

2014-2015 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2014-2015 General Fund revenue collections as compared with the modified budget estimates:

**TABLE A
2014-2015 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000s)**

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	\$ 247,573	\$ 247,258	\$ (315)	(0.1%)
Sales Tax	180,024	180,407	383	0.2%
Transient Occupancy Tax	14,185	14,734	549	3.9%
Franchise Fees	46,597	46,908	311	0.7%
Utility Tax	93,425	91,548	(1,877)	(2.0%)
Telephone Line Tax	20,700	21,097	397	1.9%
Business Taxes	46,350	47,345	995	2.1%
Licenses and Permits	48,895	47,509	(1,386)	(2.8%)
Fines, Forfeitures, and Penalties	14,205	14,491	286	2.0%
Rev. from the Use of Money/Property	2,914	3,581	667	22.9%
Revenue from Local Agencies	39,615	39,859	244	0.6%
Revenue from the State of California	12,538	12,024	(514)	(4.1%)
Revenue from Federal Government	17,445	10,627	(6,818)	(39.1%)
Departmental Charges	41,367	41,705	338	0.8%
Other Revenue	165,961	154,598	(11,363)	(6.8%)
Subtotal	991,794	973,691	(18,103)	(1.8%)
Overhead Reimbursements	37,841	37,491	(350)	(0.9%)
Transfers	19,116	19,045	(71)	(0.4%)
Reimbursements for Services	18,125	18,450	325	1.8%
Subtotal	75,082	74,986	(96)	(0.1%)
TOTALS¹	\$ 1,066,876	\$ 1,048,677	\$ (18,199)	(1.7%)

¹ Excludes Beginning Fund Balance.

The General Fund revenue performance for 2014-2015 is discussed in detail in this section. The 2014-2015 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 2014-2015 was \$1.05 billion. This collection level was below the 2014-2015 Modified Budget level by \$18.1 million, (1.7%). After adjusting for rebudgets included as part of the 2015-2016 Adopted Budget (\$16.9 million) and rebudgets recommended in this report (\$2.2 million), revenues for the over 450 accounts budgeted and monitored annually ended the year \$878,000, or 0.1% above the 2014-2015 estimated budget level. This small positive variance primarily reflects higher than expected Gas Tax, Sales Tax and Business Tax, Cardroom and Marijuana Tax revenues. Once adjusted for the Development Fee Programs, which ended the year slightly below the estimate and is a reconciling item for the Development Fee Program Reserves, and other revenue-related adjustments required to close out 2014-2015, there was a net positive revenue variance of \$1.3 million (0.1%) for 2014-2015.

The 2014-2015 collection level of \$1.05 billion was up \$40.7 million (4.0%) from the actual 2013-2014 collections (\$1.01 billion). The categories that experienced the largest increases included: Property Tax, Sales Tax, Transient Occupancy Tax, Transfers, and Other Revenue. The largest declines from the prior year were experienced in the Licenses and Permits, Revenue from Local Agencies, Revenue from Federal Government, and Utility Tax categories.

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	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Secured Property Tax	224,506,240	224,365,932	(140,308)	-0.06%
Unsecured	13,200,000	13,200,229	229	0.00%
SB 813 Property Tax	6,500,000	6,325,552	(174,448)	-2.68%
Airplane In-Lieu Tax	2,335,000	2,334,744	(256)	-0.01%
Homeowners Property Tax Relief	1,032,000	1,031,689	(311)	-0.03%
Total	247,573,240	247,258,146	(315,094)	-0.13%

The Property Tax revenue category includes Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax, and Homeowner's Property Tax Relief (HOPTR). Property Tax receipts for the 2014-2015 fiscal year totaled \$247.3 million. This collection level was \$315,000 (0.13%) below the budgeted estimate of \$247.6 million, and represented an increase of 10.6% from 2013-2014 actuals of \$223.6 million.

This is the fourth year of positive growth in this category after two years of declines (2009-2010 and 2010-2011), and exceeds last year's peak.

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Property Tax

Secured Property Tax receipts were the largest source of revenue in this category (\$224.4 million), which came in 0.06% (\$140,000) below the 2014-2015 Modified Budget estimate of \$224.5 million. This represents growth of over 10.5% from 2013-2014, and includes a one-time payment to the City as a result of excess Educational Revenue Augmentation Fund (ERAF) revenues. The one-time ERAF payment of \$6 million accounts for approximately 3% of the growth in the Secured Property Tax.



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 2013-2014 were adjusted upwards in 2014-2015, restoring \$771.0 million in assessed value. Under Proposition 13, assessed values of all real property 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 2014-2015 tax roll was an increase of only 0.45%. This adjustment increased to 2.0% in 2015-2016.

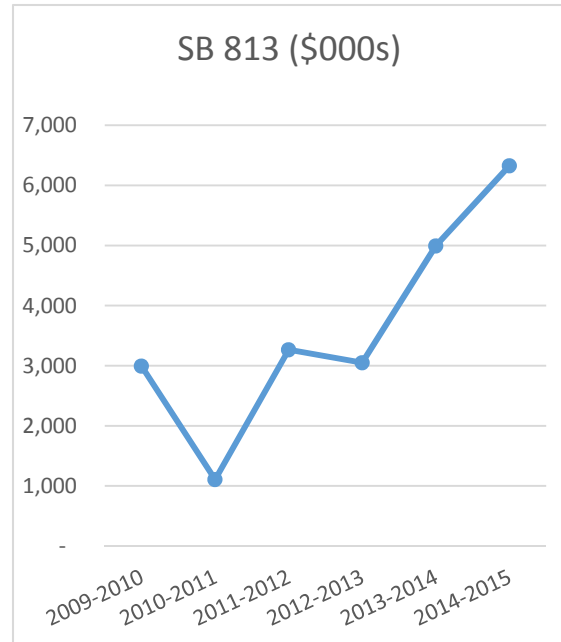
The SB 813 Property Tax component represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Assessor formally revalues the property. In 2014-2015, growth of 26.7% was experienced in this category with receipts of \$6.3 million. This was due to both improvement in the real estate market and the continued resolution of a backlog of reassessments by the County that had significantly reduced collections in recent years. In 2015-2016, collections in this category are projected to decrease due to a change in methodology for the SB 813 distribution.

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Property Tax

The City's Property Tax performance will be closely monitored in 2015-2016, however with the actual performance in 2014-2015 so close to estimated levels, and based on recent conversations with the County, 2015-2016 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.



Sales Tax

Sales Tax Category	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
General Sales Tax	174,200,000	174,664,197	464,197	0.27%
Prop 172 Sales Tax	5,824,000	5,742,713	(81,287)	(1.40%)
Total	180,024,000	180,406,910	382,910	0.21%

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax. Overall, Sales Tax collections in 2014-2015 of \$180.4 million were slightly above the 2014-2015 Modified Budget by 0.21% (\$383,000) and reflects a 4.0% (\$7.0 million) increase from collections in 2013-2014 (\$173.4 million). Following is a discussion of the two Sales Tax components:

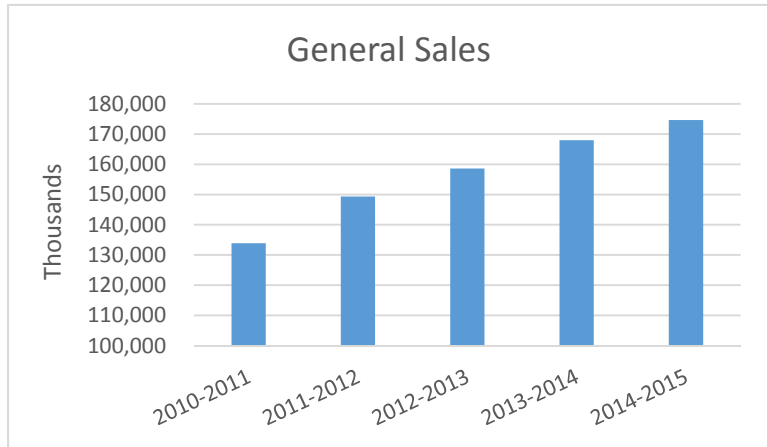
- **General Sales Tax** – In the General Sales Tax category, collections of \$174.7 million reflect growth of 4.0% above 2013-2014 collection levels of \$168.0 million. This marks the fifth year of growth in this category, with receipts exceeding last year's peak.

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Sales Tax

The 2014-2015 actual General Sales Tax figure of \$174.7 million reflects performance for the four quarters of 2014-2015, during which growth of 6.34% (1st quarter), 2.35% (2nd quarter), 8.55% (3rd quarter), and .04% (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 2014-2015 each year based on estimated performance. Actual Sales Tax results for the fourth quarter were available, and the accrual reflects the actual increase of 0.04%. Details by economic sector for the last quarter's performance, however, are not yet available. In total, collections of \$174.7 million were \$464,000 above the budgeted estimate.



The City's Sales Tax consultant, MuniServices, LLC, has provided economic performance data for the four quarters ending March 2015, 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 5.1% was realized.

Sales Tax Revenue Economic Performance April 2014 – March 2015

Economic Sector	% of Total Revenue	% Change from April 2014 – March 2015
General Retail	26.0%	3.7%
Transportation	22.6%	1.4%
Business-to-Business	23.3%	6.2%
Food Products	16.3%	6.9%
Construction	11.1%	7.2%
Miscellaneous	0.7%	5.2%
Total	100.0%	5.1%

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Sales Tax

The 2015-2016 Adopted Budget revenue projection was developed based on actual 2014-2015 data for the first two quarters, and assumed growth of 3.5% to be realized in the last two quarters of 2014-2015 when compared to the same quarters in the prior year, followed by a 4.0% growth in 2015-2016. However, as discussed above, actual increases in the last two quarters of 2014-2015 were 8.55% and 0.04%, respectively. These actual growth rates generated slightly less revenue than the assumed rates. However, one-time Sales Tax adjustments anticipated in 2015-2016 will more than offset this slightly lower collection level in 2014-2015.

In 2015-2016, the wind down of the “Triple Flip”¹ sales tax adjustments is anticipated. 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. It is estimated that the final true-up payment associated with the Triple Flip wind down will be made in August 2016 and will be accrued to 2015-2016.

Based on information from the City’s Sales Tax consultant, MuniServices, actual 2014-2015 receipts and anticipated adjustments associated with the 2015-2016 Triple Flip payment (including the 2014-2015 true-up payment to be received in January 2016 and the final true-up payment anticipated in August 2016), revenues are currently projected to exceed the budgeted estimate of \$190.3 million by approximately \$13.0 million based on estimated accruals that will be brought forward at the end of 2015-2016. Adjustments based on these one-time payments, as well as any others based upon actual 2015-2016 performance, will be brought forward during 2015-2016 and will provide a one-time funding source for the 2016-2017 budget process. Data for the first quarter of 2015-2016 (July – September activity) will not be available until December 2015.

- **Proposition 172 Half-Cent Sales Tax** – Receipts of \$5.7 million were slightly below (1.4%) the budgeted estimate of \$5.8 million, but were up 5.5% when compared to the 2012-2013 collection level of \$5.4 million. This performance reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

Telephone Line Tax

In 2014-2015, Telephone Line Tax collections of \$21.1 million were \$397,000 (1.9%) above the budgeted estimate and slightly above the 2013-2014 collection level of \$20.7 million.

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 has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, remains in effect until the State’s bond obligations have been satisfied.

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Transient Occupancy Tax

In 2014-2015, receipts of \$14.7 million for the General Fund’s portion (4.0%) of the City’s Transient Occupancy Tax (TOT) were slightly above (3.9%) the 2014-2015 Modified Budget estimate of \$14.2 million. This performance level sets a new peak, reflecting a 24.1% increase from 2013-2014 TOT receipts of \$11.9 million. The higher collection levels are attributable to increased hotel occupancy and room rates. In 2014-2015, the average occupancy rate for the City’s 14 largest hotels climbed from 70.6% to 75.8%, and the average room rate for these same hotels increased by \$20 (from \$154 to \$174). 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 (\$550,000).

The 2015-2016 Adopted Budget Estimate of \$14.7 million was built assuming approximately 4% growth in TOT collections over 2014-2015 estimated receipts; that growth was achieved in 2014-2015. Should TOT receipts continue to grow in 2015-2016, an adjustment to the budgeted revenue estimate will be brought forward for future City Council consideration.

Franchise Fees

Franchise Fees	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Electric	19,813,700	19,813,468	(232)	(0.00%)
Gas	4,650,000	4,667,840	17,840	0.38%
Commercial Solid Waste	11,171,917	11,174,546	2,629	0.02%
Cable	9,800,000	10,004,282	204,282	2.08%
Tow	800,000	909,666	109,666	13.71%
Nitrogen	66,262	67,046	784	1.18%
Great Oaks Water	295,000	271,706	(23,294)	(7.90%)
Total	46,596,879	46,908,554	311,675	0.67%

Franchise Fee collections of \$46.9 million were slightly above (0.7%) the 2014-2015 Modified Budget level of \$46.6 million and were \$1.2 million, or 2.5%, above the 2013-2014 collection level of \$45.7 million. Following is a discussion of the major Franchise Fee components:

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Franchise Fees

- ***Electric and Gas Franchise Fees*** – For 2014-2015, collections were based on activity that occurred during calendar year 2014. Electric Franchise Fee collections of \$19.8 million were 2.9% above the 2013-2014 collection level of \$19.3 million. Gas Franchise Fees of \$4.7 million ended the year at the budget estimate and 2.2% below the 2013-2014 collection level of \$4.8 million. Combined, the Gas and Electric Franchise Fees collections of \$24.5 million were at the budgeted estimate.
- ***Commercial Solid Waste Franchise Fee (CSW)*** – Collections of \$11.174 million ended the year slightly above the budgeted estimate of \$11.171 million and 1.3% above the prior year collection level of \$11.03 million. Starting in 2012-2013, the CSW fee methodology changed to a fee for franchises based on geographic collection districts rather than volume. The new fee is set at \$5.0 million per year for each of two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District. The payment in 2013-2014 reflects the \$11.0 million under this new structure plus an additional \$10,000 from a few small haulers that deal with non-garbage related materials (construction and demolition materials and residential clean-up materials). Under the revised fee structure, there is a provision for an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years, subject to City Council approval. The first CPI-based adjustment of 1.46% was brought forward in 2014-2015. The 2015-2016 budget estimate of \$11.36 million includes an additional 1.62% CPI-based adjustment.
- ***Cable Television Franchise Fees*** – For 2014-2015, collections of \$10.0 million ended the year \$204,000, or 2.1% above the budget estimate and 6.4% above the 2013-2014 collection level of \$9.4 million.
- ***City-Generated Tow, Water, and Nitrogen Gas Pipeline Franchise Fees*** – Receipts in these categories were consistent with the budgeted estimates and reflected a slight drop (\$30,000, or 2.4%) from 2013-2014 collection levels. City-Generated Tow Franchise Fee receipts of \$910,000 were \$110,000, or 13.7% above the budget estimate and were 0.7% below the prior year collection level of \$916,000. This collection level, however, continues to remain below historical levels ranging between \$1.0 million to \$1.8 million. Water Franchise Fee collections of \$272,000 were \$23,000, or 7.9% below the budget estimate and 6.3% below the prior year collection level of \$290,000. Nitrogen Gas and Jet Fuel Pipeline Franchise Fee receipts of \$67,000 were \$800 or 1.2% above the budget estimate and 7.1% below the prior year levels of \$72,000.

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Utility Tax

Utility Tax	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Electricity	42,700,000	42,248,806	(451,194)	-1.06%
Gas	8,650,000	8,478,138	(171,862)	-1.99%
Water	11,400,000	11,543,505	143,505	1.26%
Telephone	30,675,000	29,277,221	(1,397,779)	-4.72%
Total	93,425,000	91,547,670	(1,877,330)	-2.01%

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$91.5 million were 2.0% below the 2014-2015 Modified Budget level and 2.4% below the 2013-2014 actual level of \$93.8 million. A description of the individual performance of each of the four utilities grouped into this revenue category follows below.

- Electric and Gas Utility Tax** – Electric Utility Tax receipts of \$42.2 million were slightly below the modified budget estimate of \$42.7 million for 2014-2015, but 3.3% (\$1.4 million) above the 2013-2014 level of \$40.9 million. The growth from prior year levels is partially due to rate cases approved by the California Public Utilities Commission (CPUC) in both October 2014 and January 2015. The 2015-2016 Adopted Budget estimate of \$43.8 million requires growth of 3.6% from 2014-2015 actual collections in Electricity Utility Taxes.

Gas Utility Tax collections of \$8.5 million were slightly below the 2014-2015 Modified Budget estimate of \$8.7 million, and 3.3% (\$288,000) below the 2013-2014 collection level of \$8.8 million. This decrease from prior year levels reflects actual collection trends, which are subject to significant fluctuations from the impact of weather conditions and/or rate changes. At the end of 2014-2015, the California Public Utilities Commission approved rate cases that may increase the revenues collected in 2015-2016. The 2015-2016 Adopted Budget estimate of \$8.9 million requires growth of 5.0% from 2014-2015 actual collections in Gas Utility Taxes.

- Water Utility Tax** – Receipts in this category of \$11.5 million were slightly above the modified budget level of \$11.4 million and 1.4% (\$161,000) above the 2013-2014 collection level of \$11.4 million primarily reflecting the rising wholesale price of water, partially offset by changing consumption levels as a result of the drought. The 2015-2016 Adopted Budget estimate of \$11.6 million assumed growth of 1.8% based on continued rising wholesale price of water, however, with slightly higher 2014-2015 actual collections, growth of only 0.4% is necessary to meet the budgeted estimate.

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Utility Tax

- Telephone Utility Tax** – Collections of \$29.2 million in this category were 4.6% (\$1.4 million) below the 2014-2015 Modified Budget level of \$30.7 million and 10.6% (\$3.5 million) below the prior year actual collection level of \$32.8 million. This negative variance to budget is primarily due to lower telephone and cell phone receipts. In 2015-2016, the budgeted estimate of \$29.6 million requires growth of less than 1.0% from prior year collections, since this category has fluctuated in recent years. Collection levels will continue to be monitored and adjustments will be brought forward as necessary during the year.

Business Taxes

Business Tax	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Cardroom Tax	16,900,000	17,016,282	116,282	0.7%
Business Tax	11,750,000	11,853,300	103,300	0.9%
Disposal Facility Tax	12,500,000	12,880,977	380,977	3.0%
Marijuana Business Tax	5,200,000	5,594,264	394,264	7.6%
Total:	46,350,000	47,344,824	994,824	2.1%

Revenues in this category include the Cardroom Tax, Business Tax, Disposal Facility Tax, and Marijuana Business Tax. Overall, collections of \$47.34 million were 2.1% above the 2014-2015 Modified Budget Estimate of \$46.35 million, and 4.1% (\$1.9 million) above the 2013-2014 collection level of \$45.5 million. Following is a discussion of the major Business Tax components:

- Cardroom Tax** – Collections in this category reflect the gross receipts tax collected from the two cardrooms located in San José. Receipts of \$17.0 million ended the year 0.7% above the Modified Budget estimate of \$16.9 million and 4.2% above the 2013-2014 collection level of \$16.3 million. It is anticipated that receipts in 2015-2016 will be similar to the level of 2014-2015.
- Business Tax** – Collections of \$11.85 million in this category are 0.9% (\$103,000) above the Modified Budget Estimate of \$11.75 million and 9.2% (\$995,000) above the 2013-2014 collection level. Much of the increase from the prior year can be attributed to the conclusion of the Business Tax Amnesty Program. Collections in 2015-2016 are expected to remain consistent with 2014-2015.

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Business Taxes

- Disposal Facility Tax** - Collections of \$12.88 million ended the year 3.0% above the budgeted estimate of \$12.5 million and 5.3% above the prior year collection level of \$12.23 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 2014-2015, receipts increased alongside an increase in construction and demolition waste as a result of the strong economy within Santa Clara County and beyond. The 2015-2016 Adopted Budget estimate totals \$11.9 million, however, because of an expected decline in DFT collections due to improvements in the processing of waste for the commercial program in San José and increased recycling in neighboring jurisdictions.
- Marijuana Business Tax** – Collections of \$5.6 million were 7.6% (\$394,000) above the 2014-2015 Modified Budget level of \$5.2 million, but 7.7% (\$467,000) below the 2013-2014 collection of \$6.1 million. The decrease from 2013-2014 to 2014-2015 was primarily due to regulatory compliance efforts by the City to close dispensaries that are located adjacent to residential property and/or sensitive uses such as day cares and churches. Additional decreases are also a result of the new Zoning Verification Certification and Registration processes set forth by the City. There continues to be uncertainty regarding revenues associated with this program, and the revenue category will continue to be closely monitored.

Licenses and Permits

Licenses and Permits	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Building Permits	28,600,000	27,437,791	(1,162,209)	(4.06%)
Fire Permits	10,649,504	10,403,890	(245,614)	(2.31%)
Other Licenses and Permits	9,645,789	9,667,194	21,405	0.22%
Total	48,895,293	47,508,875	(1,386,418)	(2.84%)

Revenues in this category include the Fire Permits, Building Permits, and various other health and public safety permits and licenses. Overall, Licenses and Permits collections of \$47.5 million were 2.8% (\$1.4 million) below the 2014-2015 Modified Budget level of \$48.9 million and 8.7% below (\$4.5 million) the 2013-2014 collection level of \$52.0 million. Following is a discussion of the major Licenses and Permits components:

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Licenses and Permits

- **Fire Permits** – Fire Fee receipts of \$10.4 million were 2.3% below the 2014-2015 Modified Budget estimate of \$10.6 million and 6.2% below the prior year’s revenue of \$11.1 million. The 2015-2016 Adopted Budget estimate of \$10.6 million allowed for a 0.2% decrease in activity levels from the 2014-2015 actual receipts. 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 \$6.2 million, which was 4.8% below the 2014-2015 Modified Budget estimate of \$6.5 million. Year-end collections were lower than the modified budget estimate by approximately \$308,000; however, when combined with the Fire Development Fee Program expenditure savings (\$342,000) overhead reimbursement savings (\$81,000), and interest earnings (\$28,000), the Fire Development Fee Program Earmarked Reserve is recommended to be increased by a total of \$143,000. This action will increase the reserve from \$5.9 million to \$6.0 million.

Non-Development revenue of \$4.2 million from Annual Renewable Permits, Non-Renewable Permits and Inspections, and other miscellaneous activities slightly exceeded the modified budget estimate of \$4.1 million. Annual Renewable Permits revenue of \$3.7 million was \$72,000 (2.0%) above estimated levels and \$185,000 (5.3%) higher than the collections in the prior year. Combined revenues of \$501,000 from non-renewable permit and 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 \$23,000 (4.3%) lower than budgeted levels of \$524,000 and \$11,000 (2.2%) lower than last year’s year-end revenue of \$512,000.

Building Permits – Receipts of \$27.4 million ended the year 4.1% (\$1.2 million) below the modified budget estimate of \$28.6 million, and 15.5% (\$5.0 million) below the prior year’s peak level of \$32.5 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Building Permit revenue throughout 2014-2015 had been tracking above anticipated levels due to a continued high level of development activity. In recognition of increased permit revenues, the budget estimate was increased by \$3.0 million at the end of 2014-2015. Although permit revenues were strong through the end of the year, actual collections came in \$1.2 million under the revised estimate because a surge of activity anticipated to occur in May and June 2015 based on historical trends for construction activity leading into the summer months did not happen. Permit revenues continued into the summer at a steady level as indicated by revenues received for July and August 2015.

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Licenses and Permits

The total valuation of projects submitted in 2014-2015 was \$1.3 billion, 32.1% above the revised estimate of \$1.0 billion, but 21.9% below the \$1.7 billion valuation of projects that were received in 2013-2014. Total construction valuation in all of the three land use categories, residential, commercial, and industrial, ended the year above estimates. A total of 3,241 new residential units received permits in 2014-2015 compared to an estimate of 3,000 units and 2013-2014 actuals of 4,724 units. Residential valuation of \$580.9 million in 2014-2015 was significantly lower than the 2013-2014 level of \$835.6 million, but exceeded the estimate of \$475.0 million. Commercial valuation of \$380.0 million also tracked above the estimate of \$300.0 million, but was lower than the prior year level (\$398.5 million). Industrial activity of \$359.9 million surpassed the forecasted level of \$225.0 million, but fell below last year's level of \$457.4 million. The number of projects requiring plan check was 7,600 in 2014-2015, a decrease of approximately 5.3% from 8,000 in the prior year. The total number of building inspections conducted in 2014-2015 was 245,000, an increase of 11.3% compared to the 220,000 inspections during the previous year.

A recommendation to decrease the Building Development Fee Program Earmarked Reserve by \$1.1 million (from \$22.29 million to \$21.14 million) is included as part of this report to reconcile actual 2014-2015 performance and to fund a recommended action in this report. This reflects lower than estimated 2014-2015 revenues, a negative rebudget adjustment, and the proposed addition of resources for peak staffing (\$750,000), partially offset by expenditure savings.

- ***Miscellaneous Other Licenses and Permits*** – Collections of \$9.7 million were 0.2% (\$21,000) above the 2014-2015 Modified Budget and above the prior year collections of \$8.5 million by 14.3% (\$1.2 million).

Animal Care and Services collections of \$1.5 million ended the year 14.1% above the 2014-2015 Modified Budget estimate of \$1.32 million and 14.8% above prior year collections of \$1.31 million.

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Fines, Forfeitures and Penalties

Fines, Forfeitures and Penalties	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Parking Fines	10,380,734	10,612,896	232,162	2.24%
Vehicle Code Fines	2,050,000	1,771,172	(278,828)	(13.60%)
Administrative Citation Fines	300,000	630,413	330,413	110.14%
False Alarm Fines	55,000	30,354	(24,646)	(44.81%)
Other Fines	100,000	460,167	360,167	360.17%
Penalties	1,319,600	986,421	(333,179)	(25.25%)
Total	14,205,334	14,491,423	286,089	2.01%

The primary sources of revenue in this category are Parking, Vehicle Code, and Municipal Code Fines, and Business and Cardroom Tax Penalties. Collections of \$14.5 million in this category were 2.0% above the 2014-2015 modified budget estimate of \$14.2 million and down 2.3% (\$344,000) from the prior year collection level of \$14.8 million.

Parking fines, the largest component of this revenue category, ended the year at \$10.6 million. This collection level was slightly above the modified estimate of \$10.4 million (\$232,000 or 2.2%) but continue to remain below levels experienced a few years ago (\$11.3 million in 2010-2011 and \$11.8 million in 2011-2012). The 2015-2016 Adopted Budget estimate of \$11.5 million assumes that revenue collections will increase \$862,000 (8.1%) above the 2014-2015 budget estimated levels due to increases in parking citation fines that had last been adjusted in 2011.

Vehicle Code and Municipal Code Fines ended the year at \$1.8 million, which was 13.6% below the modified budget estimate of \$2.1 million and 22.3% below the 2013-2014 collections of \$2.3 million. The City also received \$954,000 from Business Tax Penalties which was 19.3% above the modified budget estimate of \$800,000 and 29.3% below the prior year collections of \$738,000.

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 \$3.6 million ended the year above the modified budget level of \$2.9 million (22.9%), and above (3.1%) the prior year collection level of \$3.5 million.

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Revenue from Local Agencies

Rental income (\$2.55 million) was above the budgeted estimate of \$2.01 million and below (2.8%) prior year collections of \$2.62 million. Interest income of \$848,000 was above budgeted levels of \$550,000, and above the prior year levels of \$759,000; 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 of \$186,000 ending the year below the budgeted estimate of \$350,000. The positive variance from the modified budget was primarily due to higher rental income and general interest earnings for the General Fund.

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 \$39.9 million ended the year \$243,000 (0.6%) above the budgeted estimate of \$39.6 million. This collection level was \$6.8 million (14.6%) below the 2013-2014 collections of \$46.7 million.

Reimbursement from the Successor Agency of \$28.0 million was above the 2014-2015 Modified Budget of \$27.7 million. This reimbursement includes two payments: the Convention Center debt service payment reimbursement of \$15.3 million, and the reimbursement for intra-year loans (“cash flow loans”) provided by the City to the Successor Agency in 2014-2015 of \$12.7 million.

In 2014-2015, the Central Fire District payment of \$5.7 million ended the year at the modified budget estimate and above the prior year collection of \$5.1 million (12.2%). 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 \$1.99 million from the County of Santa Clara for the City’s Paramedic Program was slightly above the modified budget of \$1.93 million by \$63,000 (3.3%). Beginning in 2013-2014, the County of Santa Clara 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 will expire in December 2015. Under this agreement, Annex B, Category A funds from prior years through 2014-2015 were paid. These payments are associated with EMS Resources Management and do not include any performance based payments (Annex B, Category B funds).

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Revenue from Local Agencies

Animal Care and Services collections of \$950,000 ended the year 2.2% above the modified budget estimate of \$930,000 and 5.7% above prior year collections of \$899,000.

Rebudget actions to adjust revenues and expenditure budgets for various grants based on actual 2014-2015 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.

Revenue from the State of California

Revenue from the State of California	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Other State Revenue	10,075,000	10,526,280	451,280	4.48%
State Grants	2,028,099	1,078,568	(949,531)	(46.82%)
Motor Vehicle In-Lieu Tax	435,000	419,267	(15,733)	(3.62%)
Total	12,538,099	12,024,115	(513,984)	(4.10%)

The major State revenues include the Tobacco Settlement Revenue and State Grants. Revenue from the State of California of \$12.0 million ended the year 4.1% below the 2014-2015 Modified Budget estimate of \$12.5 million, but 0.8% (\$92,000) above the prior year actual level of \$11.9 million.

Within the Other State Revenue category, the Tobacco Settlement revenues of \$9.4 million were 4.2% (\$380,000) above the 2014-2015 Modified Budget estimate of \$9.0 million and 7.2% above the prior year level of \$8.8 million.

State grants and other reimbursements totaled \$1.1 million, which was \$950,000, or 46.8%, below the modified budget estimate of \$2.0 million. This was the result of a timing difference of many grants (and their associated expenditures). The 2015-2016 Adopted Budget includes the rebudget of a revenues and associated expenditures for various State grants in the amount of \$673,000, and another \$41,000 in rebudgets are recommended in this report to account for the anticipated receipt in 2015-2016 of revenues that were not received in 2014-2015. Included in this report are recommendations to adjust previous rebudgets based on actual year-end performance, as described in *Section IV. Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

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Revenue from the Federal Government

The revenue in this category is generated by various federal grants and reimbursements. In 2014-2015, Revenue from the Federal Government of \$10.6 million was 39.1% (\$6.8 million) below the modified budget estimate of \$17.4 million and 21.2% (\$2.9 million) below the 2013-2014 collection level of \$13.5 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 2015-2016 Adopted Budget was the rebudget of a portion of the revenues and associated expenditures for various federal grants in the amount of \$4.0 million, and \$2.5 million in rebudgets are recommended in this report to account for the anticipated receipt in 2015-2016 of revenues that were not received in 2014-2015. Additional adjustments are recommended in this report to adjust revenue and corresponding expenditure budgets for various grants based on actual performance, as described in *Section IV. Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Departmental Charges

Departmental Charges	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
PRNS	17,496,381	18,014,043	517,662	2.96%
Public Works Fees	9,604,000	9,332,376	(271,624)	(2.83%)
Planning Fees	4,600,000	4,937,432	337,432	7.34%
Police	1,181,987	1,100,245	(81,742)	(6.92%)
Transportation Fees	1,463,495	1,067,336	(396,159)	(27.07%)
Library	1,050,000	979,416	(70,584)	(6.72%)
Miscellaneous	5,970,572	6,273,683	303,111	5.08%
Total	41,366,435	41,704,531	338,096	0.82%

- Parks, Recreation, and Neighborhood Services (PRNS) Departmental Fees*** – Collections of \$18.0 million ended the year 3.0% above the modified budget estimate of \$17.5 million and 8.5% above the prior year level of \$16.6 million, due primarily to increased activity. Rentals and Reservations (facility rentals, picnic and sports fields’ reservations) revenues of \$2.6 million are up from the prior year levels of \$2.3 million and exceeded the 2014-2015 modified budget estimate of \$2.2 million. Happy Hollow Park & Zoo exceeded its modified budget estimate by 4.1% or \$229,000 and ended the year at \$5.8 million, consistent with 2013-2014 levels. The department’s aquatics revenues also ended the year above the modified budget estimate by 42.3% or \$53,000. In addition, Lake Cunningham Skate Park and Park Permits

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Departmental Charges

fee categories also exceeded their budgeted estimates. The higher receipts in these categories were partially offset by lower than estimated collections in a number of categories, including, but not limited to, Family Camp and Parking.

- **Public Works Departmental Fees** – Collections of \$9.3 million ended the year 2.8% below the modified budget estimate of \$9.6 million and 4.1% below the \$9.7 million collected in 2013-2014. The 2014-2015 collections are comprised of \$6.6 million from the Development Services Program and \$2.7 from the Utility Fee Program. Revenues in most residential categories were below estimated levels due to fewer single-family and multi-family residential projects that were received. Non-residential revenues performed at or slightly above anticipated levels. Revenues in utility excavations, record retention fees, erosion and sediment control, planned development rezonings/rezonings, planned development permits, parcel maps residential, traffic reports, utilities, side sewer inside city, geological control applications fees, and grading permit categories all performed at higher than estimated levels. In 2014-2015, the lower revenues in this program were more than offset by expenditure savings of \$534,000 in the Public Works Fee Program and interest earnings attributed to the program of \$24,000, resulting in a recommendation in this report to increase the Public Works Development Fee Program Earmarked Reserve by \$116,000 from \$5.05 million to \$5.16 million.
- **Planning Departmental Fees** – Collections of \$4.9 million ended the year 7.3% above the modified budget estimate of \$4.6 million and 4.2% above the prior year level of \$4.7 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Planning Fee revenues throughout 2014-2015 were above anticipated levels. In recognition of increased revenues, the budget estimate was increased by \$1.0 million at the end of 2014-2015. Actual receipts, however, were above the revised budget estimate as a result of higher than anticipated permit issuance for April and June 2015. Higher actual collections were experienced primarily in the following fee categories: Non-Residential Tentative Maps, Public Noticing, Non-Residential and Residential Rezoning/Rezoning, Non-Residential Environmental Clearance, Non-Residential and Residential Site Development Permits, and Non-Residential Development Permit Adjustments.

A recommendation to increase the Planning Development Fee Program Earmarked Reserve by \$423,000 is included as part of this report. This funding was derived from a combination of a revenue surplus of \$277,000, expenditure savings of \$139,000, and interest earnings attributed to the program of \$7,000. With the recommended adjustment, the Reserve will increase from \$1.26 million to \$1.69 million.

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Departmental Charges

- ***Police Departmental Fees*** – Collections of \$1.1 million ended the year 6.9% below the modified budget estimate of \$1.2 million and 8.6% (\$103,000) below the prior year collection of \$1.2 million. The variance from the modified budget estimate is primarily due to lower Police Officer Standards Training (POST) reimbursements which were \$64,000 below the modified estimate of \$100,000 and Vehicle Impound Fees, which were \$40,000 below the modified estimate of \$593,000. Vehicle Impound Fees continue to drop year-over-year since the January 2011 change in the tow policy that reduced the number of vehicles being towed and impounded.
- ***Transportation Departmental Fees*** – Collections of \$1.1 million ended the year \$396,000 or 27.0% lower than the modified budget estimate of \$1.5 million, and 11.3% (\$136,000) below the \$1.2 million collected in 2013-2014. Collections ended the year below the modified level due primarily to a reduction in miscellaneous traffic repairs (\$486,000), partially offset by higher sidewalk repair fees (up \$126,000). Other categories ended the year with slight positive or negative variances.
- ***Library Departmental Fees*** – Collections of \$980,000 ended the year 6.7% below the modified budget estimate of \$1.05 million, and 8.4% below the 2013-2014 receipts of \$1.07 million. Fines revenues accounted for \$861,000 of the total receipts for 2014-2015 and were down from \$924,000 in the prior year. The decrease in Fine revenues is primarily the result of a 6% decrease in overall circulation experienced in 2014-2015. Revenues related to lost and damaged and collection agency fees totaled \$21,000 in 2014-2015, below the modified budget estimate of \$25,000 and 2013-2014 levels of \$31,000. Community room rental revenues continue to show growth; rental revenue collected in 2014-2015 totaled \$33,000, 31.3% above the modified budget estimate and 29.4% above 2013-2014 levels.
- ***Miscellaneous Departmental Fees and Charges*** – Collections of \$6.3 million ended the year 5.1% above the modified budget estimate of \$6.0 million, but 12.1% (\$864,000) below the prior year actual level of \$7.1 million. The Solid Waste Enforcement fee, which is the largest component of this category, ended the year at \$4.7 million, which was 9.8% (\$422,000) above the modified budget estimate (\$4.3 million), but 5.8% (\$293,000) below the prior year collection level of \$5.0 million. The 2015-2016 Adopted Budget estimate of \$4.2 million allows for a decline in revenues of 12.1%. Collections are expected to decline due to a rate decrease of 6.9% in the 2015-2016 Adopted Budget.

Animal Care and Services collections of \$617,000 ended the year 5.4% (\$35,000) below the modified budget estimate of \$652,000 and 0.6% (\$3,700) below prior year collections of \$620,000.

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Other Revenue

The Other Revenue category contains a number of unrelated revenue sources and totaled \$154.6 million in 2014-2015. As was the case in 2013-2014, 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 \$154.6 million were 6.9% (\$11.4 million) below the budgeted estimate of \$166.0 million, but 12.5% (\$17.2 million) above the 2013-2014 collection level of \$137.4 million.

Included in the 2015-2016 Adopted Budget was the rebudget of revenues and associated expenditures for various grants and reimbursements in the amount of \$11.8 million and \$7,500 in rebudgets is recommended in this report to account for the anticipated receipt in 2015-2016 of revenues that were not received in 2014-2015. Additional adjustments of \$79,000 are recommended in this report to adjust revenue and corresponding expenditure budgets to recognize various grants and reimbursements in 2015-2016, as described in *Section IV. Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Transfers and Reimbursements

Overhead, Transfers , and Reimbursements	2014-2015 Budget (\$)	2014-2015 Actuals (\$)	2014-2015 Variance (\$)	2014-2015 Variance %
Overhead Reimbursements	37,840,300	37,491,697	(348,603)	(0.92%)
Transfers	19,116,321	19,044,624	(71,697)	(0.38%)
Reimbursements for Services	18,125,406	18,449,674	324,268	1.79%
Total	75,082,027	74,985,995	(96,032)	(0.13%)

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall, collections of \$75.0 million ended the year 0.1%, or \$96,000 below the 2014-2015 Modified Budget estimate of \$75.1 million. The 2014-2015 collection level of \$75.0 million was 4.4% (\$3.1 million) above the prior year due primarily to increased overhead reimbursements (\$1.0 million) and transfers (\$2.1 million), partially offset by lower than budgeted reimbursements (\$31,000).

- **Overhead Reimbursements** – Payments from other funds for overhead costs of \$37.5 million ended the year \$349,000 (0.9%) below the modified budget estimate of \$37.8 million. This variance represents the net result of a series of over- and under-budgeted performances from over 50 special and capital funds that reimburse the General Fund.

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Transfers and Reimbursements

- **Transfers** – Revenue from the Transfers category of \$19.0 million ended the year \$72,000 (0.4%) below the modified budget level of \$19.1 million. The transfer from the Construction and Conveyance Tax Fund to the General Fund of \$4.0 million was \$609,000 higher than estimated based on higher Construction and Conveyance (C&C) Tax receipts. The General Fund receives 15% of the Parks C&C Tax receipts to support parks maintenance activities. A transfer from expired special assessment districts that had been budgeted at \$750,000 did not occur by year-end. The Budget Office will work with the Finance Department to determine the remaining allocations in the 50 expired assessment districts that are available to be transferred to the General Fund. In addition, there were a number of other small positive and negative variances in this category. In this report, budget actions are recommended to transfer \$112,000 from the Convention and Cultural Affairs Fund to the General Fund to account for ticket proceeds that were deposited into the Convention and Cultural Affairs Fund that were to be used for the repayment of the \$1.0 million loan from the General Fund to the American Musical Theater (AMT). These funds are generated through the collection by Team San Jose of \$1 per every Broadway San José ticket sold. In 2014-2015, \$131,533 was generated from these payments, which was \$71,533 above the \$60,000 assumed in the budget. To account for this actual year-end performance, an increase to the transfer from the Convention and Cultural Affairs Fund to the General Fund is recommended in this report. Given last year’s activity, the ticket surcharge revenue estimate for 2015-2016 is anticipated to increase by \$40,000, from \$60,000 to \$100,000. These funds are also recommended to be transferred to the General Fund, the originating funding source of the AMT loan. In total as of June 2015, payments of \$345,215 have been made towards the original \$1.0 million loan, leaving a remaining balance of \$654,785. Additional details on these actions are described in *Section IV. Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.
- **Reimbursement for Services** – Collections of \$18.5 million in the Reimbursement for Services category were 1.8%, or \$324,000, above the modified budget level of \$18.1 million. The positive variance is due to higher than estimated Gas Tax reimbursements of \$488,000 that exceeded the budgeted estimate of \$17.4 million. The 2015-2016 Adopted Budget, includes a \$16.9 million estimate for Gas Tax revenue allowing for a 5.3% decline in reimbursements compared to the actual 2014-2015 collections. Assessment District Fund Reimbursements of \$160,000 were not received in 2014-2015 but are anticipated to be received in 2015-2016.

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Summary

In 2014-2015, total revenues received by the General Fund of \$1.0 billion were lower than the modified budget level by \$18.2 million (1.7%). After adjusting for \$16.9 million in grant and reimbursement-related revenues not received in 2014-2015, but rebudgeted to 2015-2016 as part of the 2015-2016 Adopted Budget as well as additional rebudget and clean-up adjustments recommended in this report, revenues actually ended the year \$1.3 million (0.1%) 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 2014-2015 collection level of \$1.05 billion was up \$40.7 million (4.0%) from the actual 2013-2014 collections (\$1.00 billion). The 2014-2015 revenue estimates were built on the assumption that the economically-sensitive revenues would continue to experience growth. Actual performance in 2014-2015 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.

Continued positive revenue performance is expected to again be experienced in 2015-2016. The Administration will actively monitor economic indicators and revenues in 2015-2016 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.