

2011-2012 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2011-2012 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2011-2012 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000s)

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	\$ 200,275	\$ 201,712	\$ 1,437	0.7%
Sales Tax	155,390	154,027	(1,363)	-0.9%
Telephone Tax	20,525	20,529	4	0.0%
Transient Occupancy Tax	8,300	8,984	684	8.2%
Franchise Fees	41,800	41,709	(91)	-0.2%
Utility Tax	90,995	90,383	(612)	-0.7%
Licenses and Permits	42,124	43,838	1,714	4.1%
Business Taxes	40,974	41,132	158	0.4%
Fines, Forfeitures, and Penalties	17,621	18,358	737	4.2%
Use of Money and Property	2,974	3,328	354	11.9%
Revenue from Local Agencies	33,363	30,069	(3,294)	-9.9%
Revenue from the State of California	14,255	14,055	(200)	-1.4%
Rev. from State Govt. - Recovery Act	380	364	(16)	-4.2%
Revenue from Federal Government	18,736	15,217	(3,519)	-18.8%
Rev. from Fed. Govt. - Recovery Act	8,177	4,484	(3,693)	-45.2%
Departmental Charges	32,649	34,277	1,628	5.0%
Other Revenue	116,516	116,170	(346)	-0.3%
Subtotal	845,054	838,636	(6,418)	-0.8%
Overhead Reimbursements	31,837	32,374	537	1.7%
Transfers	20,743	21,172	429	2.1%
Reimbursements for Services	16,013	15,458	(555)	-3.5%
Subtotal	68,593	69,004	411	0.6%
TOTALS¹	\$ 913,647	\$ 907,640	\$ (6,007)	2 -0.7%

¹ Excludes Beginning Fund Balance.

² After adjusting for \$8.8 million of grant and reimbursement related revenues not received in 2011-2012 but rebudgeted to 2012-2013 as part of the 2012-2013 Adopted Budget, the revenue variance actually resulted in a surplus of \$2.8 million (0.3%). For these grant revenues, corresponding General Fund expenditure savings were also realized in 2011-2012, with a net zero impact on the General Fund Ending Fund Balance.

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The General Fund revenue performance for 2011-2012 is discussed in detail in this section. The 2011-2012 actual revenue receipts for each of the major revenue categories are compared to the modified budgets and any significant variances 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 2011-2012 was \$907.6 million. This collection level fell below the 2011-2012 Modified Budget level by \$6.0 million, (0.7%). This negative variance, however, was due to lower collections from various grants and reimbursements that were not received in 2011-2012 and were rebudgeted to 2012-2013 in the 2012-2013 Adopted Budget (\$8.8 million). After adjusting for grant and reimbursement related revenues not received in 2011-2012 but rebudgeted to 2012-2013, revenues actually ended the year \$2.8 million (0.3%) above the budgeted estimates for the over 450 revenue accounts monitored and budgeted annually. The Development Fee Programs generated \$2.5 million of the \$2.8 million surplus and these funds are recommended to be allocated to the Development Fee Program Reserves. Once adjusted for the Development Fee Programs and recommended rebudget and clean-up adjustments, the net surplus drops to a positive variance of \$183,000 (0.02%) for 2011-2012.

The 2011-2012 collection level of \$907.6 million was up \$31.3 million (3.6%) from the actual 2010-2011 collections (\$876.4 million). The majority of this increase was due to the issuance of Tax Revenue Anticipation Notes (TRANS) of \$100 million for cash flow purposes in 2011-2012 as compared to the \$75 million issued in 2010-2011. Excluding this transaction, revenues were slightly above the 2010-2011 levels by a net \$6.3 million (0.8%). The categories that experienced the largest increases included: Sales Tax, Other Revenue, Revenue from the Federal Government, Property Tax, Licenses and Permits, Business Taxes, and Utility Tax categories. The largest declines from the prior year were experienced in the Transfers and Reimbursements, and Revenue from Local Agencies categories.

The variances from the modified budget levels, as well as 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. Property Tax receipts for the 2011-2012 fiscal year totaled \$201.7 million. This collection level was \$1.4 million above the budgeted estimate of \$200.3 million, and represented an increase of 2.3% from 2010-2011 actuals of \$197.2 million. This marks the first increase in this category after two years of declines. Collections, however, remain well below the most recent peak of \$215.7 million in

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Property Tax

- **Secured Property Tax** – Receipts in this category of \$184.0 million were less than 1% (\$1.1 million) above the 2011-2012 Modified Budget estimate of \$182.9 million. Collections reflected the first positive performance (1.3% growth) after two years of declines in this category (2.2% decline in 2010-2011 and a 3.4% decline in 2009-2010). Growth of 1.3% was slightly above the growth rate assumed as part of the 2011-2012 Adopted Budget of 1.0%. Receipts in 2011-2012 were based on the property tax roll as of January 1, 2011, with tax roll corrections incorporated into final collection totals. During 2011-2012, tax roll corrections resulted in a net reduction to the tax levy of approximately \$60 million county-wide, of which approximately 5% is attributed to the City of San José. Under Proposition 13, which was approved by the voters in 1978, assessed values of all real property adjust 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 2011-2012 tax roll increased 0.753%.

In the 2012-2013 Adopted Budget, Secured Property Tax receipts are estimated at \$185.4 million, based on the assumption that collections would increase 1.3% from the 2011-2012 projected collection level. This projected increase was anticipated as the net result of two factors: the change in the CCPI and the net change in residential and commercial valuation. The CCPI adjustment for the 2011-2012 tax roll is an increase of 2.0%. However, due to additional reassessments resulting from the drop in property values (Proposition 8 adjustments) as well as the elimination of the 2.0% CCPI adjustment to the parcels that are under Proposition 8 review, projected growth is expected to fall below the 2.0% CCPI figure. Because collections in 2011-2012 slightly exceeded expectations, growth of 0.7% is needed to meet the 2012-2013 budgeted estimate. The very preliminary estimate from the County of Santa Clara, however, reflects a slight decrease of 0.2% from 2011-2012 collection levels. This slight drop is due to the assumption that there will be a higher amount of net downward adjustments to the tax levy during the year (\$80 million county-wide versus the actual of \$60 million county-wide in 2011-2012). 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 2012-2013.

- **SB 813 Property Tax** – The SB 813 Property Tax component represents the retroactive taxes on reassessed property valuation from the period of resale to the time that the Assessor formally revalues the property. Over the past two years, collections in this category had fallen significantly, due, in part, to a substantial number of returns that were due to property owners as a result of declining home values. Collections in 2011-2012, however, experienced strong growth with receipts of \$3.3 million, which were 12.9%, above the modified budget of \$2.9 million and 194.8% above the 2010-2011 actuals of \$1.1 million. This reflects collections returning to normal levels and the complete resolution of the backlog of refunds relatively. In 2012-2013, collections in this category are projected to

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Property Tax

normalize and remain flat at the estimated \$2.9 million levels. However, normal level of collections remain well below the high of \$10.1 million 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).

- **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 of \$11.2 million in 2011-2012 were consistent with the 2011-2012 Modified Budget, and \$267,000 (2.4%) above collection levels in 2010-2011 (\$10.9 million). However, collections remain below 2009-2010 peak collection levels of \$12.3 million, and continue to approximately remain at 2007-2008 collection levels of \$11.1 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 dependant primarily on increases in the value of personal property and based primarily on the strength of the local business sector. In the 2012-2013 Adopted Budget, the revenue estimate was set at \$11.5 million based on a 3% growth factor applied to the estimated 2011-2012 collection level. The most recent estimate from the County of Santa Clara for 2012-2013 is slightly above this amount at \$11.9 million. If Unsecured Tax receipts are received at that higher level, an upward adjustment to the revenue estimate will be brought forward during 2012-2013.
- **Aircraft Property Tax** – Receipts in 2011-2012 of \$2.2 million are consistent with the budgeted estimate, but are 8.1% below the 2010-2011 receipts of \$2.4 million. In 2012-2013, the budgeted estimate of \$2.1 million reflects an additional decline of approximately 5%. According to the County of Santa Clara Assessor's Office, the 5% decline anticipated in 2012-2013 can be attributed to the rebasing of aircraft to airfields outside of the City's jurisdiction as well as aging property with decreased valuations.
- **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 \$1.1 million were consistent with both the budgeted estimate and 2010-2011 actual collections; in addition, it remains consistent with the most current estimates provided from the County of Santa Clara.

The City's Property Tax performance will be closely monitored in 2012-2013 to determine if any additional 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.

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Sales Tax

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax. Overall, Sales Tax collections for 2011-2012 of \$154.0 million were 0.9% (\$1.4 million) below the 2011-2012 Modified Budget, but represent an 11.6% increase from collections in 2010-2011 (\$138.0 million). Following is a discussion of the two Sales Tax components:

- **General Sales Tax** – In the General Sales Tax category, collections of \$149.4 million were 11.6% above the 2010-2011 collection level of \$133.9 million. This marks the second year of growth in this category, with receipts now very close to the pre-recession level of \$149.5 million that was collected in 2007-2008. Receipts in 2011-2012, however, fell below the modified budget estimate of \$150.8 million by \$1.4 million (0.9%) due to the timing of the true-up payment from the State of California associated with the 2011-2012 Triple Flip¹, which will be recorded in 2012-2013 rather than 2011-2012. This true-up payment was included in the 2011-2012 Modified Budget estimate as it is attributed to sales that occurred during the 2011-2012 fiscal year. However, because the actual true-up payment will not be received until January 2013, which is outside the time period to accrue the payment to 2011-2012, these revenues will be recognized in 2012-2013.

The 2011-2012 actual General Sales Tax figure of \$149.4 million reflects performance for the first three quarters of 2011-2012, during which growth of 8.4% (1st quarter), 6.2% (2nd quarter) and 14.2% (3rd quarter) was experienced, as well as estimated growth of 3.5% for the last quarter combined with prior year true-up adjustments. Because a three-month lag exists between the period of sales activity and when the City receives its quarterly Sales Tax allocation, the fourth quarter (April through June) was accrued to 2012-2013 based on a 3.5% growth projection. Since the accrual was processed, preliminary Sales Tax data for the fourth quarter have become available and shows an actual increase of 9.9%. While details by economic sector for the last quarter's performance are not yet available, this higher growth rate generated an additional \$1.7 million in revenue.

The City's Sales Tax consultant, MuniServices, LLC, has provided economic performance data for the four quarters ending March 2012, 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 6.0% was realized.

¹ Starting in 2004-2005, the City was impacted by a State action known as the "Triple Flip", which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 25% of the City's one percent Bradley Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action will remain in effect until the State's bond obligations have been satisfied. However, the City will continue to record the replacement property tax revenues as sales tax because the growth formula for these receipts is tied to sales tax and this action is considered a temporary property tax in lieu of sales tax.

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Sales Tax

Sales Tax Revenue Economic Performance April 2011 – March 2012

Economic Sector	% of Total Revenue	% Change from April 2011 – March 2012
General Retail	27.3%	4.3%
Transportation	24.3%	17.6%
Business-to-Business	22.4%	-2.6%
Food Products	15.6%	5.9%
Construction	9.7%	7.4%
Miscellaneous	0.7%	-1.2%
Total	100.0%	6.0%

To reflect actual 2011-2012 activity, an increase to the 2012-2013 General Sales Tax budget estimate of \$3.1 million is recommended as part of the 2011-2012 Annual Report actions. The \$3.1 million increase is comprised of additional revenue generated from actual fourth quarter 2011-2012 receipts (\$1.7 million) which reflected growth of 9.9% compared to the budgeted estimate of 3.5%, and the recognition of the 2011-2012 “Triple Flip” true-up payment from the State, anticipated to be received in January 2013 (\$1.4 million). Underlying growth assumed in the 2012-2013 Adopted Budget of 3.0% remains unadjusted despite the higher base from which to measure growth, as the data behind the fourth quarter receipts is unknown at this time and the data behind the third quarter revealed economic growth of only 2%. With the recommended adjustments to true-up both the “Triple Flip” payment as well as actual fourth quarter 2011-2012 receipts, the 2012-2013 General Sales Tax estimate will be \$151.3 million, which is 1.3% above the 2011-2012 year-end figure of \$149.4 million. Additional adjustments may be brought forward during 2012-2013 based on actual performance. Data for the first quarter of 2012-2013 (July – September activity) will not be available until December 2012.

- **Proposition 172 Half-Cent Sales Tax** – Receipts of \$4.7 million exceeded the 2011-2012 budgeted estimate of \$4.6 million by 1.5% and were up 14.3% when compared to the 2010-2011 collection level of \$4.1 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 2011-2012, Telephone Line Tax collections of \$20.5 million were consistent with the budgeted estimate and close to the 2010-2011 collection level (\$20.6 million).

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Transient Occupancy Tax

In 2011-2012, receipts of \$9.0 million for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) exceeded the 2011-2012 Modified Budget estimate of \$8.3 million by 8.2% and increased 24.4% from the 2010-2011 collection level of \$7.2 million. The higher than budgeted 2011-2012 revenue is attributable to increased hotel occupancy and room rate levels, as well as a biennial TOT compliance audit. Of the \$9.0 million in TOT receipts, \$8.7 million was generated through normal collections, while \$317,000 was realized from the biennial TOT compliance audit, which sought to collect taxes from hotels that should have been remitted in prior years. As the revenues resulting from the compliance audit are attributable to prior year activity, they are not necessarily indicative of the current health of the local hotel market. Excluding the activity from prior years, TOT revenues of \$8.7 million increased by a strong 20% from 2010-2011 levels. In 2011-2012, the average occupancy rate for the City's 14 largest hotels climbed from 58.5% to 61.6%, and the average room rate for these same hotels increased by \$11 (from \$118 to \$129).

The 2012-2013 Adopted Budget assumed approximately 5.0% growth from the 2011-2012 estimate at the time the budget was developed. Because the actual 2011-2012 receipts were above this estimate, growth of only 0.6% is needed to meet the 2012-2013 Adopted Budget estimate of \$8.7 million (after excluding revenue generated from the compliance audit). With no indications of slowing activity, a recommendation is included in this report to increase the budgeted revenue estimate by \$385,000 to \$9.1 million, which would restore the projected 2012-2013 growth to 5%, consistent with the adopted budget levels.

Franchise Fees

Franchise Fee collections of \$41.7 million were slightly below (-0.2%) the 2011-2012 Modified Budget level of \$41.8 million, but were 1.1% above the 2010-2011 collection level of \$41.3 million. Following is a discussion of the major Franchise Fee components:

- ***Electric and Gas Franchise Fees*** – For 2011-2012, collections were based on activity that occurred during calendar year 2011. Electric Franchise Fee collections of \$18.2 million were \$464,000 (2.6%) above the 2011-2012 Modified Budget level of \$17.7 million and 2.8% above the 2010-2011 collection level of \$17.7 million. Gas Franchise Fees of \$4.4 million ended the year below the budgeted estimate of \$4.9 million by \$466,000 (9.5%); and 1.1% below the 2010-2011 collection level of \$4.5 million. Due to a booking error between the Gas and Electric Franchise Fees categories, the year-end budget adjustments set the budget too high for the Gas category and too low for the Electric category. Combined the Gas and Electric franchise fees collections of \$22.6 million were at the budgeted estimate of \$22.6 million.

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Franchise Fees

- **Commercial Solid Waste Franchise Fee (CSW)** – Collections of \$9.6 million were 1.1% below the 2011-2012 Modified Budget estimate of \$9.7 million and 1.0% above the prior year collection level of \$9.5 million. This marks the first growth in this category after four years of declines from a high of \$12.5 million in 2006-2007. In recent years, collections in this category have been impacted by an increase in recycling as well as the impacts from the steep economic downturn. In 2012-2013, as previously approved by the City Council, the CSW fee methodology will change to a fee for franchises based on geographic collection districts rather than volume. The new fee will be set at \$5 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. This new fee will be subject to an annual consumer price index adjustment. In 2012-2013, collections in this category are expected to increase 14.6% to \$11.0 million based on this new methodology.
- **Cable Television Franchise Fees** – Actual 2011-2012 collections ended the year at the budgeted estimate of \$8.5 million and were 1.1% above the 2010-2011 collection level of \$8.4 million.
- **City-Generated Tow, Water, and Nitrogen Gas Pipeline Franchise Fees** – Receipts in these categories were relatively consistent with the budgeted estimates but varied from 2010-2011 collection levels. City-Generated Tow Franchise Fee receipts of \$770,000 slightly exceeded the budget estimate of \$740,000 by 4.0% (\$30,000), but were 21.4% below the prior year collection level of \$979,000. This significant decline reflects the change in Police Department procedures, which reduced the number of tows and impounds for persons with violations that are not related to serious driving offenses. Water Franchise Fee collections of \$227,000 were 4.5% above the budget estimate of \$217,000, and 8.5% above the prior year collection level of \$209,000. Nitrogen Gas Pipeline Franchise Fee receipts of \$57,000 were above the budgeted estimate of \$55,000 and the 2010-2011 collection level of \$55,000.

Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$90.4 million were 0.7% below the 2011-2012 Modified Budget level of \$91.0 million and 2.8% (\$2.5 million) above the 2010-2011 actual level of \$87.9 million.

- **Electricity and Gas Utility Tax** – Electricity Utility Tax receipts of \$39.1 million were approximately 0.3% below the modified budget estimate of \$39.2 million and 0.1% below the 2010-2011 level of \$39.1 million. Gas Utility Tax collections of \$8.8 million were slightly below (2.4%) the 2011-2012 Modified Budget estimate of \$9.0 million but 1.6% (\$138,000) above the 2010-2011 collection level of \$8.7 million. This category also includes a one-time payment of \$1.56 million from Pacific Gas and Electric (PG&E) that was

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Utility Tax

received as budgeted. This payment was the result of a final settlement agreement between the City and PG&E of the funding necessary to correct for underpayments and related penalties and interest of Gas and Electric franchise fees, surcharges and utility user taxes from January 1, 2007 through December 31, 2010 that were not coded as San José properties in PG&E's billing system.

- **Water Utility Tax** – Receipts in this category of \$9.5 million were 1.4% above the modified budget level of \$9.4 million and 10.9% above the 2010-2011 collection level of \$8.6 million primarily due to approved rate increases.
- **Telephone Utility Tax** – Collections of \$31.4 million in this category were 1.3% below the 2011-2012 Modified Budget level of \$31.8 million and 0.2% below the prior year collection level of \$31.5 million. In 2012-2013, the budgeted estimate of \$32.3 million was based on assumed growth of approximately 1% over the 2011-2012 projected collection level of \$31.9 million. However, because actual collections in 2011-2012 fell below this estimate, growth of 2.6% is needed in 2012-2013 to meet the budgeted estimate. Given actual collection trends, this growth may not be realized in 2012-2013. Collection levels will continue to be monitored and adjustments will be 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 \$41.1 million were 0.4% above the 2011-2012 Modified Budget estimate of \$41.0 million and 8.4% above (\$3.2 million) the 2010-2011 collection level of \$38.0 million. The significant increase over the prior year is a result of the annualization of the Marijuana Business Tax of which only four months were reflected in 2010-2011. 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 \$14.9 million ended the year 1.1% below the modified budget estimate of \$15.1 million, but 1.2% (\$177,000) above the prior year actual level of \$14.8 million. The increase from the prior year reflects, in part, the impact of the Cardroom Tax ballot measure that was approved by the voters in June 2010. The ballot measure increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98. The new rates went into effect on August 13, 2010; therefore the increase was not reflected in the first two months of the prior fiscal year.
- **Business Tax** – Collections of \$11.3 million in this category are \$13,000 above the modified budget estimate and 3.1% above the 2010-2011 collection level of \$10.9 million. The growth in Business Tax receipts for 2011-2012 reflects the gradual economic recovery as

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Business Taxes

well as efforts by the Finance Department to maximize the receipt of this tax. The Finance Department conducted an employee count verification project as well as a multiple housing verification process.

- **Disposal Facility Tax** – Collections of \$11.2 million ended the year 1.5% above the budgeted estimate of \$11.0 million and 0.6% above the 2010-2011 collection level of \$11.1 million. Similar to the Commercial Solid Waste Franchise fees, collections in this category experienced slight growth in 2011-2012 after four years of declines from a \$14.7 million collection level in 2006-2007. Revenue from the Disposal Facility Tax is impacted by the economy, waste exports, and waste diversion. In 2012-2013, the budgeted estimate of \$10.7 million was based on the assumption that collections would decline approximately 1% from an estimated 2011-2012 collection level of \$11.8 million. Because 2011-2012 collections exceeded the estimate used to develop the 2012-2013 budget, receipts can drop by approximately 4% in 2012-2013 to meet the budgeted estimate. A budget adjustment may be brought forward in 2012-2013 based on actual performance.
- **Marijuana Business Tax** – On November 2, 2010, San José voters approved Measure U, which permits the City to impose a gross receipts business tax of 7% on all marijuana businesses in the City. Collections of \$3.7 million were slightly above the 2011-2012 Modified Budget level of \$3.6 million (3.8%) and significantly above the 2010-2011 receipts of \$1.2 million. The significant variance from prior year collections is due to only a partial year being reflected in 2010-2011 as the effective date of the tax was March 1, 2011.

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 \$43.8 million were 4.1% (\$1.7 million) above the modified budget level of \$42.1 million and 13.2% above (\$5.1 million) the 2010-2011 collection level of \$38.7 million. The significant increase over the prior year is a result of substantial growth in the Fire Permits and Building Permits categories. Following is a discussion of the major Licenses and Permits components:

- **Fire Permits** – Fire Fee receipts of \$9.5 million at year-end were 3.1% above the estimate of \$9.2 million, and 17.9% above the prior year level of \$8.1 million. The 2011-2012 Adopted Budget estimate of \$7.8 million was built assuming a slight increase of activity levels from the previous year. However, an upward adjustment of \$1.4 million to the Development revenue estimate was approved during 2011-2012 to address an increase in development activity, which is anticipated to continue in 2012-2013.

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Licenses and Permits

Development revenues from Architectural Plan Check and Inspection, Engineering Systems (Alarms and Sprinklers) Permits and Inspections, and Miscellaneous revenues ended the year at \$5.6 million, above the 2011-2012 Modified Budget estimate of \$5.4 million. Because year-end collections exceeded the modified budget estimate, an increase to the Fire Fee Reserve of \$255,000 is recommended as part of this document. When combined with the Fire Department Fee Program expenditure savings and interest earnings of \$329,000, the Fire Fee Program Reserve is recommended to be increased by a total of \$584,000. This action will increase the Reserve from \$3.7 million to \$4.2 million. In addition, adjustments to the estimated retirement rates for 2012-2013, as directed in the City Council's approval of the Mayor's June Budget Message for Fiscal Year 2012-2013, generated additional savings to the Fire Fee program of \$6,000. A recommendation to transfer these savings to the Fire Fee Program Reserve is recommended to reflect these additional savings.

Non-Development revenue of \$3.9 million from Annual Renewable Permits, Non-Renewable Permits and Inspections, and other Miscellaneous activities were consistent with estimated levels of \$3.9 million. Annual renewable permits revenue of \$3.4 million was \$137,000 (3.9%) lower than estimated but \$482,000 (16.6%) higher than the collections in the prior year. Combined revenues of \$449,000 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 \$121,000 (36.8%) higher than budgeted levels and \$78,000 (14.8%) lower than prior year's year-end revenue of \$527,000.

- **Building Permits** – Receipts of \$24.9 million ended the year 5.6% (\$1.3 million) above the modified budget estimate of \$23.6 million, and 11.1% above the prior year level of \$22.4 million. As identified in Bi-Monthly Financial Reports and the Mid-Year Budget Review, Building Permit revenue throughout 2011-2012 tracked well above anticipated levels primarily as a result of increased development activity. This additional activity necessitated additional staffing resources to meet the plan check and inspection service demands. In order to keep pace with the increased demand, on January 31, 2012, City Council approved the addition of 16 positions for the Building Fee Program, offset by additional revenues of \$1.9 million. Further information on the approved actions can be found at http://www.sanjoseca.gov/clerk/Agenda/20120131/20120131_0403.pdf. In recognition of increased permit revenues, the budget estimate was increased by an additional \$5.1 million at the end of 2011-2012. Even with adjustments to the budget estimate, actual collections ended the year \$1.4 million over the revised estimate as a result of permits that were issued at the end of the year.

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Licenses and Permits

The total valuation of projects submitted in 2011-2012 was \$893.8 million, 32.4% above the revised estimate of \$675.0 million and 28.0% above the \$698.5 million valuation of projects that were received in 2010-2011. Total construction valuation in the three land use categories ended the year above the estimates used in the development of the budget. A total of 2,973 residential units received permits in 2011-2012 compared to an estimate of 2,000 units, with a valuation of \$515.7 million in 2011-2012 compared to \$386.9 million in 2010-2011. Commercial activity was 7.6% above forecasted levels at approximately \$242.1 million and was 9.6% above last year's level (\$220.9 million). Activity in the industrial sector also tracked above estimates at \$135.9 million and above the prior year level (\$90.8 million). The number of projects requiring plan check was 8,000 in 2011-2012, an increase of 41.5% from 5,654 in the prior year. The total number of building inspections conducted in 2011-2012 was 134,041, increasing 32.6% from 101,074 inspections during the previous year.

A recommendation to increase the Building Development Fee Program Reserve by a net \$1.5 million from \$13.5 million to \$15.0 million is included as part of this document. This funding was derived from a combination of a revenue surplus of \$1.3 million in 2011-2012 combined with the expenditure savings of \$309,000 and interest earnings attributed to the program of \$7,000. In addition, adjustments to the estimated retirement rates for 2012-2013, as directed in the City Council's approval of the Mayor's June Budget Message for Fiscal Year 2012-2013, generated additional savings to the Building Fee Program of \$13,000. A recommendation to transfer these savings to the Building Fee Program Reserve is recommended to reflect these additional savings. These increases to the Reserve were partially offset by staffing costs for a Senior Executive Analyst position in the Office of Economic Development that staffs the second Special Tenant Improvement/Industrial Tool Installation (STI/ITI) line of \$158,000 which was inadvertently omitted as part of the development of the 2012-2013 Adopted Budget.

- *Miscellaneous Other Licenses and Permits* – Collection of \$9.4 million were 1.1% (\$102,000) above the 2011-2012 Modified Budget and \$1.2 million (14.0%) about prior year collections of \$8.3 million. The variance from 2010-2011 collection levels is primarily due to increases in vacant/dangerous building revenues, multiple housing permits, and cardroom permits due to increased activity.

Fines, Forfeitures and Penalties

The primary sources of revenue in this category are proceeds from Parking, Vehicle Code, and Municipal Code Fines, and Business and Cardroom Tax Penalties. Collections of \$18.4 million in this category were 4.2% above the modified budget estimate of \$17.6 million and up 2.4% from the prior year collection level of \$17.9 million.

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Fines, Forfeitures and Penalties

Parking fines, the largest component of this revenue category, ended the year at \$12.1 million. This collection level slightly exceeded the modified estimate of \$11.8 million (2.9%) and increased 3.4% from the 2010-2011 collection level of \$11.7 million. The positive variance from 2010-2011 is primarily attributable to increases in the collection rate (from 82.7% to 84.4%) and fines associated with citations.

Vehicle Code and Municipal Code Fines ended the year at \$3.5 million, which was 4.4% above the modified budget estimate of \$3.3 million, but was 12.6% below the 2010-2011 collections of \$4.0 million. The City also received \$1.0 million from Business Tax Penalties which was consistent with the modified budget estimate of \$1.0 million, but 5.5% below the prior year collections of \$1.1 million. False Alarm fines totaled \$68,000, significantly below both the modified budget estimate of \$440,000 and the prior year collection level of \$462,000. This low collection level reflects the combined impacts of the Police Department verified response model as well as a backlog in billings.

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 \$3.3 million ended the year slightly above the modified budget level of \$3.0 million, but 9.4% below the prior year collection level of \$3.7 million. Use of Property revenues, including rental income (\$2.1 million) was slightly below the budgeted estimate of \$2.2 million and below prior year collections of \$2.3 million. Subrogation revenues of \$450,000 were above the budgeted estimate of \$395,000, however, they were below the prior year collection levels by 58% due to a significant one-time settlement of a workers' compensation claim in 2010-2011. Interest income of \$490,000 was above prior year (\$290,000) and budgeted levels (\$383,000). The positive variances from both the prior year and the modified budget were primarily due to higher Property Tax Interest earnings. The City's pre-payment of the City's contribution to its two retirement plans in July 2011, and lower levels of earmarked reserves result in a low cash balance and consequently low investment earnings. The net investment yield in the General Fund was 0.27% in 2011-2012, down from 0.46% in 2010-2011 and continues to fall significantly below the most recent high of 3.8% in 2007-2008. This lower net investment yield is reflected in the interest earned on the General Fund cash balance which fell \$52,000 in 2011-2012 consistent with the budgeted estimate from 2010-2011 level of \$215,000. This category also includes revenue of \$250,000 from a senior staff home loan repayment.

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 former San Jose

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Revenue from Local Agencies

Redevelopment Agency (SJRA) for payment of the Convention Center debt service, payments from the Central Fire District for fire services provided to County residents by the San José Fire Department, and payment from the County for the City's Paramedic Program.

Revenue collections of \$30.1 million in the Local Agencies category ended the year below the budgeted estimate of \$33.4 million, with a negative variance of 9.5%. This collection level was also 31.8% below the \$44.2 million collected in 2010-2011. Reimbursements of \$16.0 million from the former SJRA included the Convention Center debt service payment reimbursement of \$15.4 million and reimbursements for City support services of \$600,000. This reimbursement level fell below the budgeted estimate by \$200,000 due to insufficient funding in the Successor Agency to complete reimbursements for three months of City Support costs (April-June). Reimbursements also fell \$13.5 million (45.9%) below the 2010-2011 level due primarily to budget re-balancing actions brought forward as part of the 2011-2012 Adopted Budget that eliminated support for City services and programs to help to address the financial difficulties faced by the former SJRA.

In 2011-2012, the Central Fire District payment of \$4.6 million was at the modified budget estimate, however, fell 10.9% below the prior year collection level 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 lower level of payments is due to annexations of County pockets into the City as well as the change in Property Tax valuation in those areas. In 2012-2013, receipts are expected to increase 1.3% consistent with the projected increase in Property Taxes, assuming no further annexations occur. The payment of \$2.2 million from the County of Santa Clara for the City's Paramedic Program was slightly below the budgeted estimate of \$2.3 million, however, significantly above prior year collection level of \$1.7 million. Lastly the CAL-ID program and Automated Finger Information System reimbursements of \$2.8 million fell \$2.6 million below the budget estimate of \$5.3 million. The majority of this variance was anticipated and revenues and associated expenditure budgets were rebudgeted as part of the 2012-2013 Adopted Budget. Additional rebudget actions to adjust revenues and expenditure budgets for various grants based on actual performance are recommended, as described in Section IV of this report. A recommended reduction to the 2012-2013 Adopted Budget estimate for revenues by \$400,000 (from \$450,000) is included to reflect a reduction in participation in the Grace Community Center Day Rehabilitation Program; additional details on this action are described in Section IV 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 \$14.1 million ended the year 1.4% below the modified budget estimate of \$14.3 million, and 21.0% below the prior year actual level of \$17.8 million. The

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Revenue from the State of California

variance from the modified budget estimate was due primarily to lower than estimated revenues from various grants, partially offset by higher than estimated vehicle license collections.

The Tobacco Settlement revenues of \$9.2 million were 2.2% above the 2011-2012 Modified Budget estimate of \$9.0 million and 2.0% or \$178,000 above prior year collections. This is the first growth this category has seen after declines in both 2009-2010 and 2010-2011. The 2012-2013 Adopted Budget includes an estimate for \$9.0 million.

State grants and reimbursements totaled \$2.2 million, which was 28.3% below the modified budget estimate of \$3.1 million. This was the result of many grants and reimbursements (and their associated expenditures) falling below the budgeted estimates; major variances include: no reimbursement for the CAD Network Upgrade (\$423,000); lower 2011-2012 Driving Under the Influence Enforcement and Awareness Grant revenues of \$228,000 compared to a budgeted estimate of \$375,000; and no reimbursement for the Bay Area Electric Vehicle Corridor Project (\$121,000) due to a delay in billing for reimbursement. Included in the 2012-2013 Adopted Budget were the rebudget of these and other revenues and associated expenditures for various State grants in the amount of \$414,000 to account for the anticipated receipt, in 2012-2013, of revenues that were not received in 2011-2012. Also included in this report are recommendations to adjust previous rebudgets based on actual year-end performance, as described in Section IV of this report.

Motor Vehicle In-Lieu payments totaled \$2.1 million in 2011-2012, which tracked at the modified budget level, but were 16.0% below the prior year collection level of \$2.5 million. The State approved bill (SB 89), eliminated these payments beginning in 2011-2012 as a State Budget balancing action, however, a one-time Motor Vehicle In-Lieu true-up payment was received in 2011-2012 that accounted for underpayments in prior years (2006-2007 through 2009-2010). Additional revenue from excess vehicle licensing fees of \$490,000 was also received in 2011-2012, which had not been anticipated.

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. The revenue in this category is generated by various State grants and reimbursements. In 2011-2012, ARRA Revenue from the State of California of \$364,000 was only \$16,000 below the modified budget estimate of \$380,000. Included in the 2012-2013 Adopted Budget were the rebudget of revenues for various State grants in the amount of \$61,000 to account for the anticipated receipt in 2012-2013 of revenues that were not received in 2011-2012. This rebudget amount, however,

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

exceeded the actual year-end savings and net downward adjustments to the rebudgets are recommended in this report to adjust revenue and corresponding expenditure budgets for various various grants based on actual performance, as described in Section IV of this report.

Revenue from the Federal Government

The revenue in this category is generated by various federal grants and reimbursements. In 2011-2012, Revenue from the Federal Government of \$15.2 million was 18.8% below the modified budget estimate of \$18.7 million but 160.4% above the 2010-2011 collection level of \$5.8 million. The significant variance to 2010-2011 collections is primarily due to the receipt of the Community Oriented Policing Services (COPS) Grant (\$2.1 million), the 2008 Assistance to Fire Fighters Grant Self Contained Breathing Apparatus Grant (\$1.7 million); and the 2009 Urban Areas Security Initiative reimbursement for Fire (\$1.8 million, a positive variance of \$1.3 million from the prior year). A portion of these grants (\$2.0 million) was rebudgeted to 2012-2013 as part of 2012-2013 Adopted Budget. 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 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 2011-2012, ARRA Revenue from the Federal Government of \$4.5 million was \$3.7 million below the modified budget estimate of \$8.2 million. However, \$3.3 million of these grants was rebudgeted to 2012-2013 as part of the 2012-2013 Adopted Budget. 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 of this report.

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 \$34.3 million for Departmental Charges were 5.0% above the modified budget estimate of \$32.6 million and were above the 2010-2011 collection level of \$32.1 million (6.6%).

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Departmental Charges

A brief description of the performance in each of the departmental fee categories is provided below.

- **Library Departmental Fees** – Collections of \$1.2 million ended the year 5.6% above the modified budget estimate of \$1.1 million, but 15.9% below the 2010-2011 receipts of \$1.4 million. Fine revenues accounted for \$1.0 million of the \$1.2 million in receipts in 2011-2012 and were down from \$1.2 million in the prior year. The lower collections in 2011-2012 are directly related to a sharp decline in circulation as a result of the reduction in branch library hours from 39 hours per week to 33-34 hours per week, a 14% reduction from 2010-2011 levels, and programming and service reductions at the Martin Luther King, Jr. Library.
- **Parks, Recreation, and Neighborhood Services (PRNS) Departmental Fees** – Collections of \$14.6 million ended the year 2.4% above the modified budget estimate of \$14.3 million. This collection level was 6.9% above the prior year level of \$13.7 million. Fiscal Year 2011-2012 reflected the second full year of operation of Happy Hollow Park and Zoo (HHPZ) after its major renovation project was completed in March 2010 which contributed to the higher fee revenues starting in 2010-2011. In 2011-2012, there were several PRNS fee categories that exceeded the budgeted estimates, including Rentals and Reservations (facility rentals and picnic and sports field reservations), Fee Activities, and HHPZ revenue. The higher receipts in these categories were partially offset by lower than estimated collections in a number of categories, including HHPZ food and beverage, Family Camp, Aquatics, and Parking.
- **Planning Departmental Fees** – Collections of \$2.9 million ended the year 5.0% above the modified budget estimate of \$2.7 million and 8.2% above the prior year level of \$2.6 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Planning Fee revenue throughout 2011-2012 was slightly above anticipated levels. In recognition of increased revenues, budget estimates were slightly increased at year-end. Even with the adjustments to the revised budget estimate, actual collections were above the revised budget estimate as a result of permits that were issued at the end of the year. Higher than anticipated revenues were primarily a result of higher actual collections in the following fee categories: Non-Residential Conditional Use Permits, Non-Residential and Residential Private Development Permits, Residential Conventional Rezoning/Rezoning Permits, Public Information Services, and Non-Residential Site Development Permits.

This document includes a recommendation to increase the Planning Development Fee Program Reserve by \$95,000 (from \$424,000 to \$519,000). This increase to the reserve reflects the reconciliation of the 2011-2012 revenues and expenditures as well as 2012-2013 retirement savings. The 2011-2012 revenue surplus of \$135,000, was partially offset by higher than anticipated expenditures of \$42,000. The expenditure costs resulted from a rebudget that occurred at year-end but actual savings came in lower than originally estimated.

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Departmental Charges

In addition, adjustments to the estimated retirement rates for 2012-2013, as directed in the City Council's approval of the Mayor's June Budget Message for Fiscal Year 2012-2013, generated additional savings to the Planning Fee Program of \$2,000. A recommendation to transfer these savings to the Planning Fee Program Reserve is recommended to reflect these additional savings.

- **Police Departmental Fees** – Collections of \$1.52 million at year-end were 15.1% (\$269,000) below the modified budget estimate of \$1.79 million and 13.1% (\$228,000) below actual collections of \$1.74 million in 2010-2011. The variance to the budgeted estimate is primarily due to lower collections of Vehicle Impound Release fees (\$335,000), Towing Service Dispatch fees (\$35,000), and Police Officer Standards Training (POST) reimbursement (\$15,000). The lower collections are partially offset by higher collections in Bureau of Technical Services (\$55,000), Miscellaneous Police Revenue (\$29,000), and State Reimbursements for Police Extraditions (\$26,000). For Impounded Vehicle Releases and Tow Services Dispatch, activity levels are down due to a January 2011 change in the tow policy that reduced the number of vehicles being towed and impounded. As a result, there is a reduction in the number of dispatched tow trucks as well as release fees being collected for impounded vehicles. In regards to the POST revenue, there has been a change in the State reimbursement process which has delayed collections.
- **Public Works Departmental Fees** – Collections of \$7.3 million ended the year 11.3% above the modified budget estimate of \$6.5 million and 27.6% above the \$5.7 million collected in 2010-2011. The 2011-2012 collections are comprised of \$7.1 million from the Development and Utility Fee Programs and \$197,000 for special assessment collections. With increased demand for residential development in the region and improving economic conditions, development activity experienced strong growth 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 2012-2013.

Revenues in utility excavations, residential engineering, residential underground service alert locating, utilities, erosion and sediment control, residential and non-residential streetlight and signal design and inspection, private streets engineering, and grading permits categories all performed at higher than estimated levels. However, this performance was partially offset by lower than anticipated collections for non-residential engineering, geological control application fees, non-residential signal and streetlight inspection, planned development rezonings, traffic reports, site development permits development review, and conditional use permits development review categories. The revenue surplus of \$743,000 in 2011-2012 in the Public Works Fee Program combined with the expenditure savings of \$138,000 and interest earnings attributed to the program of \$12,000 results in a recommendation in this report to increase Public Works Fee Program Earmarked Reserve by \$893,000. In addition, adjustments to the estimated retirement rates for 2012-2013, as directed in the City Council's

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Departmental Charges

approval of the Mayor's June Budget Message for Fiscal Year 2012-2013, generated additional savings to the Public Work Fee Program of \$3,000. A recommendation to transfer these savings to the Public Works Fee Program Reserve is also recommended to reflect these additional savings. With these recommended adjustments, the Public Works Fee Program Reserve would increase from \$3.0 million to \$3.9 million.

- **Transportation Departmental Fees** – Collections of \$1.3 million ended the year \$446,000 or 52.5% above the modified budget estimate of \$849,000 and 18.2% (\$199,000) above the \$1.1 million collected in 2010-2011. Collections exceeded the modified level due primarily to higher than budgeted collection of development fees (\$145,000), sidewalk repair fees (\$110,000), miscellaneous traffic repairs (\$66,000), special event fees (\$37,000) and residential permit parking fees (\$25,000). Other categories ended the year with slight positive or negative variances.
- **Miscellaneous Departmental Fees and Charges** – Collections of \$5.5 million ended the year 3.1% above the modified budget estimate of \$5.4 million, but was 5.8% below the prior year actual level of \$5.9 million. The Solid Waste Enforcement fee, which is the largest component of this category, ended the year at \$3.7 million, which was 4.0% above the modified budget estimate (\$3.5 million) and 4.4% above the prior year collection level of \$3.5 million. This category also includes Animal Care and Services collections of \$628,000 that ended the year 3.1% below the modified budget estimate of \$648,000 and 6.2% below prior year collections of \$669,000. (In 2011-2012, combined collections for Animal Care and Services fees, which are reflected in the Licenses and Permits, Revenue from Local Agencies, and Departmental Fees and Charges revenue categories, totaled \$2.89 million, which is consistent with the prior year collection level and 0.9% above the modified budget estimate of \$2.87 million.)

Other Revenue

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue receipts of \$116.1 million were 0.4% (\$455,000) below the budgeted estimate of \$116.5 million, but 25.4% (\$23.5 million) above the 2010-2011 collection level of \$92.6 million. The significant increase from 2010-2011 is due primarily to the issuance of \$100.0 million in borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) for cash flow purposes in 2011-2012 as compared to the \$75 million that was issued in 2010-2011. Excluding the issuance of a TRANs, revenues of \$16.1 million were slightly below the 2010-2011 levels by a net \$1.5 million (9.3%).

A \$5.0 million increase in the estimate for Other Revenue is recommended to recognize the proceeds from the sale of 14.5 acres to the Earthquakes, LLC with a corresponding increase in

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Other Revenue

expenditures to pay off a portion of the HUD 108 loan associated with this property. Additional adjustments are recommended in this report to adjust revenue and corresponding expenditure budgets for various grants based on actual performance. Details on these actions are described in Section IV of this report.

Transfers and Reimbursements

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall, collections of \$69.0 million ended the year 0.6%, or \$412,000, above the 2011-2012 budgeted estimate of \$68.6 million. The positive variance is due to higher than expected transfers \$429,000, and overhead reimbursements \$537,000, partially offset by lower than expected reimbursements (\$555,000). The 2011-2012 collection level of \$69.0 million was \$23.0 million below the prior year due primarily to lower budgeted transfers from other funds (down \$20.3 million).

- **Overhead Reimbursements** – Payments from other funds for overhead costs of \$32.4 million ended the year \$537,000 (1.7%) above the modified budget estimate of \$31.8 million. This variance represents the net result of a series of over- and under-budgeted performances from over 45 special and capital funds that reimburse the General Fund. These differences occurred where fund activities were over or under the level assumed in the modified budget estimates. The positive variance was driven primarily by higher than anticipated collections from various capital funds, including the Building & Structure Construction Tax Fund and the Construction Excise Tax Fund based on actual activity levels, as well as higher than anticipated collections from the Workforce Investment Act Fund.
- **Transfers** – Revenue from the Transfers category of \$21.2 million ended the year \$429,000 (2.1%) above the modified budget level of \$20.7 million. The transfer from the Construction and Conveyance Tax Fund to the General Fund of \$2.5 million was \$428,000 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 smaller positive and negative variances in this category. A net decrease of \$152,000 is recommended in this document to reflect a decrease in reimbursement from the Workforce Investment Act Fund for the rental of former community centers by the work2future program (\$234,000) to align reimbursements with eligible costs in accordance with federal grant requirements partially offset by an increase of \$82,000 to reflect additional excess funds generated from the close-out of the Stores Fund. Additional details on these actions are described in Section IV of this document.
- **Reimbursement for Services** – Collections of \$15.5 million in the Reimbursements for Services category were 3.5% below the modified budget level of \$16.0 million. The negative

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Transfers and Reimbursements

variance of \$555,000 was due to lower than budgeted reimbursements for the Gas Tax (\$474,000), the Deferred Compensation Program (\$73,000) offset by corresponding expenditure savings in the Human Resources Department, and the Maintenance Assessment District Funds (\$9,000). As a result of the 2011-2012 reduced level of reimbursements for Gas Tax, the 2012-2013 budgeted estimate is recommended to be reduced by \$500,000, from \$15.0 million to \$14.5 million, to remain consistent with the approximate 1% decline assumed in the 2012-2013 Adopted Budget from actual 2011-2012 receipts.

Summary

In 2011-2012, total revenues received by the General Fund of \$907.6 million were lower than the modified budget level by \$6.0 million (0.7%). After adjusting for \$8.8 million of grant and reimbursement related revenues not received in 2011-2012, but rebudgeted to 2012-2013 as part of the 2012-2013 Adopted Budget, revenues actually ended the year \$2.8 million (0.3%) above the budgeted estimate. This is an extremely small variance given the diversity of the over 450 City revenues and the overall size of the General Fund. The Development Fee Programs generated \$2.5 million of the \$2.8 million surplus and these funds are recommended to be allocated to the Development Fee Program Reserves. After adjusting for the Development Fee Programs (\$2.5 million) and other recommended rebudget and clean-up adjustments (\$112,000), the net surplus drops to a positive variance of only \$203,000 (0.02%) for 2011-2012.

The 2011-2012 revenues of \$907.6 million were up \$31.3 million (3.6%) from the actual 2010-2011 collections (\$876.4 million). As described in this section, the primary reason for this increase is the \$100 million in borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes in 2011 as compared to the \$75 million issuance in 2010-2011. Adjusting for the variance in TRANs issuance between 2010-2011 and 2011-2012, General Fund revenues in 2011-2012 reflect only a \$6.3 million increase (0.8%) from the 2010-2011 levels.

The 2011-2012 revenue estimates were built on the assumption that the slow economic recovery would continue in 2011-2012. Actual performance in 2011-2012 was consistent with this general assumption with some areas of improvement. A number of revenue categories, such as Sales Tax, Transient Occupancy Tax, and the development-related fees and taxes, have experienced solid growth from the low collection levels experienced in recent years. Other revenue categories, such as Property Tax, have shown only modest improvement and are expected to experience slow growth moving forward.

Modest economic growth was factored into the 2012-2013 revenue estimates. The Administration will actively monitor economic indicators and revenues in 2012-2013 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.