



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jennifer A. Maguire

SUBJECT: 2015-2016 PROPERTY TAX
ESTIMATE UPDATE

DATE: May 28, 2015

Approved

Date

5/29/15

RECOMMENDATION

The following adjustments to the 2015-2016 Proposed Operating Budget of the General Fund are recommended:

1. Increase the Property Tax revenue estimate by \$2,000,000 on a one-time basis; and
2. Increase the Salaries and Benefits Earmarked Reserve by \$2,000,000 on a one-time basis.

BACKGROUND

Since the release of the 2015-2016 Proposed Operating Budget on May 1, 2015, additional information from the County of Santa Clara has become available regarding projected Property Tax revenue. To reflect the latest information, budget adjustments are recommended to increase the Property Tax Revenue estimate and increase the Salaries and Benefits Earmarked Reserve on a one-time basis.

ANALYSIS

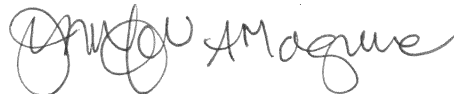
The City Manager's Budget Office has continued to analyze and project funding sources and expenditures for 2015-2016. Based on updated information received from the County of Santa Clara at its quarterly property tax meeting with cities on May 20, 2015, an upward adjustment of \$2.0 million to the 2015-2016 Property Tax revenue estimate is recommended to reflect projected one-time excess Education Revenue Augmentation Fund (ERAF) funds.

Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In 2013-2014, the City received over \$200,000 from excess ERAF in 2012-2013 (funding is received in the following fiscal year). In 2014-2015, the County of Santa Clara estimated that the City of San José would receive a one-time excess ERAF payment of approximately \$6.0 million for 2013-2014 and that funding was factored into the year-end revenue estimates for the current year as noted in

previous budget documents. Because this excess ERAF funding was not considered a reliable ongoing funding source and was not assumed to be received by the County for 2014-2015, no additional excess ERAF funding was programmed in the 2015-2016 Proposed Budget.

Based on the preliminary information that was received during the meeting on May 20, 2015, the County of Santa Clara now anticipates distributing excess 2014-2015 ERAF funds for Santa Clara County that will be received in 2015-2016, of which approximately \$2.4 million is anticipated to be allocated to the City of San José. At this time, a \$2.0 million increase to the Property Tax revenue estimate is recommended as this is preliminary information that will not be finalized until February 2016. It should be noted that, as discussed in the FY 2016 County Executive's Budget Message, "only a handful of counties are in "excess ERAF" status. Santa Clara County has moved into this status primarily because of robust property tax growth that has exceeded the state's established contributions to school districts. However, it is not expected that Santa Clara county will retain "excess ERAF" status over time because implementation of the new local control funding formula for school districts will substantially increase the State's contributions to schools."

This additional funding is recommended to be allocated to the Salaries and Benefits Earmarked Reserve to address potential funding needs associated with labor negotiations. The allocation of this reserve is subject to the meet and confer process.



JENNIFER A. MAGUIRE
Senior Deputy City Manager/Budget Director