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GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2013-2014 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2013-2014 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000s)

| Category | Modified Budget | Budgetary Basis Actual | Variance | % Variance |
|--------------------------------------|---------------------|------------------------------|------------------------------|---------------|
| Property Tax | \$ 223,000 | \$ 223,645 | \$ 645 | 0.3% |
| Sales Tax | 173,760 | 173,412 | (348) | -0.2% |
| Transient Occupancy Tax | 11,800 | 11,873 | 73 | 0.6% |
| Franchise Fees | 45,353 | 45,749 | 396 | 0.9% |
| Utility Tax | 93,795 | 93,794 | (1) | 0.0% |
| Telephone Line Tax | 20,600 | 20,692 | 92 | 0.4% |
| Business Taxes | 43,735 | 45,478 | 1,743 | 4.0% |
| Licenses and Permits | 50,018 | 52,013 | 1,995 | 4.0% |
| Fines, Forfeitures, and Penalties | 14,262 | 14,836 | 574 | 4.0% |
| Rev. from the Use of Money/Property | 3,228 | 3,473 | 245 | 7.6% |
| Revenue from Local Agencies | 47,003 | 46,687 | (316) | -0.7% |
| Revenue from the State of California | 11,939 | 11,932 | (7) | -0.1% |
| Rev. from State of CA -Recovery Act | - | 1 | 1 | N/A |
| Revenue from Federal Government | 13,539 | 13,477 | (62) | -0.5% |
| Rev. from Fed. Govt. - Recovery Act | 22 | 20 | (2) | -9.1% |
| Departmental Charges | 40,398 | 41,683 | 1,285 | 3.2% |
| Other Revenue | 147,085 | 137,402 | (9,683) | -6.6% |
| Subtotal | 939,537 | 936,167 | (3,370) | -0.4% |
| Overhead Reimbursements | 36,298 | 36,446 | 148 | 0.4% |
| Transfers | 16,992 | 16,916 | (76) | -0.4% |
| Reimbursements for Services | 15,943 | 18,481 | 2,538 | 15.9% |
| Subtotal | 69,233 | 71,843 | 2,610 | 3.8% |
| TOTALS¹ | \$ 1,008,770 | \$ 1,008,010 | \$ (760) ² | -0.1% |

¹ Excludes Beginning Fund Balance.

² After adjusting for \$3.1 million in grant and reimbursement-related revenues not received in 2013-2014 but rebudgeted to 2014-2015 as part of the 2014-2015 Adopted Budget, the revenue variance resulted in excess revenues of \$2.3 million (0.2%). For these grant revenues, corresponding General Fund expenditure savings were also realized in 2013-2014, resulting in a net zero impact on the General Fund Ending Fund Balance.

The General Fund revenue performance for 2013-2014 is discussed in detail in this section. The 2013-2014 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

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estimates are described. In addition, comparisons with prior fiscal year collection levels are included to indicate collection trends and to provide a historical perspective.

As shown in Table A, total revenue received in the General Fund in 2013-2014 was \$1.0 billion. This collection level was slightly below the 2013-2014 Modified Budget level by \$760,000, (0.1%). This negative variance was partially due to lower collections from various grants and reimbursements that were not received in 2013-2014, but were rebudgeted to 2014-2015 in the 2014-2015 Adopted Budget (\$3.1 million). After adjusting for grant and reimbursement-related revenues not received in 2013-2014 but rebudgeted to 2014-2015, revenues for the over 450 revenue accounts budgeted and monitored annually ended the year \$2.3 million or 0.2% above budgeted estimates. This small positive variance primarily reflects higher than anticipated Building Development Fee Program and Gas Tax reimbursement revenues offset by a delay in the receipt of financing proceeds in relation to the Energy and Utility Conservation Measures Program. Once adjusted for the Development Fee Programs which must be returned to the Development Fee Program Reserves, and other revenue-related adjustments required to close out 2013-2014, there was a net positive revenue variance of \$7.5 million (0.7%) for 2013-2014.

The 2013-2014 collection level of \$1.0 billion was up \$64.1 million (6.8%) from the actual 2013-2014 collections (\$943.8 million). The categories that experienced the largest increases included: Property Tax, Sales Tax, Transient Occupancy Tax, Licenses and Permits, Revenue from Local Agencies, Other Revenue, and Departmental Charges. The largest declines from the prior year were experienced in the Use of Money and Property, Revenue from the State of California, and Revenue from the Federal Government 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

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 2013-2014 fiscal year totaled \$223.6 million. This collection level was \$645,000 (0.3%) above the budgeted estimate of \$223.0 million, and represented an increase of 9.1% from 2012-2013 actuals of \$205.0 million. This is the third year of positive growth in this category after two years of declines (2009-2010 and 2010-2011), and 2013-2014 collections of \$223.6 million represent the highest peak since collections of \$215.7 million in 2008-2009.

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- **Secured Property Tax** – Receipts in this category of \$203.1 million were 0.03% (\$53,000) below the 2013-2014 Modified Budget estimate of \$203.1 million. Collections reflected strong growth of 9.0% compared to the 1.2% experienced in 2012-2013, and 1.3% experienced in 2011-2012 after two years of declines in this category (2.2% decline in 2010-2011 and a 3.4% decline in 2009-2010). This growth was consistent with the rate assumed in the 2013-2014 Modified Budget of 9.0%. On a County-wide basis, the 2013-2014 roll growth was driven primarily by Proposition 8 adjustments (41.5%) and changes in ownership (29.0%). The remainder of the growth in assessed value reflected the impact of the CCPI inflation factor, business personal property, and corrections and other adjustments. In San José, the number of properties receiving Proposition 8 adjustments dropped by almost 40% in 2013-2014 from 76,600 in 2012-2013 to 46,500 in 2013-2014. Under Proposition 13, which was approved by the voters in 1978, assessed values of all real property adjusted with the California Consumer Price Index (CCPI), with a 2% limit, unless there is a change in ownership, new construction, or the value of the property falls below the assessed value. The CCPI adjustment for the 2013-2014 tax roll was an increase of 2.0%. Receipts in 2013-2014 were based on the property tax roll as of January 1, 2013, with tax roll corrections incorporated into final collection totals. During 2013-2014, tax roll corrections resulted in a net reduction to the tax levy of approximately \$33 million County-wide (compared to \$43 million in 2011-2012), slightly below levels estimated to develop the 2013-2014 Modified Budget of \$35.0 million.

In 2014-2015, Secured Property Tax receipts will be based on the property tax roll as of January 1, 2014. The 2014-2015 Adopted Budget reflects growth of approximately 6% (\$215.2 million) from the 2012-2013 actual collections (once adjusted for the one-time payment of excess 2012-2013 ERAF received in 2013-2014 of \$224,000). The 2013-2014 adopted revenue estimate was based on an analysis of the information provided by the Santa Clara County Assessor's Office on May 22, 2014. However, the final assessed value for 2014-2015 reflects 6.7% growth, slightly above current levels assumed in the 2014-2015 budget. As a result, the very preliminary estimate from the County of Santa Clara is slightly above the 2014-2015 Adopted Budget estimate by approximately \$1-2 million. This figure will be adjusted during the year based on actual experience. If necessary, any adjustment to the Secured Property Tax estimate will be brought forward in 2014-2015.

Throughout the County of Santa Clara, the majority of the 2014-2015 roll growth can be attributed to changes in ownership (42.9%) and Proposition 8 (33.4%) adjustments. The remainder of the growth in assessed value reflects the impact of new construction, corrections and other adjustments, business personal property, and the CCPI inflation factor. With the continued recovery in the real estate market, approximately 21,000 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 \$1.6 billion in assessed value. There are approximately 24,000 properties

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Property Tax

that continue to receive Proposition 8 adjustments in 2014-2015 as these properties are valued at less than their purchase price.

Under Proposition 13, assessed values of all real property adjusted with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2014-2015 tax roll is an increase of 0.45%, significantly below the prior year level of 2.0%.

- ***SB 813 Property Tax*** – 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 2013-2014, growth of 63.7% was experienced in this category with receipts of \$5.0 million. This was due to both improvement in the real estate market and the resolution of a backlog of refunds by the County that had significantly reduced collections in recent years. It should be noted that collections remain well below the peak of \$10.1 million in 2005-2006 and below levels seen in recent years (e.g., \$8.0 million in 2006-2007 and \$7.9 million in 2007-2008).

The 2014-2015 Adopted Budget assumed collections of \$2.8 million, representing a decrease of 44.6% from actual 2013-2014 collections. In 2014-2015, collections in this category are projected to decrease 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 that was 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 increased the City's share of SB 813 receipts. Per conversations with the County of Santa Clara, it is anticipated that beginning in 2014-2015, VLF receipts associated with the swap will not be considered Property Tax for the SB 813 calculation and, therefore, will reduce the City's relative share of this tax. This decrease is anticipated to be partially offset by the growth in property assessed value as discussed in the Secured Property Tax section.

- ***Unsecured Property Tax*** – This tax is assessed on major business equipment items and is subject to annual depreciation adjustments. Current and Prior Unsecured Property Tax receipts or \$12.4 million in 2013-2014 were consistent with the 2013-2014 Modified Budget. This collection level was 1.6% below collection levels in 2012-2013 (\$12.6 million) but still exceeded the second most recent peak level, 2009-2010, of \$12.3 million. Revenues in this category have proven to be continually volatile over the last decade with annual growth or declines reaching double-digit levels. Growth in this category is dependent primarily on increases in the value of personal property and based primarily on the strength of the local business sector. The 2014-2015 Adopted Budget requires collection levels to increase 3.8% or \$12.9 million; however, the most recent projection from the County of Santa Clara for 2013-2014 falls below 2013-2014 levels. Approximately 90% of the annual revenue in this category

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Property Tax

is received in October and will provide better information on the anticipated year-end performance.

- ***Aircraft Property Tax*** – Receipts in 2013-2014 are consistent with the budgeted estimate, and 2.4% above the 2012-2013 receipts of \$2.1 million. In 2014-2015, the budgeted estimate of \$2.2 million requires slight growth of 0.7%. The current County of Santa Clara Assessor's Office estimate is above the 2014-2015 budgeted level; however, this estimate is preliminary and will continue to be monitored.
- ***Homeowner's Exemption Subvention*** – This category represents the recovery of tax loss resulting from the per-household exemption granted by current State law. Receipts of \$1.03 were at the budgeted estimate but slightly below 2012-2013 actual collections (-0.6%, \$1.04 million). Collections are expected to remain at approximately the same level in 2013-2014. The preliminary estimate from the County of Santa Clara is slightly below the 2014-2015 budgeted level.

The City's Property Tax performance will be closely monitored in 2014-2015 to determine if any adjustments to the budgeted estimate are necessary. As part of that monitoring activity, staff will continue to regularly meet with representatives from the offices of the County Assessor, the County Controller-Treasurer, and the County Tax Collector to ensure that the City's budget appropriately reflects the most recent information available.

Sales Tax

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax. Overall, Sales Tax collections in 2013-2014 of \$173.4 million were slightly below the 2013-2014 Modified Budget by -0.2% (\$348,000) and reflects a 5.9% (\$9.7 million) increase from collections in 2012-2013 (\$163.8 million). Following is a discussion of the two Sales Tax components:

- ***General Sales Tax*** – In the General Sales Tax category, collections of \$167.97 million reflect growth of 5.9% above 2012-2013 collection levels of \$158.6 million and were slightly below the 2013-2014 Modified Budget (-0.2%, \$330,000). This marks the fourth year of growth in this category, with receipts exceeding both pre-recession levels of \$149.5 million collected in 2007-2008 and the peak of \$164.3 million in 2000-2001.

The 2013-2014 actual General Sales Tax figure of \$167.97 million reflects actual performance for the first three quarters of 2013-2014, during which growth of 8.5% (1st quarter), 7.9% (2nd quarter) and 2.4% (3rd quarter) was experienced, as well as estimated growth of 3.5% for the 4th quarter and prior year State triple flip true-up adjustments. Because a three-month lag exists between the period of sales activity and when the City receives its quarterly Sales Tax

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Sales Tax

allocation, the fourth quarter (April through June) was accrued to 2014-2015 based on a 3.5% growth projection. Since the accrual was processed, preliminary Sales Tax results for the fourth quarter have become available and show an actual increase of 6.2%. While details by economic sector for the last quarter's performance are not yet available, this higher growth rate generated an additional \$835,000 in revenue.

The City's Sales Tax consultant, MuniServices, LLC, has provided economic performance data for the four quarters ending March 2014, as displayed in the following chart. This analysis measures sales tax receipts, excluding State and county pools, and adjusts for anomalies, payments to prior periods, and late payments. During this period, economic growth of 3.8% was realized.

**Sales Tax Revenue Economic Performance
April 2013 – March 2014**

| Economic Sector | % of Total Revenue | % Change from April 2013 – March 2014 |
|------------------------|---------------------------|--|
| General Retail | 26.1% | 0.9% |
| Transportation | 24.2% | 3.6% |
| Business-to-Business | 22.1% | 1.8% |
| Food Products | 15.9% | 6.7% |
| Construction | 11.1% | 12.3% |
| Miscellaneous | 0.6% | -3.6% |
| Total | 100.0% | 3.8% |

The 2014-2015 Adopted Budget revenue projection was developed based on actual 2013-2014 data for the first two quarters, and assumed growth of 3.5% to be realized in the last two quarters of 2013-2014 when compared to the same quarters in the prior year, followed by a 4.0% growth in 2014-2015. However, as discussed above, actual increases in the last two quarters of 2013-2014 were 2.4% and 6.2%, respectively.

The higher receipts in 2013-2014 will have a positive impact on the 2014-2015 Sales Tax estimate. In addition, the City received notification that, at the time of the Triple Flip payment, the City will also receive a one-time correction payment of \$682,000. This correction payment reflects funds the State mistakenly sent in statewide sales tax from gasoline sales to the State's General Fund as a result of an accounting error following the exemption of the state's portion of the sales tax on gasoline sales that was replaced with a higher state excise tax. These positive impacts, however, are expected to be offset by a lower than anticipated Triple Flip payment from the State. Based on the information received regarding the 2014-2015 Triple Flip payment (including the 2013-2014 true-up payment to be received in January 2015), the payment is significantly lower (\$1.5 million) than estimates used in the development of the 2014-2015 Adopted Budget. Staff is working with the City's Sales Tax consultant to understand the rationale behind this lower payment level. It is important to note that the City

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will receive a true up payment if the amount advanced by State to cover estimated performance in 2014-2015 is too low.

Based on actual 2013-2014 receipts, adjustments associated with the 2014-2015 Triple Flip payment (including the 2013-2014 true-up payment to be received in January 2015), and a one-time correction payment, revenues are currently projected to fall slightly below the 2014-2015 Adopted Budget estimate of \$174.2 million.

This 2014-2015 Adopted Budget estimate requires overall growth of 3.7% from the 2013-2014 year-end figure of \$168.0 million. Additional adjustments may be brought forward during 2014-2015 based on actual performance. Data for the first quarter of 2014-2015 (July – September activity) will not be available until December 2014.

- **Proposition 172 Half-Cent Sales Tax** – Receipts of \$5.4 million were slightly below (-0.3%) the budgeted estimate of \$5.5 million and were up 5.6% when compared to the 2012-2013 collection level of \$5.2 million. This increase reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

Telephone Line Tax

In 2013-2014, Telephone Line Tax collections of \$20.7 million were \$92,000 (0.4%) above the budgeted estimate of \$20.6 million and slightly above the 2012-2013 collection level of \$20.6 million.

Transient Occupancy Tax

In 2013-2014, receipts of \$11.9 million for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) were consistent with the 2013-2014 Modified Budget estimate, and were up 17.5% from the 2012-2013 collection level of \$10.1 million. However, once adjusted to exclude compliance revenues of \$225,000, TOT 2013-2014 activity reflects growth of 15.5% from 2012-2013 actuals. Overall, TOT revenues have exceeded both the most recent peak of \$9.6 million in 2007-2008 and the historical peak of \$10.9 million that was achieved in 2000-2001. The higher collection levels are attributable to increased hotel occupancy and room rates. In 2013-2014, the average occupancy rate for the City's 14 largest hotels climbed from 66.6% to 70.6%, and the average room rate for these same hotels increased by \$15 (from \$139 to \$154).

The 2014-2015 Adopted Budget of \$11.8 million was built assuming 5% growth in TOT collections over 2013-2014 estimated receipts. 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 \$11.8 million estimate.

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Franchise Fees

Franchise Fee collections of \$45.7 million were slightly above (0.9%) the 2013-2014 Modified Budget level of \$45.4 million and were \$2.0 million, or 4.6%, above the 2012-2013 collection level of \$43.7 million. Following is a discussion of the major Franchise Fee components:

- ***Electric and Gas Franchise Fees*** – For 2013-2014, collections were based on activity that occurred during calendar year 2013. Electric Franchise Fee collections of \$19.3 million were at the 2013-2014 Modified Budget level and 5.3% above the 2012-2013 collection level of \$18.3 million. Gas Franchise Fees of \$4.8 million ended the year at the budgeted estimate and 13.2% above the 2012-2013 collection level of \$4.2 million. Combined, the Gas and Electric Franchise Fees collections of \$24.0 million were at the budgeted estimate.
- ***Commercial Solid Waste Franchise Fee (CSW)*** – Collections of \$11.03 million ended the year slightly above the budgeted estimate of \$11.0 million and 0.2% below the prior year collection level of \$11.05 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 \$30,000 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 consumer price index (CPI) rate during the prior two calendar years, subject to City Council approval. While this adjustment was not brought forward in 2013-2014, the 2014-2015 Adopted Budget estimate of \$11.2 million incorporates a CPI increase of 1.46% over the \$11.0 million starting point.
- ***Cable Television Franchise Fees*** – Actual 2013-2014 collections of \$9.4 million ended the year slightly above the 2013-2014 modified budget (\$281,000 or 3.1%) and were 4.5% above the 2012-2013 collection level of \$9.0 million. The 2014-2015 Adopted Budget estimate of \$9.1 million was built on estimated 2013-2014 receipts of \$8.9 million, therefore with higher 2013-2014 actual collections, the Adopted Budget allows for a 3.3% decline from 2013-2014 actual collections.
- ***City-Generated Tow, Water, and Nitrogen Gas Pipeline Franchise Fees*** – Receipts in these categories were consistent with the budgeted estimates and reflected growth from 2012-2013 collection levels. City-Generated Tow Franchise Fee receipts of \$916,000 slightly exceeded the budget estimate of \$850,000 by 7.8% (\$66,000) and were 5.0% above the prior year collection level of \$873,000. This collection level, however, continues to remain below historical levels ranging between \$1.0 million to \$1.8 million. Water Franchise Fee collections of \$290,000 were 0.4% above the budget estimate of \$289,000, and 16.0% above the prior year collection level of \$250,000. Nitrogen Gas and Jet Fuel Pipeline Franchise Fee receipts of

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Franchise Fees

\$72,000 were slightly above the budgeted estimate of \$55,000 and the 2012-2013 collection level of \$56,000.

Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$93.8 million were consistent with the 2013-2014 Modified Budget level and 2.9% above the 2012-2013 actual level of \$91.1 million. A description of the individual performance of each of the four utilities grouped into this revenue category follows below.

- **Electricity and Gas Utility Tax** – Electricity Utility Tax receipts of \$40.9 million were consistent with the modified budget estimate for 2013-2014, and 4.0% (\$1.6 million) above the 2012-2013 level of \$39.3 million. This growth from prior year levels is partially due to a refund that was processed by Pacific Gas and Electric (PG&E) in 2012-2013 for energy usage from April 2011 through June 2012, a rate increase of approximately 1% beginning January 2014, and actual collection trends. The 2014-2015 Adopted Budget estimate of \$41.3 million requires growth of 1% from 2013-2014 actual collections in Electricity Utility Taxes.

Gas Utility Tax collections of \$8.8 million were slightly above (2.2%) the 2013-2014 Modified Budget estimate of \$8.6 million and 4.5% (\$376,000) above the 2012-2013 collection level of \$8.4 million. This increase from prior year levels reflects actual collection trends, increasing commodity and transportation costs, and is consistent with information from PG&E on the approximate 7.3% increase in prices in 2014. The 2014-2015 Adopted Budget estimate of \$9.1 million requires growth of 3.8% from 2013-2014 actual collections in Gas Utility Taxes.

- **Water Utility Tax** – Receipts in this category of \$11.4 million were consistent with the modified budget level and 8.3% above the 2012-2013 collection level of \$10.5 million primarily reflecting the rising wholesale price of water and consistent with growth seen over the first half of this fiscal year. The 2014-2015 Adopted Budget estimate of \$11.4 million assumed growth of 1.8% based on continued rising wholesale price of water, however, with slightly higher 2013-2014 actual collections, no growth is necessary to meet the 2014-2015 estimate. The Public Utilities Commission recently approved a long-delayed rate increase in August 2014. It is anticipated the decision will result in a 15% increase in water bills through the end of this calendar year. However, due to the current restrictions imposed by the drought, a significant change in consumption is anticipated therefore no adjustments are recommended in this report until more data is available.

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Utility Tax

- **Telephone Utility Tax** – Collections of \$32.75 million in this category were slightly below (0.5%) the 2013-2014 Modified Budget level of \$32.93 million and 0.4% (\$173,000) below the prior year actual collection level of \$32.90 million. In 2014-2015, the budgeted estimate of \$33.0 million requires growth of less than 1% from prior year collections, as this category has fluctuated in recent years. Collection levels will continue to be monitored and adjustments brought forward as necessary during the year.

Business Taxes

Revenues in this category include the Cardroom Tax, Business Tax, Disposal Facility Tax, and Marijuana Business Tax. Overall, Business Tax collections of \$45.5 million were 4.0% above the 2013-2014 Modified Budget estimate of \$43.7 million and 0.7% above (\$338,000) the 2012-2013 collection level of \$45.1 million. The nominal variance in collections compared to prior year levels reflects increases in Marijuana Business Tax Receipts and Disposal Facility Tax receipts, offset by lower General Business Tax receipts which were primarily due to the Business Tax Amnesty Program that occurred in 2012-2013. 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 \$16.3 million remained consistent with the prior year level and ended the year at the modified budget estimate of \$16.3 million. It is anticipated that receipts in 2014-2015 will remain at previous year collection levels.
- **Business Tax** – Collections of \$10.86 million in this category are 0.2% above (\$20,000) the modified budget estimate of \$10.84 million but 21.7% below (\$3.0 million) the 2012-2013 collection level. On October 23, 2012, the City Council approved a Business Tax Amnesty Program, which was the main contributor to the receipts in this category in 2012-2013. On June 11, 2013, the City Council approved an ordinance retroactively extending the Business Tax Amnesty Program from May 31, 2013 through August 30, 2013. While the number of businesses in the City's business tax database has increased, the majority of the new accounts are in the exemption category. Since the exemption fee was eliminated for tax reporting periods after June 1, 2013, no revenue is generated on these new accounts. As a result of the Amnesty Program, it is expected that the business tax database will provide a more accurate reflection of the number of businesses operating in San José in 2014-2015.
- **Disposal Facility Tax (DFT)** – Collections of \$12.2 million ended the year \$1.5 million above the budgeted estimate of \$10.7 million and 14.2% above the prior year collection level of \$10.7 million. This revenue stream varies due to factors that affect the amount of

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Business Taxes

waste generated and how it is disposed, including economic activity, weather, diversion programs, and price sensitivity to disposal rates. In recent years, revenues in this category have declined due, in large part, to increased waste diversion and the overall slowdown in the economy. The increase in 2013-2014 collections primarily reflects increased activity from neighboring agencies dumping in San José landfills. The 2014-2015 Adopted Budget DFT estimate of \$10.7 million was built on lower estimated 2013-2014 collections and assumed a slight decline of 0.9%. However, based on 2013-2014 actual collections, receipts can now decline 12.5% in 2014-2015. This category will be closely monitored to determine if the strong collections in 2013-2014 are sustained. If receipts remain at this higher level, an upward adjustment to the 2014-2015 revenue estimate will be brought forward.

- **Marijuana Business Tax** – On November 2, 2010, San José voters approved Measure U, which permits the City to impose a gross receipts tax of up to 10% on all marijuana businesses in the City. The rate was initially set at 7% by the City Council. On June 4, 2013, the rate of taxation increased for marijuana businesses from 7% of gross receipts to 10%. Collections of \$6.1 million were above (2.7%) the 2013-2014 Modified Budget level of \$5.9 million and significantly above the 2012-2013 receipts of \$4.2 million (43.1%), primarily due to the tax rate increase. There continues to be uncertainty regarding this program, therefore, this revenue category will continue to be closely monitored.

Licenses and Permits

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 \$52.0 million were 4.0% (\$2.0 million) above the 2013-2014 Modified Budget level of \$50.0 million and 11.6% above (\$5.4 million) the 2012-2013 collection level of \$46.6 million. The significant increase over the prior year is a result of substantial growth in the Building Permits category followed by Fire Permits growth. Following is a discussion of the major Licenses and Permits components:

- **Fire Permits** – Fire Fee receipts of \$11.1 million were 1.0% above the 2013-2014 Modified Budget estimate of \$11.0 million and 9.9% above the prior year level of \$10.1 million. The 2014-2015 Adopted Budget estimate of \$11.15 million requires a 0.6% increase in activity levels from the 2013-2014 actual receipts. Following is a discussion of the Development and Non-Development revenues in this category.

Development revenues from Architectural Plan Check and Inspection, Engineering Systems (Alarms and Sprinklers) Permits and Inspections, and miscellaneous revenues ended the year at \$7.1 million, which was on target with the 2013-2014 Modified Budget estimate of \$7.1 million. Because year-end collections slightly exceeded the modified budget estimate, an increase to the Fire Development Fee Reserve of \$27,000 is recommended as part of this

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Licenses and Permits

document. When combined with expenditure savings, overhead reimbursement savings and interest earnings, the Fire Development Fee Program Earmarked Reserve is recommended to be increased by a total of \$640,000. When combined with additional recommended actions, the Reserve will increase from \$6.4 million to \$7.1 million.

Non-Development revenue of \$4.0 million from Annual Renewable Permits, Non-Renewable Permits and Inspections, and other miscellaneous activities were slightly above the modified budget estimate of \$3.9 million. Annual renewable permits revenue of \$3.5 million was \$183,000 (5.5%) above estimated levels and 10.5% higher than the collections in the prior year. Combined revenues of \$451,000 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 \$119,000 (20.8%) lower than budgeted levels and 21.4% lower than prior year's year-end revenue of \$575,000.

- **Building Permits** – Receipts of \$32.5 million ended the year 6.4% (\$2.0 million) above the modified budget estimate of \$30.5 million, and 19.9% (\$5.4 million) above the prior year level of \$27.1 million. Building Permit revenue throughout 2013-2014 continued to show strong growth due to higher than anticipated development activity.

In recognition of increased permit revenues, the budget estimate was increased by \$9.5 million during 2013-2014. Despite this increase to the budget estimate, actual collections ended the year \$2.0 million over the revised estimate as a result of strong residential permit activity in May 2014 and strong industrial permit activity in June 2014.

The total valuation of projects submitted in 2013-2014 was \$1.7 billion, 16.7% above the revised estimate of \$1.45 billion and 77.0% above the \$955.8 million valuation of projects that were received in 2012-2013. Total construction valuation in two of the three land use categories, residential and commercial, ended the year above estimates, while total construction valuation in industrial land use ended the year slightly below estimates. A total of 4,724 new residential units received permits in 2013-2014 compared to an estimate of 3,250 units and 2012-2013 actuals of 2,702 units. Residential valuation of \$835.6 million in 2013-2014 was significantly higher than the 2012-2013 level of \$497.5 million and exceeded the estimate of \$600.0 million. Commercial valuation of \$398.5 million also tracked above the estimate of \$375.0 million and was well above the prior year level (\$211.2 million). However, industrial activity was 3.7% below forecasted levels at approximately \$457.4 million but surpassed last year's level of \$247.1 million by 85.1%. The number of projects requiring plan check was 8,000 in 2013-2014, a decrease of approximately 11.1% from 9,000 in the prior year. The total number of building inspections conducted in 2013-2014 was 220,000, increasing approximately 20.2% from 183,000 inspections during the previous year.

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Licenses and Permits

A recommendation to increase the Building Development Fee Program Earmarked Reserve by \$2.7 million is included as part of this report. This funding was derived from a combination of a revenue surplus of \$2.0 million, expenditure savings, overhead reimbursements savings, and interest earnings attributed to the program. These increases to the Reserve are partially offset by additional recommended actions such as funding for peak staffing agreements (\$500,000) and the purchase of additional licenses for the city-wide Development Services permitting system (\$84,000). When accounting for all recommended actions, the net increase to the Reserve will be \$2.4 million, bringing the Reserve from \$21.7 million to \$24.1 million.

- **Miscellaneous Other Licenses and Permits** – Collections of \$8.5 million were 0.9% (\$75,000) below the 2013-2014 Modified Budget and below the prior year collections of \$9.5 million (\$984,000 or 10.4%). The decline from 2012-2013 levels was primarily the result of lower collections in off-sale of alcohol enforcement, cardroom permits, and vacant/dangerous building permits.

Animal Care and Services collections of \$1.31 million ended the year 3.8% above the 2013-2014 Modified Budget estimate of \$1.27 million and 2.3% above prior year collections of \$1.28 million.

Fines, Forfeitures and Penalties

The primary sources of revenue in this category are Parking, Vehicle Code, and Municipal Code Fines, and Business and Cardroom Tax Penalties. Collections of \$14.8 million in this category were 4.0% above the 2013-2014 modified budget estimate of \$14.3 million and up 1.9% (\$281,000) from the prior year collection level of \$14.6 million.

Parking fines, the largest component of this revenue category, ended the year at \$10.2 million. This collection level was slightly above the modified estimate of \$10.0 million (\$227,000 or 2.3%) but continue to remain below historical levels (\$11.3 million in 2010-2011 and \$11.8 million in 2011-2012). When the 2013-2014 budget was developed, it was assumed that the parking fine revenues would continue to be impacted by the transition of parking compliance officers from the Airport Department to the Department of Transportation in 2012-2013. The actual impact was larger than anticipated, and a downward adjustment of \$1.0 million to the 2013-2014 Adopted Budget estimate of \$11.0 million was approved during the year. The 2014-2015 Adopted Budget estimate of \$10.0 million assumes that revenue collections will remain relatively flat at the 2013-2014 estimated levels. In addition, collections of \$371,000 were received from the City's participation in a program under which the State of California Franchise Tax Board collects past-due parking fines on behalf of the City. This collection level remains consistent with prior year levels.

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Fines, Forfeitures and Penalties

Vehicle Code and Municipal Code Fines ended the year at \$2.28 million, which was 2.2% below the modified budget estimate of \$2.33 million and 10.2% below the 2013-2014 collections of \$2.5 million. The City also received \$738,000 from Business Tax Penalties which was 26.2% below the modified budget estimate of \$1.0 million and 28.5% below the prior year collections of \$1.0 million. Receipts were impacted by the Business Tax Amnesty Program and the clean-up of outstanding accounts as discussed in the Business Taxes section.

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 revenues. Collections of \$3.5 million ended the year slightly above the modified budget level of \$3.2 million (7.6%), however, slightly below (10.7%) the prior year collection level of \$3.9 million. Below is a discussion of major components.

Rental income (\$2.3 million) was above the budgeted estimate of \$2.2 million and at prior year collections of \$2.3 million. Interest income of \$723,000 was above budgeted levels of \$610,000, and significantly above the prior year levels of \$328,000, however, revenues continue to track below historic levels prior to the implementation of the prefunding of retirement contributions. The positive variance from the modified budget was primarily due to higher general interest earnings for the General Fund.

Revenue from Local Agencies

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 Jose, 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 \$46.7 million ended the year \$316,000 (0.7%) below the budgeted estimate of \$47.0 million. However, this collection level was \$11.9 million (34.3%) above the 2012-2013 collections of \$34.8 million. The positive variance from the prior year primarily reflects the reimbursement from the Successor Agency for cash flow funding provided by the City during both the 2012-2013 and 2013-2014 fiscal years. This is offset by a reduction in payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) and the reimbursement from a one-time payment of \$6.9 million from the County of Santa Clara for the recalculation of prior year Property Tax Administration Fees (PTAF) received in 2012-2013.

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Revenue from Local Agencies

Reimbursement from the Successor Agency of \$37.1 million was slightly below the 2013-2014 Modified Budget of \$37.4 million. This reimbursement includes three payments: 1) the Convention Center debt service payment reimbursement of \$15.3 million, 2) the reimbursement for intra-year loans (“cash flow loans”) provided by the City to the Successor Agency in 2012-2013 of \$10.4 million, and 3) the reimbursement for cash flow loans provided by the City to the Successor Agency in 2013-2014 of \$11.4 million. It is important to note that the \$11.4 million was an estimate and was accrued to 2013-2014 based on unaudited financials. The actual cash is expected to be received during the first half of 2014-2015.

In 2013-2014, the Central Fire District payment of \$5.1 million was above the prior year collection of \$4.9 million (4.2%) however, slightly below the modified budget estimate of \$5.2 million. 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. In 2014-2015, receipts are expected to continue to increase with the current 2014-2015 Adopted Budget Estimate of \$5.4 million, requiring growth of 6.3% from actual 2013-2014 levels.

The payment of \$333,000 from the County of Santa Clara for the City’s Paramedic Program was at the modified budget estimate, however significantly below the 2013-2014 Adopted Budget estimate of \$2.2 million. The County has withheld payment for this service because the City has not been meeting the response time performance standards set forth in the agreement with the County for these services. While the City continues to work through these issues with the County, the City continues to provide the advanced life support level of service which has a direct incremental cost to the City of over \$5.0 million annually. The 2014-2015 Adopted Budget eliminated these payments as the City and County continue to work to address these issues and estimates will be adjusted as appropriate once additional information is known.

Animal Care and Services collections of \$899,000 ended the year 15.5% below the modified budget estimate of \$1.06 million and 1.5% below prior year collections of \$912,000.

Rebudget actions to adjust revenues and expenditure budgets for various grants based on actual 2013-2014 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

The major State revenues include the Tobacco Settlement Revenue and State Grants. Revenue from the State of California of \$11.93 million ended the year 0.1% below the 2013-2014 Modified Budget estimate of \$11.94 million, but 29.2% below the prior year actual level of \$16.9 million. The negative variance from the prior year was due primarily to a one-time settlement (collectively

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Revenue from the State of California

\$186.8 million for all California counties and eligible cities) of a multi-year dispute related to the Non-Participating Manufacturers Adjustment (a provision in the Tobacco Master Settlement Agreement) for claims of sales between 2003 and 2012. The City of San José's portion of this settlement was \$4.7 million which was received in 2012-2013.

The Tobacco Settlement revenues of \$8.8 million were 2.8% below the 2013-2014 Modified Budget estimate of \$9.0 million. The 2014-2015 Adopted Budget estimate remains at \$9.0 million, requiring growth of 2.8% from 2013-2014 actual revenues.

Vehicle License Collections In Excess payments totaled \$434,000, which ended below both the modified budget of \$475,000 and prior year collections of 524,000. The 2014-2015 Adopted Budget estimate of \$435,000 requires minimal growth of 0.2% from 2013-2014 actual revenues.

State grants and other reimbursements totaled \$2.7 million, which was \$283,000, or 11.5%, above the modified budget estimate of \$2.5 million. This was the result of a timing difference of many grants (and their associated expenditures) and slightly higher reimbursements (\$104,000). The 2014-2015 Adopted Budget includes the rebudget of a portion of these and other revenues and associated expenditures for various State grants in the amount of \$335,000 to account for the anticipated receipt in 2014-2015 of revenues that were not received in 2013-2014. 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.

Revenue from the State of California – American Recovery and Reinvestment Act (ARRA)

This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 (ARRA) that is recorded in the General Fund. Minimal revenues of \$1,000 reflect the final close-out of various grants. No grant funds are anticipated in 2014-2015 as this program has sunset.

Revenue from the Federal Government

The revenue in this category is generated by various federal grants and reimbursements. In 2013-2014, Revenue from the Federal Government of \$13.48 million was 0.5% below the modified budget estimate of \$13.54 million and 15.7% below the 2012-2013 collection level of \$16.0 million. This negative variance from the modified budget estimate was the result of various grants (and their associated expenditures) falling below the budgeted estimates offset by higher than budgeted SAFER 2010 Grant revenues (\$1.1 million) due to a timing difference between revenues and expenditures from 2012-2013.

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Revenue from the Federal Government

Included in the 2014-2015 Adopted Budget were the rebudget of a portion of these and other revenues and associated expenditures for various federal grants in the amount of \$1.4 million to account for the anticipated receipt in 2014-2015 of revenues that were not received in 2013-2014. 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.

Revenue from the Federal Government – American Recovery and Reinvestment Act (ARRA)

This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 (ARRA) that is recorded in the General Fund. The revenue in this category is generated by various federal grants and reimbursements. In 2013-2014, ARRA Revenue from the Federal Government of \$20,000 was at the modified budget level and reflect the final close-out of various grants. No grant funds are anticipated in 2014-2015 as this program has sunset.

Departmental Charges

This category includes the fees and charges levied to recover all or partial costs of services provided by various City departments per City Council approved cost-recovery levels. Collections of \$41.7 million for Departmental Charges were 3.2% above the 2013-2014 Modified Budget estimate of \$40.4 million and were above the 2012-2013 collection level of \$38.8 million (7.4%). A brief description of the performance in each of the departmental fee categories is provided below.

- **Library Departmental Fees** – Collections of \$1.07 million ended the year 1.9% above the modified budget estimate of \$1.05 million, and 5.6% above the 2012-2013 receipts of \$1.01 million. Fine revenues accounted for \$924,000 of the total receipts for 2013-2014 and were up from \$889,000 in the prior year. The increase in fine revenues is the result of an increase in visitor levels partly due to the opening of four new branches in 2013-2014, including Seven Trees, Bascom, Educational Park, and Calabazas. Revenues related to lost and damaged materials fees and collection agency fees totaled \$31,000 in 2013-2014, slightly above the modified budget estimate of \$29,000, and moderately above (28.2%) 2012-2013 levels of \$24,000. This increase in revenue collection is also due to an increase in the number of visitors in the library system resulting from the new branches. Community room rental revenues also ended the year above estimated projections; rental revenue collected in 2013-2014 totaled \$25,000, or 26.9%, above the modified budget estimate. Overall, visitors and materials circulation were up throughout the Library system, largely due to the four new branch openings and additional hours of operation added at Evergreen in 2013-2014.

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Departmental Charges

- ***Parks, Recreation, and Neighborhood Services (PRNS) Departmental Fees*** – Collections of \$16.6 million ended the year 1.1% above the modified budget estimate of \$16.4 million. This collection level was also 5.4% above the prior year level of \$15.7 million. Rentals and Reservations (facility rentals, picnic, and sports fields' reservations) revenues of \$1.4 million are up from the prior year levels of \$1.2 million and exceeded the 2013-2014 Modified Budget estimate of \$1.1 million. Happy Hollow Park & Zoo only slightly exceeded its Modified Budget estimate by 1.4% or \$80,000 and ended the year at \$5.8 million, up slightly from 2012-2013 levels of \$5.5 million. In addition, Lake Cunningham Skate Park and Park Permits 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 other categories, including Aquatics, Family Camp, and Parking.
- ***Planning Departmental Fees*** – Collections of \$4.7 million ended the year 5.3% above the modified budget estimate of \$4.5 million and 22.5% above the prior year level of \$3.9 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Planning Fee revenues throughout 2013-2014 were above anticipated levels. In recognition of increased revenues, the budget estimate was increased by \$1.0 million as part of the Mid-Year Budget Review and again by \$500,000 at the end of 2013-2014. Actual receipts, however, were above the revised budget estimate as a result of higher than anticipated permit issuance in the last two months of the year. Higher actual collections were experienced primarily in the following fee categories: Miscellaneous Planning Permits/Fees; Non-Residential Site Development Permits; Non-Residential and Residential Development Permit Adjustments; Non-Residential and Residential Environmental Clearance Permits; Non-Residential and Residential Planned Development Permits; and Non-Residential and Residential Tentative Map Permits.

This document includes a recommendation to increase the Planning Development Fee Program Earmarked Reserve by \$275,000 to \$2.0 million. This funding was derived from a combination of a revenue surplus of \$239,000, expenditure savings, overhead reimbursement savings, and interest earnings attributed to the program. Additional actions are recommended in this report to use \$197,000 of this reserve resulting in a final recommended 2014-2015 Modified Budget at \$1.8 million.

- ***Police Departmental Fees*** – Collections of \$1.2 million were at prior year levels and 4.2% (\$49,000) above the modified budget estimate. The variance from the modified budget estimate is primarily due to increased Police Officer Standards Training (POST) reimbursement which were \$96,000 above the modified estimate of \$125,000 and increased Vehicle Impound Fees, which were \$42,000 above the modified estimate of \$532,000. Although Vehicle Impound Fees were above the budgeted estimate, it should be noted that receipts continue to drop year-over-year with a 1.2% decrease from 2012-2013 collections, consistent with the drop in revenues since the January 2011 change in the tow policy that

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Departmental Charges

reduced the number of vehicles being towed and impounded. Miscellaneous revenues in this category ended the year \$61,000 below the budgeted estimate.

- **Public Works Departmental Fees** – Collections of \$9.7 million ended the year 2.7% above the modified budget estimate of \$9.5 million and 14.6% above the \$8.5 million collected in 2012-2013. The 2013-2014 collections are comprised of \$9.5 million from the Development and Utility Fee Programs and \$206,000 for special assessment collections. With increased demand for residential development in the region, development activity improved substantially this year. Previously entitled mixed use projects in the North San José area contributed significantly to this upward trend. This positive development trend is anticipated to continue in 2014-2015.

Revenues in utility excavations, residential and non-residential engineering and inspection, residential underground service alert locating, utilities, erosion and sediment control, residential and non-residential streetlight and signal design and inspection, private streets engineering, geological control applications fees, planned development rezoning, traffic reports, site development review, and grading permit categories all performed at higher than estimated levels. The revenue surplus of \$53,000 in 2013-2014 in the Public Works Fee Program combined with expenditure savings, lower overhead reimbursements, and interest earnings attributed to the program results in a recommendation in this report to increase the Public Works Development Fee Program Earmarked Reserve by \$346,000, when combined with additional recommended actions, the Reserve will increase from \$6.0 million to \$6.3 million.

- **Transportation Departmental Fees** – Collections of \$1.2 million ended the year \$176,000 or 17.1% higher than the modified budget estimate of \$1.0 million but 15.2% (\$216,000) below the \$1.4 million collected in 2012-2013. Collections above the modified level due primarily to higher sidewalk repair fees (up \$174,000), major modification or new installation of signals reviewed/activated due to increased development activities (up \$63,000), and residential parking permits (up \$46,000). However, miscellaneous traffic repairs (down \$72,000) and non-residential signal design services (down \$50,000) did not meet the modified budget level. Other categories ended the year with slight positive or negative variances.
- **Miscellaneous Departmental Fees and Charges** – Collections of \$7.14 million ended the year 5.3% above the modified budget estimate of \$6.78 million and 1.0% above the prior year actual level of \$7.07 million. The Solid Waste Enforcement fee, which is the largest component of this category, ended the year at \$5.0 million, which was 4.7% above the modified budget estimate (\$4.8 million) and 10.8% above the prior year collection level of \$4.5 million. The 2014-2015 Adopted Budget estimate of \$4.3 million allows for a decline in revenues of 14.2%

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Departmental Charges

and, when combined with the use of \$600,000 of estimated 2014-2015 Beginning Fund Balance, this program is projected to be 100% cost recovery in 2014-2015. Animal Care and Services collections of \$620,000 ended the year 4.2% below the modified budget estimate of \$647,000 and 8.1% below prior year collections of \$675,000.

Other Revenue

The Other Revenue category contains a number of unrelated revenue sources and totaled \$137.4 million in 2013-2014. As was the case in 2012-2013, 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 \$137.4 million were 6.6% (\$9.7 million) below the budgeted estimate of \$147.1 million, but 12.7% (\$15.5 million) above the 2012-2013 collection level of \$121.9 million. The increase from 2012-2013 is due primarily due to the receipt of financing proceeds of \$19.3 million associated with the Energy and Utility Conservation Measures Program. However, actual proceeds fell below the modified budget estimate of \$27.1 million, which accounted for the majority of the variance to the budget in this category. The remaining proceeds of \$7.8 million are recommended to be rebudgeted with the corresponding expenditure as part of this report.

Included in the 2014-2015 Adopted Budget was the rebudget of a portion of these and other revenues and associated expenditures for various grants and reimbursements in the amount of \$1.0 million to account for the anticipated receipt in 2014-2015 of revenues that were not received in 2013-2014. Additional adjustments of \$8.2 million are recommended in this report to adjust revenue and corresponding expenditure budgets for various grants and reimbursements based on actual performance, as described in *Section IV. Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

Transfers and Reimbursements

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall, collections of \$71.8 million ended the year 3.8%, or \$2.6 million, above the 2013-2014 Modified Budget estimate of \$69.2 million. The positive variance is due to higher than expected reimbursements for services (\$2.5 million), and overhead reimbursements (\$148,000), partially offset by lower than anticipated transfers (\$76,000). The 2013-2014 collection level of \$71.8 million was \$4.4 million above the prior year due to increased overhead reimbursements (\$4.2 million) and reimbursements for services (\$2.7 million), partially offset by lower than budgeted transfers from other funds (\$2.6 million).

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Transfers and Reimbursements

- **Overhead Reimbursements** – Payments from other funds for overhead costs of \$36.4 million ended the year \$148,000 (0.4%) above the modified budget estimate of \$36.3 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. In this document, a downward adjustment to the 2014-2015 Airport Maintenance and Operation Fund overhead reimbursement of \$942,000 is recommended to comply with a provision of the Airline-Airport Lease and Operating Agreements approved by the City Council in March 2007. Under this provision, if the percentage growth in annual enplanements at the Airport exceeds the growth in annual enplanements nationwide, the City shall reduce the amount of its indirect overhead expenses in the following fiscal year by a corresponding percentage. In 2013-2014, passenger enplanements increased by 6.7%, exceeding the national estimated growth in enplanements (0.8%). The overhead reduction of \$942,000 reflects a reduction of the overhead rate of 5.9 percentage points (from the Adopted Budget overhead rate of 23.8% to 17.9%). This reduction is offset by the use of the \$1.0 million Air Service Incentive Program Reserve established for this purpose.
- **Transfers** – Revenue from the Transfers category of \$16.9 million ended the year \$76,000 (0.4%) below the modified budget level of \$17.0 million. The transfer from the Construction and Conveyance Tax Fund to the General Fund of \$3.47 million was \$47,000 higher than estimated based on slightly 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. 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 \$274,000 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. Since 2009, a total of \$214,000 has been collected from these ticket sales and a budget action is recommended to transfer those funds to the General Fund. An additional transfer of \$60,000 is recommended to account for anticipated ticket sales in 2014-2015. A slight clean-up adjustment is also recommended to close-out the Economic Development Enhancement Fund. 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 15.9%, or \$2.5 million, above the modified budget level of \$15.9 million. The positive variance is due to higher than estimated Gas Tax reimbursements of \$17.8 million that exceeded the budgeted estimate of \$15.2 million by \$2.6 million. Unanticipated higher revenues are a result of the State of California unexpected distribution of \$70.8 million to Counties and \$70.8 million to Cities on June 27, 2014 to correct for an over-allocation to the State Highway Account of \$141.6 million. The 2014-2015 Adopted Budget, includes a \$15.0

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Transfers and Reimbursements

million estimate for Gas Tax revenue allowing for a 15.7% decline in reimbursements compared to the actual 2013-2014 collections consistent with the one-time nature of the 2013-2014 increase. Deferred Compensation Program reimbursements of \$527,000 fell below the budgeted estimate of \$583,000, and this lower collection level was offset by expenditure savings in the Human Resources Department.

Summary

In 2013-2014, total revenues received by the General Fund of \$1.0 billion were lower than the modified budget level by \$760,000 (0.1%). After adjusting for \$3.1 million in grant and reimbursement-related revenues not received in 2013-2014, but rebudgeted to 2014-2015 as part of the 2014-2015 Adopted Budget, revenues actually ended the year \$2.3 million (0.2%) 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 \$2.3 million excess revenues primarily reflects the following variances: Development Fee Programs generated excess revenues (\$2.7 million), which are recommended to be allocated to the Development Fee Program Reserves; additional Gas Tax reimbursements (\$2.6 million) due to an over-allocation by the State; and higher than estimated Business Taxes (\$1.7 million) partially offset by lower finance proceeds (\$7.8 million) associated with the Energy and Utility Conservation Measures Program. Once adjusted, the Development Fee Programs additional revenue of \$2.7 million that must be allocated to the Development Fee Programs, and other revenue-related adjustments required to close out 2013-2014, there was a net positive revenue variance of \$7.5 million (0.7%) for 2013-2014. This variance is attributed to higher than estimated growth in Business Taxes (primarily Disposal Facility Taxes) and Gas Tax reimbursements.

The 2013-2014 collection level of \$1.0 billion was up \$64.2 million (6.8%) from the actual 2012-2013 collections (\$943.8 million). It should be noted that a large portion of this year-over-year increase reflects one-time increases in revenues or increases with corresponding increases in expenditures such as the reimbursement from the Successor Agency for two years of cash flow loans (\$21.8 million) and the financing proceeds associated with the Energy and Utility Conservation Measures Program (\$19.3 million). The 2013-2014 revenue estimates were built on the assumption that the economically-sensitive revenues would continue to experience growth. Actual performance in 2013-2014 was generally consistent with this assumption and, in some areas, revenues outperformed expectations. A number of economically-sensitive revenue categories, such as Property Tax, Sales Tax, Transient Occupancy Tax, and the development-related fees and taxes, continue to experienced solid growth from the low collection levels

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Summary

experienced during the most recent recession. Other revenue categories, such as Utility Tax and Telephone Line Tax, have shown only modest increases primarily driven by rate changes and are expected to experience slow growth moving forward.

Continued economic growth was factored into the 2014-2015 revenue estimates, specifically with strong growth in the Property Tax category based on updated information from the County of Santa Clara on the 2014-2015 property tax roll. The Administration will actively monitor economic indicators and revenues in 2014-2015 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 as necessary.