) requires growth of approximately 3% from the prior year receipts. Based on the current year performance of Electricity and Gas Utility Tax receipts, which generally have similar collection trends, it is anticipated the Electric and Gas Franchise Fees will meet or fall slightly below the budgeted estimate by year-end.

Remaining budgeted franchise fees include the **City Generated Tow Fees** (\$400,000), **Great Oaks Water** (\$330,000), and **Nitrogen Gas Pipeline** (\$65,000) categories. It is currently anticipated that these categories will end the year close to the budgeted estimates.

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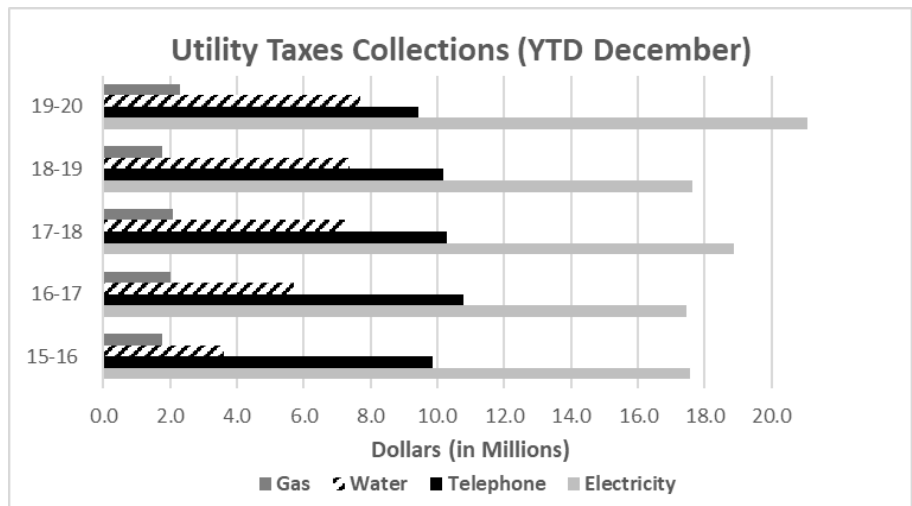
STATUS OF GENERAL FUND REVENUES

UTILITY TAX

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$99,645	\$40,454	40.6%	37.2%	\$0

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Telephone Utility Tax, and Water Utility Tax. Through December, Utility Tax receipts of \$40.5 million are 9.5% above the prior year level, which is due to higher collections and the timing of payments. The 2019-2020 Adopted Budget was built on the assumption that 2018-2019 Utility Tax revenue would end the year at \$99.0 million and grow less than 1% to \$99.6 million in 2019-2020. However, since 2018-2019 ended the year at \$99.3 million, growth of less than 0.5% is needed in 2019-2020 to meet the budgeted estimate. Based on historical collection trends and performance through December, it is anticipated all Utility Tax categories will meet or exceed budgeted levels, with the exception of the Telephone Utility Tax, which may fall below the budgeted estimate by approximately \$2 million - \$3 million. Each of the Utility Tax sub-categories are further described below.

In the **Electricity Utility Tax** category, collections through December totaled \$21.1 million, which is 19.6% above the prior year level. This growth is primarily due to the timing of Electricity Utility Tax payments received. The 2019-2020 Adopted Budget assumed that 2018-2019 receipts would total \$46.0 million, and grow approximately 2% to \$46.9 million in 2019-2020. However, since 2018-2019 ended the year slightly below budget (\$45.6 million), growth of almost 3% is needed to meet the budgeted estimate. It is currently anticipated collections will end the year close to the budgeted level.



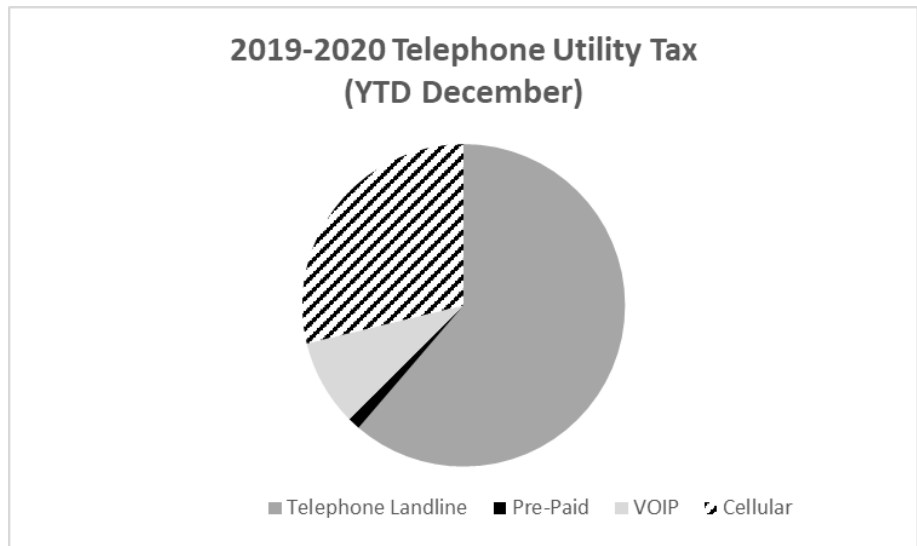
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UTILITY TAX

In the **Gas Utility Tax** category, receipts through December totaled \$2.3 million, which is 28.7%, or \$500,000, above the prior year level. The 2019-2020 Adopted Budget estimate of \$10.4 million allows for an almost 7% decline from actual 2018-2019 collections due to receipts performing stronger than anticipated at the end of 2018-2019. Based on historic trends and performance through the first half of the year, receipts are anticipated to exceed the budgeted estimate by approximately \$1.0 million - \$2.0 million.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Through December, collections of \$9.4 million are 7.5% below the prior year level of \$10.2 million. Revenues in this category have been consistently decreasing in recent years, which reflects competition within cellular companies that keep prices down and the taxable base of wireless communications not including data plans. The 2019-2020 Adopted Budget estimate of \$25.6 million allows for a slight decline (1.2%) from the 2018-2019 actual collection level of \$26.0 million. Based on current collection trends, receipts in this category are anticipated to fall below the budgeted estimate by approximately \$2 million - \$3 million.



Water Utility Tax collections of \$7.7 million through December are 4.0% above the prior year level of \$7.4 million. The 2019-2020 Adopted Budget was built on the assumption that \$16.3 million would be received in 2018-2019, then grow approximately 2.5% to \$16.7 million in 2019-2020. However, since 2018-2019 receipts totaled \$16.6 million, growth of less than 1% is required to meet the 2019-2020 budgeted level. Based on current collection trends, receipts in this category are anticipated to slightly exceed the budgeted estimate by approximately \$200,000.

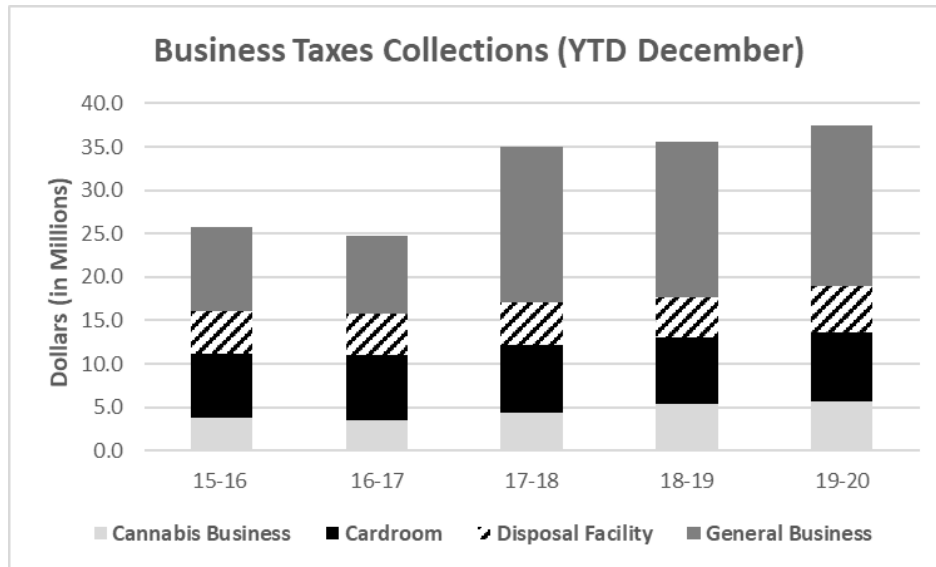
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BUSINESS TAXES

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$72,200	\$37,449	51.9%	47.5%	\$0

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through December, overall collections of \$37.4 million are 5.2% above the prior year collection levels of \$35.6 million, which reflects growth in all four business tax categories. The 2019-2020 Adopted Budget estimate of \$72.2 million allows for a 3.6% decline from 2018-2019 levels as the result of revenues performing stronger than anticipated at the end of 2018-2019. If current collection trends continue, Business Tax receipts are projected to exceed the budgeted estimate by \$3.5 million - \$4.0 million. Each of the Business Taxes sub-categories are further described below.



Cannabis Business Tax collections reflect cannabis business tax revenue as well as compliance revenues. Through December, receipts of \$5.7 million are 5.8% above prior year levels of \$5.4 million. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at the 16 licensed dispensaries in

San José began in January 2018. The 2019-2020 Adopted Budget estimate of \$13.5 million allows for a 15.0% drop from 2018-2019 actual collection levels. This decrease was anticipated as a result of neighboring cities passing Cannabis taxes in the November 2018 election, which will provide competition for San José when the dispensaries are open in other jurisdictions. However, as other dispensaries have not yet opened, current year receipts are higher than anticipated through the first half of the year. If the current collection trend continues, receipts are anticipated to end the year approximately \$3 million - \$4 million over the budgeted estimate.

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BUSINESS TAXES

Through December, **General Business Tax** receipts of \$18.5 million reflects growth of 3.2% from the prior year collection level. The 2019-2020 budget estimate for General Business Tax revenue totals \$28.0 million, which is consistent with the 2018-2019 actual collection level. Based on historical collection trends, coupled with the recent launch of the Business Tax Amnesty Program that is expected to increase receipts (runs through March 27, 2020), General Business Tax revenue is anticipated to meet or slightly exceed budgeted levels by year-end.

Remaining business taxes include the **Cardroom Tax** (\$18.7 million) and **Disposal Facility Tax** (\$12.0 million) categories. Based on current collection trends and historical data, it is currently anticipated that these categories will end the year close to budgeted estimates.

LICENSES AND PERMITS

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$62,009	\$43,485	70.1%	54.0%	\$0

The Licenses and Permits category contains fees and charges collected by various departments. The most significant revenue sources are development-related fees, which include Building Permits and Fire Permits. Through December, revenues of \$43.5 million are 23.3% above the prior year level of \$35.3 million, which reflects higher collections in all three Licenses and Permits sub-categories. The Licenses and Permits category may have fluctuations throughout the year as it is largely attributable to the pace of development projects. Based on activity through December, receipts are estimated to exceed the budgeted levels by \$5 million - \$6 million. Each of the Licenses and Permits sub-categories are further described below.

Building Permit revenues of \$22.4 million through December are 26.4% higher than the 2018-2019 collection level for the same period. The 2019-2020 Adopted Budget estimate of \$33.8 million allows for an 8.0% drop from the 2018-2019 actual collection level of \$36.7 million due to collections performing stronger than anticipated at the end of 2018-2019. It is currently anticipated revenues will exceed the budgeted estimate by approximately \$5 million. Any excess revenues over expenditures for this fee program will be set aside in the Building Development Fee Program Reserve.

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LICENSES AND PERMITS

All Building Permit categories are performing at or above expected levels through the first half of the year, with the exception of new residential plumbing permits, new residential building permits, new residential mechanical permits, and new residential electrical permits, which are performing below anticipated levels. Overall construction activity through December 2019 has increased 59.3% compared to 2018-2019 levels; from \$751.7 million through December 2018 to \$1.2 billion through December 2019. The increase is primarily due to strong commercial activity that has occurred since the beginning of the fiscal year, coupled with an extremely high level of industrial activity that occurred in July 2019.

Fire Permits, which consist of development and non-development related permits, totaled \$9.4 million through December, which represents a 19.6% increase from the prior year collections. The 2019-2020 budgeted estimate of \$14.0 million is consistent with the actual 2018-2019 collection level. If current collection trends continue, revenues could exceed the budgeted levels by up to \$500,000, which is primarily due to stronger activity for development-related permits. Any excess revenues over expenditures for development fee revenue will be set aside in the Fire Development Fee Program Reserve.

Development related receipts through December of \$5.3 million are \$1.3 million (32.7%) higher than prior year collections. The 2019-2020 Adopted Budget estimate of \$8.4 million allows for a slight drop from the 2018-2019 actual collection level of \$8.6 million due to collections performing stronger than anticipated at the end of 2018-2019. Development-related activity has been strong through the first half of the fiscal year, and if current collection trends continue, revenues could exceed the budgeted estimate by up to \$500,000. Any excess revenues over expenditures for this fee program will be set aside in the Fire Development Fee Program Reserve.

Non-Development receipts of \$4.1 million represent almost 75% of the budget and are slightly above the \$3.9 million in revenues received through December 2018. This collection primarily represents three of the four major billing cycles (July, September, and December) for non-development fire permits for this fiscal year. It is currently anticipated that non-development receipts will meet or slightly exceed the budgeted estimate by year-end.

Miscellaneous Other Licenses and Permits revenues of \$11.6 million through December reflect a 20.6% increase from the prior year level of \$9.6 million, which is primarily due to the timing of the Cardroom Regulation Fees payment. The 2019-2020 budget estimate allows for a 2.5% decline from the prior year actual collections. It is currently anticipated revenues will meet the budgeted level by year-end.

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

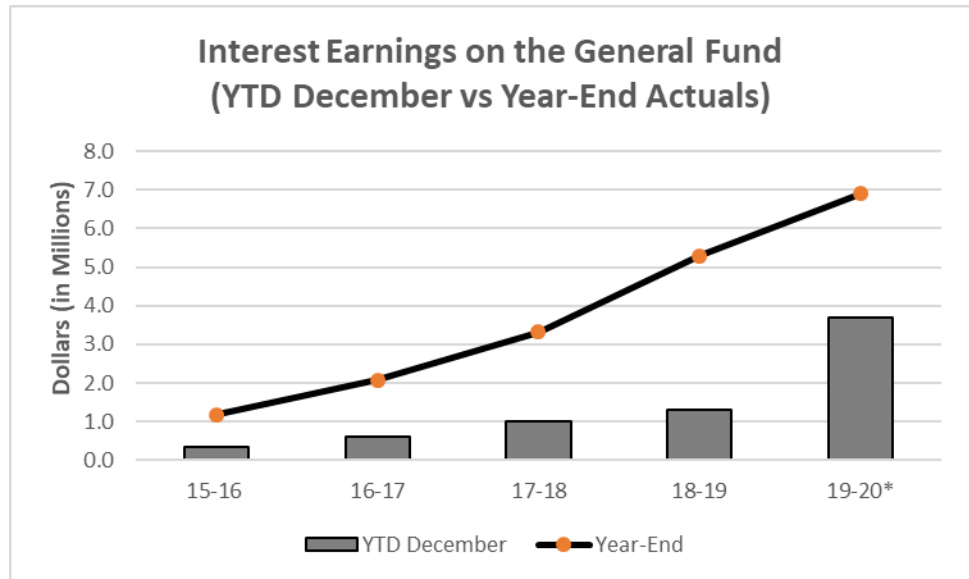
REVENUE FROM USE OF MONEY AND PROPERTY

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$13,144	\$6,860	52.2%	38.7%	\$0

The Use of Money and Property category primarily includes interest income earned on the General Fund, rental income from various City properties, small cell lease revenue, and subrogation recovery revenues.

Use of Money and Property receipts through December of \$6.9 million reflect a 76.1% increase from prior year levels. The 2019-2020 budget estimate of \$13.1 million requires growth of 30.5% from the 2018-2019 actual receipts of \$10.1 million. The significant increase in 2019-2020 is primarily due to higher interest earnings, which is described further below.

Interest earnings on the General Fund through December total \$3.7 million, up over 184%, or \$2.4 million, from the prior year level of \$1.3 million. This significant increase is primarily due to higher assumed cash balances as the City no longer pre-pays retirement contributions. If current collection trends continue, interest earnings are anticipated to exceed the budgeted estimate by approximately \$1 million - \$2 million.



* 2019-2020 Budgeted Estimate

Remaining budgeted revenues in Use of Money and Property category include **Rental of City-Owned Properties** (\$3.5 million), **Small Cell Lease revenues** (\$2.0 million), **Subrogation Recovery** (\$500,000), and **Miscellaneous revenues** (\$339,000). Based on current collection trends and historical data, it is currently anticipated that these categories will end the year close to budgeted estimates.

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$17,499	\$7,068	40.4%	31.5%	(\$209)

The Revenue from Local Agencies category contains revenue received from a variety of other local government agencies. The largest sources of revenue are the Central Fire District payment for fire services provided to County residents by the San José Fire Department, the County of Santa Clara payment for the Paramedic Program, and the County reimbursement for the Senior Nutrition Program. Overall, revenues in this category are currently anticipated to exceed the budgeted estimate by approximately \$500,000.

The largest revenue estimate in the Revenue from Local Agencies category is the Central Fire District payment. Through December, a total of \$4.0 million has been received, which represents an increase of 6.4% from the prior year receipts during the same period. Growth of 3.3% from the 2018-2019 receipts is needed to meet the budgeted estimate of \$7.7 million. Based on current collection trends as well as information provided by Santa Clara County, Central Fire District reimbursements are anticipated to exceed the budgeted estimate by approximately \$200,000.

Reimbursement from Santa Clara County for the first responder advanced life support program (Paramedic Program) is budgeted at \$2.4 million, which includes the equipment reimbursement component (Annex B, Category A funds; \$1.3 million) and service-related component (Annex B, Category B funds; \$1.1 million). Based on recent information provided by Santa Clara County, revenues may exceed the budget by approximately \$300,000, however, this figure may fluctuate based on actual performance in the second half of the fiscal year.

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 to provide approximately 920 meals per day. The County funds two-thirds of the program with the City paying the remaining one-third of the cost of the meals. The budgeted estimate of \$1.7 million for the Senior Nutrition Program is anticipated to be fully received by year-end.

As described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, a net decrease of \$209,000 is recommended in Revenue from Local Agencies to recognize County grant funding to assist in increasing membership and involvement of youth at City-operated teen centers (\$100,000) and to align the Grace Baptist Community Medi-Cal Services revenue with anticipated receipts (-\$309,000).

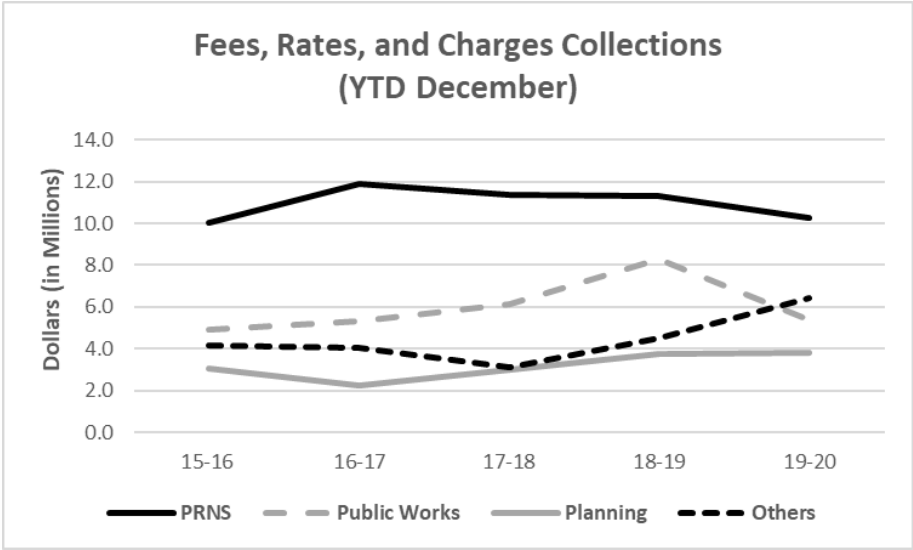
**2019-2020
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

FEES, RATES, AND CHARGES

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$59,102	\$25,880	43.8%	50.0%	(\$6)

The Fees, Rates, and Charges category contains various fees and charges levied to recover costs of services provided by several City departments, including Library; Parks, Recreation and Neighborhood Services; Planning, Building and Code Enforcement; Police; Public Works; and Transportation. Through the first half of the fiscal year, revenues totaled \$25.9 million, which is 7.1% below the prior year collections. The 2019-2020 collections primarily reflect lower Public Works and PRNS Fees, Rates, and Charges receipts (which are due to the timing of payments), partially offset by higher miscellaneous fee revenue. It is currently anticipated that all of the departmental fee categories will meet or exceed the budgeted estimates by year-end. Following is a discussion of the two development services departmental fee categories; Planning, Building and Code Enforcement (PBCE) Planning Fees and the Public Works Department.



Through December, PBCE **Planning Fee** revenues of \$3.8 million are approximately 1% above the prior year level. Revenue was stable or strong for several fees, including non-residential conventional rezonings/rezonings, non-residential environmental clearances, and preliminary review. Partially offsetting this growth in activity are several fees that are performing below anticipated levels. These fees include non-residential

tentative maps, public noticing, residential General Plan amendments, residential and non-residential planned development rezonings/rezonings, and miscellaneous permits. Based on current collection trends, Planning Fee revenues are anticipated to meet the 2019-2020 budget revenue estimate of \$8.1 million. Revenues will continue to be monitored closely to determine if any actions need to take place at year-end to align the budgeted estimate with actual revenues.

2019-2020
MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

FEES, RATES, AND CHARGES

The **Public Works** Department fee revenue is comprised of the Development Services Fee Program, Utility Fee Program, and Small Cell Permitting. Through December, overall Public Works fee revenues totaled \$5.4 million, which represents a 35.4% decline from the prior year level of \$8.3 million. This drop in revenue is primarily attributable to lower Utility Fee Program revenue and Small Cell Permitting revenue.

Through the first half of the fiscal year, Public Works fee revenues are performing below the estimated level. Development Services Fee Program collections totaled \$3.8 million, 2.9% below prior year collections; Utility Fee Program receipts totaled \$1.1 million, 58.2% below the prior year collections; and Small Cell Permitting revenue totaled \$500,000, 72.2% below the prior year level. A significant portion of the drop in the Public Works fee revenues is due to the timing of payments received. After accounting for these payments, fee revenues are anticipated to end the year close to budgeted levels. Revenues will continue to be monitored closely to determine if any actions need to take place at year-end to align the budgeted estimate with actual revenues.

Remaining budgeted Fees, Rates, and Charges categories include **Library Department Fees** (\$303,200), **Miscellaneous Fees** (\$7.1 million), **Parks, Recreation, and Neighborhood Services Department Fees** (\$23.2 million), and **Transportation Department Fees** (\$2.2 million). Based on current collection trends and historical data, it is currently anticipated that overall these categories will end the year close to budgeted estimates.

As described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, a net decrease of \$5,820 is recommended in the Fees, Rates, and Charges category. This decrease reflects a reduction in the PRNS Fees, Rates, and Charges totaling \$105,820 (from \$23.2 million to \$23.1 million), to reflect fee-activity revenue that was received from Santa Clara County for summer camps that was not used in summer 2019 (offset by a corresponding reduction to the PRNS Non-Personal/Equipment appropriation). Partially offsetting this reduction is a recommendation to increase the Transportation Department fee revenue by \$100,000 (from \$2.2 million to \$2.3 million), which is related to additional micro mobility fee revenue.

**2019-2020
MID-YEAR BUDGET REVIEW**

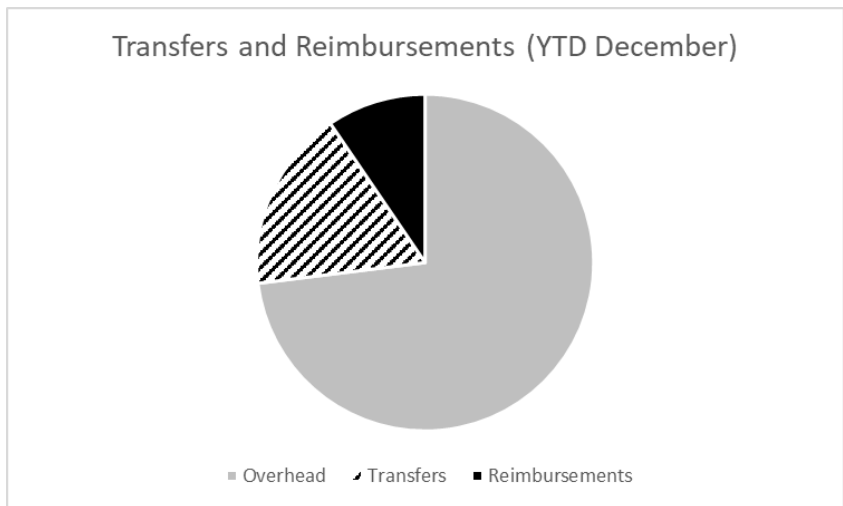
STATUS OF GENERAL FUND REVENUES

TRANSFERS AND REIMBURSEMENTS

Revenue Status (\$ in Thousands)				
2019-2020		2018-2019		2019-2020
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$100,957	\$61,741	61.2%	14.1%	\$319

The Transfers and Reimbursements category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Through December, Transfers and Reimbursements of \$61.7 million, represent 61.2% of the 2019-2020 budget estimate of \$101.0 million. Overall, Transfers and Reimbursements collections are anticipated to end the year close to the budgeted estimate. Each of the Transfers and Reimbursements sub-categories are further described below.

Overhead Reimbursements associated with special funds are currently budgeted at \$39.5 million and capital funds are budgeted at \$16.8 million for a total category revenue estimate of \$56.3 million. Through December, overhead collections of \$45.1 million have been received, which represents 80.1% of the 2019-2020 budgeted estimate. Based on current collection trends, revenues in this category may end the year \$1 - \$2 million below the budgeted estimate, which is primarily attributable to lower than anticipated Capital Overhead revenue.



Budgeted **Transfers** of \$27.4 million include \$25.9 million in various transfers from other funds and \$1.5 million in transfers of interest earnings from selected funds. Through December, overall transfer receipts of \$10.8 million have been received, and it is currently anticipated revenues will slightly exceed the budgeted estimate by year-end. As described in *Section III. Recommended Budget Adjustments and Clean-up Actions*, this category is recommended to be increased by \$319,000 to reflect the reimbursement of costs advanced from the General Fund in 2018-2019 for eligible Public Safety and Infrastructure Bond (Measure T) projects.

**2019-2020
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

TRANSFERS AND REIMBURSEMENTS

The budget estimate for **Reimbursement for Services** is \$17.3 million, of which \$16.3 million is expected to be generated from the three Gas Tax Funds, with the remaining \$1.0 million anticipated to be received from the Deferred Compensation Program (\$418,000), Maintenance Assessment District Funds (\$170,000), and Voluntary Employee Beneficiary Association Fund (\$387,000). It is important to note that collections in this category can vary significantly from month to month; however, based on current collection trends it is anticipated revenues will meet or slightly exceed the budgeted estimate by year-end.

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 million - \$20 million above budgeted levels (variance of approximately 2% when excluding the Beginning Fund Balance). The primary drivers of this additional revenue are higher than estimated Property Tax, Sales Tax, Business Taxes, and Other Revenue, partially offset by lower than anticipated Transient Occupancy Tax and Utility Tax receipts.

In total, a net increase of \$19.3 million to the General Fund Sources is recommended in this document. This increase reflects an increase of \$11.3 million related to technical and rebalancing items to more closely align the budgeted estimates with the current anticipated collection levels (Property Tax; \$10.0 million, Other Revenue/Property Sales; \$3.8 million, and Transient Occupancy Tax; -\$2.5 million) and a \$8.0 million increase related to net-zero grants reimbursements and fees adjustments. Further information regarding these adjustments can be found in *Section III. Recommended Budget Adjustments and Clean-up Actions*.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2021-2025 General Fund Forecast, due to be released on February 28, 2020, as well as the 2020-2021 Proposed Budget, due to be released on May 1, 2020. 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 2020.