

<b>2014-2015</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND REVENUES

### OVERVIEW

General Fund revenues and transfers through December totaled \$437.0 million, or 42.9% of the budgeted estimate. Based on current collection trends, existing revenues are tracking to end the year approximately \$10 million above budgeted levels (variance of approximately 1% when excluding the Beginning Fund Balance).

The following table details actual 2014-2015 General Fund revenue collections through December as compared with budgeted revenue estimates and 2013-2014 actual collections for the same period a year ago. It also details any proposed changes to each category:

### 2014-2015 General Fund Revenue Status through December (\$ in Thousands)

Category	Budget Estimate	Y.T.D Actual	% of Estimate	2013-2014 % of Actual	Proposed Changes
<b>General Revenue</b>					
Property Tax	\$ 233,973	\$ 66,912	28.6%	27.3%	\$ -
Sales Tax	180,024	45,745	25.4%	24.6%	-
Telephone Tax	20,700	7,533	36.4%	35.5%	-
Transient Occupancy Tax	11,750	5,748	48.9%	36.3%	1,250,000
Franchise Fees	45,347	18,641	41.1%	39.4%	-
Utility Tax	94,825	34,404	36.3%	41.8%	-
Business Taxes	43,700	22,248	50.9%	46.6%	-
Licenses and Permits	46,455	27,441	59.1%	56.7%	(60,000)
Fines, Forfeitures, and Penalties	14,205	7,292	51.3%	41.6%	-
Use of Money and Property	2,914	2,125	72.9%	54.2%	-
Revenue from Local Agencies	26,462	3,753	14.2%	8.6%	845,589
Revenue from the State of California	11,925	1,089	9.1%	10.2%	612,681
Rev. from State Govt. - Recovery Act	-	-	N/A	100.0%	-
Revenue from Federal Government	11,019	2,942	26.7%	48.2%	447,914
Rev. from Fed. Govt. - Recovery Act	-	-	N/A	100.0%	-
Departmental Charges	39,164	20,680	52.8%	50.4%	580,000
Other Revenue	163,399	112,657	68.9%	80.4%	1,802,085
<b>Sub-Total General Revenue</b>	<b>945,862</b>	<b>379,210</b>	<b>40.1%</b>	<b>40.0%</b>	<b>5,478,269</b>
<b>Transfers and Reimbursements</b>					
Overhead Reimbursements	38,059	29,377	77.2%	79.6%	-
Transfers	19,412	8,726	45.0%	59.6%	146,000
Reimbursements for Services	15,775	8,083	51.2%	36.8%	-
<b>Sub-Total Transfers and Reimbursements</b>	<b>73,246</b>	<b>46,186</b>	<b>63.1%</b>	<b>63.9%</b>	<b>146,000</b>
<b>TOTALS</b>	<b>\$ 1,019,108</b>	<b>\$ 425,396</b>	<b>41.7%</b>	<b>41.7%</b>	<b>\$ 5,624,269</b>

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**OVERVIEW**

Through December, the majority of revenues tracked at or above budgeted collections, including: Property Tax, Sales Tax, Transient Occupancy Tax, and Business Taxes. These positive variances are partially offset by lower collections in a limited number of categories, including Licenses and Permits, and Revenue from the both the State and Federal Government.

*Recommended Adjustments*

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

- Implement required technical and rebalancing actions to increase revenue estimates in limited areas to bring estimates in line with revised projections. Major actions include:
  - Increase the estimate for Transient Occupancy Tax by \$1.25 million (from \$11.75 million to \$13.0 million) to reflect projected growth of approximately 10% from 2013-2014 actual collections. This increase is recommended to be allocated to a Cultural Facilities Capital Maintenance Reserve in accordance with City Council approved direction which provides that any growth in the General Fund receipts from the 2013-2014 base level is to be allocated for capital maintenance of the City's cultural facilities.
  - Increase the Other Revenue estimate by \$955,000 to recognize anticipated Pacific Gas and Electric (PG&E) rebates for the conversion to 18,127 streetlights to LED lightbulbs. The streetlight conversions were funded by Energy Services Company (ESCO) lease-purchase agreement proceeds and the rebate revenue would partially offset the ESCO debt service payment due in 2014-2015.
- Recognize grant, reimbursement, and/or fee related funds (\$3.4 million).
  - The largest items in this category include reimbursement from the County of Santa Clara for the Senior Nutrition Program (\$776,000), Parks, Recreation and Neighborhood Services fee activities (\$500,000), and Sidewalk Repairs (\$500,000) funded by property owners. Offsetting increases to the corresponding expenditures are also recommended.
- Net zero technical clean-up adjustments to appropriately categorize revenues and increase the 2014-2015 Beginning Fund Balance (\$11,570) to reflect the final reconciliation of 2013-2014 activity.

In total, adjustments recommended in this document result in a net addition of \$5.6 million to the General Fund revenue estimates. Additional detail on these recommended adjustments can be found in Section III of this document. The following discussion highlights major General Fund activities through December in various revenue categories.

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## STATUS OF GENERAL FUND REVENUES

### PROPERTY TAX

Revenue Status				
2014-2015		2013-2014		2014-2015
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$233,973,240	\$66,912,353	28.6%	27.3%	\$0

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Airplane In-Lieu Tax, and Homeowners Property Tax Relief. Overall, Property Tax revenues are projected to exceed the budgeted estimate based on the most recent estimates from the County Assessor's Office.

The County has provided preliminary information about an anticipated one-time payment to the City as a result of excess Educational Revenue Augmentation Fund (ERAF). Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In 2013-2014, the City received over \$200,000 from excess funds in 2012-2013. Currently, the County of Santa Clara preliminarily anticipates approximately \$56 million in excess ERAF for Santa Clara County from 2013-2014. Final figures will not be available until the end of February 2015; however, current estimates are approximately \$4 million for the City of San José.

In the 2014-2015 Adopted Budget, the **Secured Property Tax** estimate of \$215.2 million was based on the assumption that collections would increase approximately 6% in 2014-2015. However, the revised assessed value for 2014-2015 reflects growth of 7.4%, slightly above the levels assumed in the 2014-2015 budget. As a result of this revised assessed value and a revised estimate from the County of Santa Clara, which includes estimated tax roll corrections of \$25 million County-wide, the current estimate from the County of Santa Clara exceeds the 2014-2015 Adopted Budget estimate by approximately \$3 million. This figure will be adjusted during the year based on actual experience. Because tax roll adjustments will continue to occur until the end of May 2015, the Budget Office will continue to work with the County to monitor actual performance and estimate year-end collections.

The 2014-2015 **Unsecured Property Taxes** budget estimate is \$12.9 million and requires 3.8% growth from prior year collection levels. Receipts through December of \$11.0 million typically reflect approximately 90% of the annual revenue for this category (which is received in October). Assuming this trend, it is anticipated that collections may fall slightly below (\$150,000-\$300,000) the 2014-2015 Adopted Budget estimate of \$12.9 million. The most recent estimate from the County of Santa Clara for

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2014-2015, however, continues to fall even further below the 2013-2014 actual collections.

**SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) totaled \$1.7 million through December, which is significantly higher than prior year levels of \$595,000, and is tracking to exceed the 2014-2015 Adopted Budget estimate of \$2.8 million. The adopted estimate is well below the 2013-2014 actual collection level of \$5.0 million. Collections in this category were expected to decline due to an anticipated change in methodology for the SB 813 distribution. In 2004-2005, the State Motor Vehicle In-Lieu (VLF) swap involved the permanent conversion of VLF backfill funds to Property Tax as part of the approved State budget. Since SB 813 Property Tax receipts are pooled receipts that are allocated to each jurisdiction based on their share of secured property taxes, an increase in the City's Secured Property Taxes due to the VLF conversion increased the City's share of SB 813. Per conversations with the County of Santa Clara, it was anticipated that beginning in 2014-2015, VLF receipts associated with the swap will not be considered Property Tax for SB 813 calculation and therefore, will reduce the City's relative share of this tax. The County of Santa Clara now estimates collections to exceed prior year levels by 30% or \$3 million to \$4 million despite this change in calculation methodology. This estimate is based on the significant increase in current year receipts and reflects the revised calculation discussed above. It should be noted that collection levels in recent years remain well below the high of \$10.1 million received in 2005-2006 and below levels seen just a few years ago (e.g., \$8.0 million in 2006-2007 and \$7.9 million in 2007-2008).

**Aircraft Property Tax** receipts through December totaled \$2.35 million, reflecting growth of 13.7% from the prior year. This collection level exceeded the 2014-2015 Adopted Budget estimate of \$2.15 million, which required growth of approximately 1%. Typically, collections through October reflect 95% of the annual revenue for this category. Based on this collection trend and the latest estimate from the County of Santa Clara, it is estimated that revenues will exceed the budgeted estimate by approximately \$250,000.

Based on the latest estimate from the County, the **Homeowners Property Tax Relief** revenue is projected to meet the 2014-2015 Adopted Budget estimate of \$1.03 million.

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## STATUS OF GENERAL FUND REVENUES

### SALES TAX

<b>Revenue Status</b>				
<b>2014-2015</b>		<b>2013-2014</b>		<b>2014-2015</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$180,024,000	\$45,745,483	25.4%	24.6%	\$0

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax. Overall, revenues are tracking above budgeted estimates and are anticipated to exceed budgeted levels by \$1.0 million at this time.

The 2014-2015 Adopted Budget estimate for **General Sales Tax** of \$174.2 million requires growth of 3.7% from the 2013-2014 year-end figure of \$168.0 million. Collections in 2014-2015 will be impacted by prior year accrual adjustments, one-time payments, and the Triple Flip payment from the State. Information on actual receipts for the first quarter of General Sales Tax for the current year was received in December and represented activity for July through September 2014. The first quarter 2014-2015 General Sales Tax revenues were up 6.3% from the same quarter in the prior year. When comparing San José's cash receipts to those of other jurisdictions, San José's growth of 6.3% was consistent with the growth level of the State as a whole (up 6.3%); however, it was below Northern California (6.7%), San Francisco Bay Area (7.8%), and Santa Clara County (8.6%).

The City's Sales Tax consultant, MuniServices Company, provides economic performance data to the City, which is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding State and county pools, and adjusts for anomalies, payments to prior periods, and late payments. On an economic basis, growth of 4.0% was realized in the most recent quarter. The chart below outlines the various sectors of sales tax and the percentage of the total receipts received.

#### Sales Tax by Sector Year Ending September 2014

<b>Economic Sector</b>	<b>% of Total Revenue</b>
General Retail	26.1%
Transportation	23.3%
Business-to-Business	22.5%
Food Products	15.9%
Construction	11.6%
Miscellaneous	0.6%
<b>Total</b>	<b>100.0%</b>

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### SALES TAX

Overall, after factoring in year-end accrual adjustments, one-time payments, the Triple Flip payment from the State, and actual growth in cash receipts for the first quarter of 6.2% compared to the budgeted level of 4.0%, it is anticipated that receipts will exceed the budgeted estimate by \$1.0 million. Information on the second quarter collections (October-December sales activity) for this fiscal year will not be received until March 2015. It should be noted that it is anticipated that the State of California will begin to wind down the Triple Flip which will result in additional one-time remittances of revenues, however, no figures are currently available.

Through December, the **Proposition 172 Sales Tax** receipts of \$2.5 million are tracking 10.9% above the prior year level of \$2.3 million through the same period. The 2014-2015 budgeted estimate of \$5.8 million requires growth of 7.0% from the 2013-2014 collection level of \$5.4 million. Based on 2013-2014 actual performance and current collection trends, it is anticipated that collections will meet budgeted estimates this year.

### TRANSIENT OCCUPANCY TAX

Revenue Status				
2014-2015		2013-2014		2014-2015
Budget Estimate	YTD Actual	% of Estimate	% of Actual	Proposed Changes
\$11,750,000	\$5,748,315	48.9%	36.3%	\$1,250,000

The 2014-2015 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$11.75 million, which was built assuming growth of approximately 5% from the 2013-2014 estimated collection level. However, since 2013-2014 actual receipts came in higher than assumed in the 2014-2015 budget development, growth of approximately 1% (excluding compliance revenues) is needed to meet the budgeted estimate. Year-to-date receipts of \$5.7 million are 33.3% above the prior year. A portion of this variance, however, is attributed to the timing of collections. Factoring out those timing differences, receipts are up 26.4% from the 2013-2014 collection level. Due to the strong performance thus far and a revised activity forecast through June, this report includes a recommendation to increase the budgeted estimate by \$1.3 million, representing an increase of approximately 10% from the 2013-2014 collection level. Per City Council direction, this \$1.3 million of additional revenue is further recommended to be placed in a Cultural Facilities Capital Maintenance Reserve that will be allocated in 2015-2016. Additional details can be found in Section III of this report.



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### TRANSIENT OCCUPANCY TAX

Through December, the average hotel occupancy rate at the 14 major hotels was 75.5%, an improvement from the 68.1% occupancy rate for the same period in 2013-2014, while room rates have risen from \$149.16 to \$163.72 (9.8%). The year-to-date average revenue-per-available room (RevPAR) metric of \$123.86 represents an increase of 21.8% from the prior year level.

### FRANCHISE FEES

Revenue Status				
2014-2015		2013-2014		2014-2015
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$45,346,879	\$18,641,342	41.1%	39.4%	\$0

Franchise Fees are collected in the Electric, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. Through December, Franchise Fee receipts of \$18.6 million were 3.5% above last year's collection level of \$18.0 million. Overall, it is anticipated that revenues will meet or exceed the current budgeted estimate of \$45.3 million, which allows for a slight decline of 1% from 2013-2014 collections of \$45.7 million.

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 2014-2015 are based on calendar year 2014). Actual collections currently reflect formula driven advance amounts; true receipts will not be known until April 2015. Based on current Electricity and Gas Utility Tax receipts for calendar year 2014, it is anticipated that receipts will meet or exceed the 2014-2015 Adopted Budget estimates of \$19.2 million and \$4.7 million respectively.

Commercial Solid Waste Fees of \$4.7 million through December are slightly above prior year levels of \$4.6 million. Collections are expected to reach the 2014-2015 Adopted Budget estimate of \$11.2 million, which reflects the revised methodology of a flat rate for assessing this fee. The revised methodology became effective July 1, 2012.

Cable Franchise Fees of \$2.4 million are above prior year levels of \$2.3 million; receipts are anticipated to meet or exceed the current budgeted estimate of \$9.1 million.

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

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### UTILITY TAX

Revenue Status				
2014-2015		2013-2014		2014-2015
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$94,825,000	\$34,404,163	36.3%	41.8%	\$0

Utility Tax contains the following categories: Electric, Gas, Water and Telephone. Collections through December of \$34.4 million were tracking 12.2% below the prior year level of \$39.2 million. The majority of this decline, however, was due to differences in the timing of payments and prior year accruals. The 2014-2015 budgeted estimate assumes a slight increase of approximately 1% from the prior year. Based on current collection trends, overall, Utility Tax receipts are tracking to fall slightly below or meet budgeted estimates. Below is a more detailed discussion of the revenue performance in each category and adjustments to the revenue estimate.

Through December, **Electric Utility Tax** receipts of \$16.9 million were 12.1% below the prior year level of \$19.2 million and reflect activities through November 2014. Once adjusted for timing differences in payments and accrual differences, collections are tracking 4.3% above the adjusted prior year levels of \$17.9 million. Collections are on pace to exceed the 1.0% growth necessary to meet the 2014-2015 Adopted Budget estimate. After recent rate cases approved by the California Public Utility Commission (CPUC), rates were adjusted in the fall of 2014 and are anticipated to be increased again in January 2015. Therefore, once adjusting for these anticipated rate increases, collections in this category are estimated to exceed budgeted estimates by approximately \$700,000 to \$1 million. Because of the uncertainty of any one-time adjustments and the volatility inherent in this revenue category, receipts will continue to be monitored closely for the remainder of the year.

**Gas Utility Tax** receipts through December of \$1.9 million were below prior year collections of \$2.4 million. However, once adjusted for timing differences in payments and slight variances in accrual levels, receipts are tracking 2.5% above adjusted prior year levels. This falls slightly below the 3.8% growth necessary to meet the 2014-2015 Adopted Budget estimate. However, recent rate cases approved by the CPUC may result in higher revenue collections through the remainder of the year. Overall PG&E revenues are estimated to increase 6% between Gas and Electric activity. Therefore, once adjusted for these anticipated rate increases, collections are estimated to meet budgeted estimates. Gas Utility Tax receipts are subject to significant fluctuations from the impact of weather conditions and/or rate changes. Collections will continue to be monitored closely since approximately two-thirds of the revenue in this category is typically collected in the second half of the year.



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### UTILITY TAX

**Water Utility Tax** collections of \$5.1 million through December are 5.9% below the prior year level of \$5.4 million, however, once adjusted for accruals and timing differences in payments, receipts through December are approximately 0.4% over adjusted prior year levels of \$5.2 million. The CPUC recently settled a rate case submitted by San Jose Water approving the following rate adjustments: August 2014, 10% increase; September 2014, 10%-11% increase; January 2015, 3% increase. Receipts showed a year-over-year decline of 25% in September, representing the significant measures taken to reduce water usage to address the California drought. However, October and November receipts were both up approximately 5% from 2013 levels which, were the first months of receipts that began to reflect the August and September 2014 rate increases. Collections are currently anticipated to meet the 2014-2015 Adopted Budget estimate of \$11.4 million by year end; however, this category may experience significant fluctuations due to the current drought conditions.

**Telephone Utility Tax** receipts of \$10.5 million through December are tracking 14.1% below the prior year level of \$12.2 million. Once adjusting for timing difference in payment and accruals, receipts through December are actually tracking approximately 8.4% below prior year levels or \$1.1 million. This is primarily due to lower receipts in both telephone and cell phone receipts. The 2014-2015 Adopted Budget estimate of \$33.0 million requires growth of 0.8% from 2013-2014 receipts. As collections are not meeting this budgeted growth, receipts are anticipated to fall below the adopted estimate by \$2 million. In addition, as a result of litigation, it is anticipated that receipts will be impacted by a reduction of \$1.3 million to refund claims made by AT&T Mobility on behalf of its customers against California UUT cities and counties.

### BUSINESS TAXES

#### Revenue Status

2014-2015		2013-2014		2014-2015
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$43,700,000	\$22,248,117	50.9%	46.6%	\$0

Business Taxes include the following major groups of revenue: Cardroom Business Tax, General Business Tax, Marijuana Business Tax, and Disposal Facility Tax. Overall, this category is tracking to exceed the modified budget of \$43.7 million.

**Cardroom Business Tax** collections reflect the gross receipts tax collected from the two cardrooms located in San José. Collections of \$6.9 million through December are 4.7% above the prior year

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**BUSINESS TAXES**

collection level of \$6.6 million. The 2014-2015 Adopted Budget estimate of \$16.0 million allows for a decline in collections of 2.0% from the prior year level of \$16.3 million. However, if receipts in this category continue to track at prior year levels, it is anticipated that revenues may exceed the budgeted estimate by \$800,000 to \$1.0 million in 2014-2015.

**General Business Tax** receipts of \$8.6 million are 15.6% above prior year levels of \$7.4 million. This is primarily due to a timing difference in billing and does not reflect actual cash collections. Once adjusted for the remaining billing cycles, account closeouts and cleanups anticipated in 2014-2015, and the historical collections rates of invoices, it is anticipated that collections will end the year at the budgeted estimate of \$11.0 million.

**Marijuana Business Tax** collections of \$2.0 million are 16.8% below the prior year collection level of \$2.4 million, primarily as a result of the enforcement of the Medical Marijuana Regulatory Program that was implemented in July 2014. Based on current collection trends and closures of collectives that did not and/or may not pass the regulatory process, it is anticipated that receipts will total \$4.5 million in 2014-2015, which is 25% below the budgeted estimate of \$6.0 million and also well below the 2013-2014 actual collections of \$6.1 million. The receipts will continue to be monitored closely for the ongoing impact of the implementation of the Medical Marijuana Regulatory Program, as well as the potential impacts from any federal actions.

**Disposal Facility Tax (DFT)** receipts through December of \$4.7 million are tracking 0.7% below the prior year level of \$4.8 million and reflect 44.3% of the budgeted estimate of \$10.7 million. The 2014-2015 Adopted Budget estimate of \$10.7 million was built on the assumption that revenues would fall due to improvements in the processing of waste for the commercial program as well as the historical downward trend in this category. From the 2013-2014 actual collection level of \$12.2 million, the 2014-2015 Adopted Budget allows for a 12.5% decline in receipts. Based on current tracking, revenues are anticipated to exceed budgeted levels by \$1.4 million, due primarily to an increase in waste from neighboring jurisdictions.

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## STATUS OF GENERAL FUND REVENUES

### LICENSES AND PERMITS

Revenue Status				
2014-2015		2013-2014		2014-2015
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$46,455,293	\$27,440,671	59.1%	56.7%	(\$60,000)

Licenses and Permits include the following major groups of revenue: Building Permits, Fire Permits and Miscellaneous Other Licenses and Permits. Through December, revenues of \$27.4 million are tracking 7.0% below the prior year level of \$29.5 million and overall, revenues are estimated to meet or exceed budgeted levels.

Development-related activity experienced very significant growth in 2012-2013 and 2013-2014; strong performance continues in 2014-2015, though not at least year's peak levels.

**Building Permits** revenues of \$13.5 million through December are tracking 16.2% below the 2013-2014 collection level of \$16.1 million for the same period. The 2014-2015 budgeted revenue estimate allows for a drop of 21.1% from the prior year actuals in this category; however, this has not been the case as revenues in building permits, plumbing permits, mechanical permits (excluding non-residential), and electrical permits are tracking above estimated levels. Revenue receipts are being driven by a continued high level of construction activity. If the current collection trend continues, it is anticipated that Building Permit revenues will achieve, and may exceed, the budget estimate of \$25.6 million.

**Fire Permits** through December, Fire Permit collections of \$5.8 million were below prior year levels of \$6.3 million. However, the 2014-2015 budgeted revenue estimate of \$11.1 million is at the prior year collection level. This category consists of development and non-development related permits. Development related receipts of \$2.9 million through December are tracking 18.5% below the 2013-2014 collection level of \$3.6 million for the same period, while the budgeted estimate of \$7.0 million allows for a drop of 1.8%. While only half way through the fiscal year, if current collection trends continue, development-related receipts may fall slightly below the budgeted estimate.

At this time, the non-development program revenues of \$2.9 million represent two of the major billing cycles for non-development fire permits for this fiscal year. With the remaining billing cycle and inspections revenues, non-development program revenues are anticipated to meet or slightly exceed the budgeted estimate of \$4.1 million by year-end.

**Miscellaneous Other Licenses and Permits** – Revenues of \$8.1 million are tracking 14.5% above prior year levels of \$7.1 million and are generally tracking at anticipated levels through December. The 2014-

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**LICENSES AND PERMITS**

2015 budget estimate requires growth of 14.8% from the prior year actual collections, primarily reflecting a significant increase in multiple housing permits in 2014-2015.

**REVENUE FROM LOCAL AGENCIES**

<b>Revenue Status</b>				
<b>2014-2015</b>		<b>2013-2014</b>		<b>2014-2015</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$26,461,494	\$3,752,812	14.2%	8.6%	\$845,589

Funding in this category is provided by many local agencies. The largest sources include reimbursement from the Successor Agency to the Redevelopment Agency of the City of San José, a public entity, reimbursement from the Central Fire District for fire services provided by the City to County properties, reimbursement for the City's Paramedic Program (currently not budgeted in 2014-2015), and Senior Nutrition reimbursement. Revenues are generally performing close to budgeted levels through December, however, it is anticipated that they will fall below budgeted levels by year end as a result of anticipated activities associated with the Successor Agency. A recommended increase of \$845,589 to the budgeted revenue estimate is included in this report and discussed in further detail in Section III of this report.

The largest revenue estimate in the Revenue from Local Agencies category is a reimbursement from the Successor Agency to the Redevelopment Agency for the payment of the Convention Center Debt Service. While no revenues have been received through December, it is anticipated that the 2014-2015 budgeted estimate of \$15.3 million will be received by year-end under the current accounting for this payment. The 2014-2015 Modified Budget also includes a reimbursement of \$2.1 million from the Successor Agency to the Redevelopment Agency to reimburse for intra-year loans provided during 2014-2015 from the City to the Successor Agency. Overall, the City's General Fund Modified Budget assumes a net subsidy to the Successor Agency of \$1.3 million to provide funding for administrative costs and unsecured obligations. However, based on current cash flow projections updated for the actual January 2015 tax distribution, it is anticipated that the subsidy to the Successor Agency from the City will need to be increased in both the General Fund and the General Purpose Parking Fund. Therefore, should projected cash flow levels remain the same, reimbursements are anticipated to fall below budgeted levels by \$1.5 million. This would result in a net subsidy from the General Fund to the Successor Agency of \$2.8 million in 2014-2015.

This category typically includes reimbursements for the City's Paramedic Program from the County of Santa Clara. Although the 2014-2015 budgeted estimate is currently zero, it is anticipated that approximately \$1.5 million will be received as a result of the completion of current negotiations and the

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**STATUS OF GENERAL FUND REVENUES**

**REVENUE FROM LOCAL AGENCIES**

execution of a Second Amendment to the 911 Emergency Medical Services (EMS) Provider Agreement between the City and the County of Santa Clara. The \$1.5 million figure represents only the portion of the Amendment associated with EMS Resource Management and is calculated from when the County began withholding payments, beginning the fourth quarter of 2012-2013 through the end of 2014-2015, with the exception of two payments authorized by the County and made by Rural Metro during 2013-2014. The staff will continue to monitor performance levels associated with the remainder of the Amendment.

Minimal budget adjustments are recommended in this report to recognize grant and reimbursement revenues and allocate funding. Section III of this document provides a description of these actions.

**DEPARTMENTAL CHARGES**

<b>Revenue Status</b>				
<b>2014-2015</b>		<b>2013-2014</b>		<b>2014-2015</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$39,163,435	\$20,679,491	52.8%	50.4%	\$580,000

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

Total revenues of \$20.7 million are tracking slightly below the prior year of \$21.0 million (-1.5%) and are tracking to end the year at the budgeted estimate of \$39.2 million. Collections in the Public Works, Planning, Police, Library, and Parks, Recreation and Neighborhood Services (PRNS) Departments are tracking to meet or exceed estimated levels, while the Transportation Department is tracking to fall below budgeted levels due to the reclassification of subrogation recovery revenues from Departmental Charges to Use of Money and Property. An action to increase the PRNS budgeted revenue estimate by \$580,000 to account for increased participation levels in recreation classes offered is recommended, bringing the budgeted level to \$17.1 million. An associated increase to the PRNS Fee Activities appropriation is recommended to provide for additional staff and vendor hours needed to support the increased class participation levels.

<b>2014-2015</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND REVENUES

### DEPARTMENTAL CHARGES

Development-related activity experienced very significant growth in 2012-2013 and 2013-2014, and although not at prior year levels, strong performance continues in 2014-2015. Below are highlights of the current status of the development-related fee programs:

**Public Works** – Public Works revenues through December of \$4.5 million are below the prior year level of \$5.1 million (approximately 11%). Revenues in most residential categories are tracking below estimated levels due to fewer single-family and multi-family residential projects that were received in the first half of 2014-2015. Non-residential revenues are performing at or slightly above anticipated levels. At this time, collections are projected to meet the budgeted revenue estimate of \$9.6 million. A recommendation is included in this report to liquidate a portion of the Public Works Development Fee Program Earmarked Reserve and increase the Public Works Development Fee Program Personal Services appropriation by \$350,000 to address increased inspection activity for works-in-progress projects funded by fees paid in previous years.

**Planning, Building and Code Enforcement (PBCE)** – Through December, Planning Fee revenues of \$2.2 million is 12.8% below the prior year collection level of \$2.5 million. The adopted Planning Fee revenue estimate of \$3.6 million allows for a drop of 24.0% from prior year actuals. Overall revenue collections are tracking above estimated levels, and it is anticipated that Planning Fee revenues will achieve, and may exceed, the budget estimate if current collection trends continue.

### OTHER REVENUE

<b>Revenue Status</b>				
<b>2014-2015</b>		<b>2013-2014</b>		<b>2014-2015</b>
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$163,398,596	\$112,656,876	68.9%	80.4%	\$1,802,085

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through December totaled \$112.7 million compared to prior year levels of \$110.5 million. Collections in this category are expected to end the year within the budgeted estimate, including the various adjustments recommended in the report that are described in more detail in Section III.

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



**2014-2015  
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**STATUS OF GENERAL FUND REVENUES**

**OTHER REVENUE**

Beginning in 2010-2011, the City has been required to issue **Tax and Revenue Anticipation Notes (TRANS)** annually for cash flow purposes due to the pre-payment of the City's retirement contributions. In 2014-2015, \$100.0 million was required to be issued, which is the same amount that was issued in 2013-2014.

In the current year, the City has received \$5.5 million in **SAP Center Rental, Parking, and Naming** revenue in accordance with the arena agreement, which is consistent with the budgeted estimate of \$5.5 million.

**Investment Cost Reimbursement** revenues through December of \$1.0 million are tracking slightly below estimated levels. Some of this low trend can be attributed to the City's failure to meet the floor for the Payment Manager Program. Under this program, a new vendor payment process would allow vendors to receive electronic payments in-lieu of manual checks. Vendors choosing to participate in receiving the City's payments in this faster and more efficient manner would incur a small fee assessed by the banking services provider. The banking services provider would then share a portion of this revenue with the city once a predefined level of participation is reached. The current participation has not reached this level and therefore no revenue sharing is anticipated for 2014-2015. The reduction of anticipated revenues that were expected to be generated from this program (\$250,000) has been accounted for as part of the financial analysis of the General Fund and ongoing implications will be addressed during the development of the 2015-2016 budget.

**SB 90 Reimbursements** totaled \$761,000 through December compared to the 2014-2015 Adopted Budget estimate of \$300,000. An upward adjustment may be brought forward at year-end depending on the final SB 90 reimbursements and the overall performance of the Other Revenue category.

Through December, revenue from the **Sale of Surplus Property** totaled \$1.4 million compared to \$599,000 in the prior year. Additionally, there was an increase of \$39.6 million to the budget estimate to reflect the sale of 22.8 acres of Airport West to Coleman Airport Partners for the Coleman Highline mixed use development. Once received, the proceeds from the sale will be used primarily to pay down 2008F Bonds and most of the Section 108 HUD loan related to the property. The Office of Economic Development currently anticipates that revenues in this category will meet or exceed the budgeted estimate of \$40.1 million in 2014-2015.

<b>2014-2015</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND REVENUES

### TRANSFERS AND REIMBURSEMENTS

Revenue Status				
2014-2015		2013-2014		2014-2015
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$73,246,139	\$46,185,680	63.1%	63.9%	\$146,000

The following are sources of revenue in this category: reimbursements to the General Fund for Overhead costs, revenue received as Transfers from other City funds, and Reimbursements for services rendered. Collections of \$46.2 million through December are tracking slightly above prior year levels of \$45.9 million primarily due to higher than budgeted reimbursements for services partially offset by lower transfers. Overall, collections are currently tracking close to the budgeted estimate.

**Overhead Reimbursements** associated with special funds are currently budgeted at \$26.8 million and capital funds are budgeted at \$11.3 million for a total category revenue estimate of \$38.1 million. Through December, overhead collections of \$29.4 million were tracking 1.3% above prior year levels of \$29.0 million. This reflects higher receipts in special funds. This budgeted increase reflects increases in salary levels and activity and was assumed in the development of 2014-2015 Adopted Budget. Overhead reimbursements associated with special funds are expected to end the year close to the budgeted estimate; however, the overhead associated with capital funds may fall slightly below the budgeted estimate due to position vacancies in various capital programs.

**Transfers** includes \$19.4 million in various transfers. Through December, transfers of \$8.7 million were tracking within estimated levels though below prior year levels of \$10.1 million. It is estimated that receipts may fall slightly below the budgeted levels primarily due to a lower than anticipated transfer from the Construction and Conveyance Tax Fund based on lower revenue collections in that fund.

The budget estimate for **Reimbursement for Services** is \$15.8 million, of which \$15.0 million is expected to be generated from the three **Gas Tax Funds**. Currently, Gas Tax revenues of \$7.9 million were up from the prior year levels of \$6.7 million by 19.1% and are tracking to exceed the budgeted estimate by approximately \$1.0 million 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, existing revenues are generally performing within budgeted expectations and are projected to end the year with approximately \$10.0

**2014-2015  
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**STATUS OF GENERAL FUND REVENUES**

**CONCLUSION**

million in additional revenues. This positive variance represents approximately 1% of the budget. Additional revenue is expected to be generated from several categories, including Property Tax, Sales Tax, Transient Occupancy Tax, and Business Taxes.

In total, a net increase of \$5.6 million to the General Fund revenue estimates is recommended in this document. This increase primarily reflects a \$3.4 million increase as a result of net-zero Grants Reimbursements and Fees adjustments as well as a net increase of \$2.2 million in general revenue activity.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2016-2020 General Fund Forecast, due to be released late February, as well as the 2015-2016 Proposed Budget, due to be released on May 1, 2015. 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.