

<b>2010-2011 ANNUAL REPORT</b>
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## GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2010-2011 General Fund revenue collections as compared with the modified budget estimates:

**TABLE A  
2010-2011 GENERAL FUND REVENUE SUMMARY  
COMPARISON OF BUDGET TO ACTUAL  
(\$000s)**

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	\$ 194,909	\$ 194,814	\$ (95)	0.0%
Sales Tax	138,756	137,970	(786)	-0.6%
Telephone Tax	20,725	20,643	(82)	-0.4%
Transient Occupancy Tax	6,684	7,222	538	8.0%
Franchise Fees	41,556	41,273	(283)	-0.7%
Utility Tax	87,832	87,885	53	0.1%
Licenses and Permits	75,526	76,694	1,168	1.5%
Fines, Forfeitures, and Penalties	17,110	17,926	816	4.8%
Use of Money and Property	3,542	3,631	89	2.5%
Revenue from Local Agencies	45,772	44,075	(1,697)	-3.7%
Revenue from the State of California	18,064	17,797	(267)	-1.5%
Rev. from State Govt. - Recovery Act	404	129	(274)	-67.8%
Revenue from Federal Government	10,121	5,844	(4,277)	-42.3%
Rev. from Fed. Govt. - Recovery Act	10,955	3,488	(7,466)	-68.2%
Departmental Charges	31,456	32,149	693	2.2%
Other Revenue <sup>1</sup>	92,690	92,573	(117)	-0.1%
Subtotal	796,102	784,113	(11,987)	-1.5%
Overhead Reimbursements	34,303	34,480	177	0.5%
Transfers	41,395	41,452	56	0.1%
Reimbursements for Services	16,354	16,125	(229)	-1.4%
Subtotal	92,052	92,057	4	0.0%
<b>TOTALS<sup>2</sup></b>	<b>\$ 888,154</b>	<b>\$ 876,170</b>	<b>\$ (11,984)</b>	<b>3 -1.3%</b>

<sup>1</sup> Incorporates revenues of \$244,240 from the Special Services Assessment Revolving Fund which were previously reflected in an unbudgeted fund.

<sup>2</sup> Excludes Beginning Fund Balance

<sup>3</sup> After adjusting for \$12.9 million of grant and reimbursement related revenues not received in 2010-2011 but rebudgeted to 2011-2012 as part of the 2011-2012 Adopted Budget, the revenue variance actually resulted in a surplus of \$873,000 (0.1%). For these grant revenues, corresponding General Fund expenditure savings were also realized in 2010-2011, with a net zero impact on the General Fund Ending Fund Balance.

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## GENERAL FUND REVENUE PERFORMANCE

The General Fund revenue performance for 2010-2011 is discussed in detail in this section. The 2010-2011 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 2010-2011 was \$876.2 million. This collection level fell below the 2010-2011 Modified Budget level by \$12.0 million, or 1.3%. This negative variance, however, was due to lower collections from various grants and reimbursements that were not received in 2010-2011 and were rebudgeted to 2011-2012 in the 2011-2012 Adopted Budget (\$12.9 million). After adjusting for grant and reimbursement related revenues not received in 2010-2011 but rebudgeted to 2011-2012, revenues actually ended the year \$873,000 (0.1%) above the budgeted estimates for over 500 revenue accounts monitored and budgeted annually.

The 2010-2011 collection level of \$876.2 million was up \$93.6 million (12.0%) from the actual 2009-2010 collections (\$782.6 million). The majority of this increase was due to the issuance of Tax Revenue Anticipation Notes (TRANS) of \$75 million for cash flow purposes in 2010-2011. Excluding this transaction, revenues were slightly above the 2009-2010 levels by \$18.6 million (2.4%). The categories that experienced the largest increases included: Sales Tax, Licenses and Permits, Revenue from the State of California, and Departmental Charges. Increases in those categories were partially offset by lower collections in the Property Tax, 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 2010-2011 fiscal year totaled \$194.8 million. This collection level was only \$100,000 below the budgeted estimate of \$194.9 million, and represented a decline of 3.7% from 2009-2010 actuals of \$202.2 million. This marks the second year in which Property Tax receipts have dropped from the prior year, with revenue down 7.6% from the 2008-2009 collection level of \$210.8 million. Following is a discussion of the major Property Tax components.

- **Secured Property Tax** – Receipts in this category of \$181.7 million were less than 1% (\$400,000) below the 2010-2011 Modified Budget estimate of \$182.1 million. Collections in this category have decreased for the last two years, with a decline of 2.2% (\$4.1 million)

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## GENERAL FUND REVENUE PERFORMANCE

### Property Tax (Cont'd.)

from the 2009-2010 actuals of \$185.8 million and a decline of 5.6% from the 2008-2009 actuals of \$192.3 million. Receipts in 2010-2011 were based on the property tax roll as of January 1, 2010, with any tax roll corrections incorporated into final collection totals. During 2010-2011, tax roll corrections county-wide reduced the tax levy by approximately 2%. In addition, Property Tax collections were impacted by the drop in the California Consumer Price Index (CCPI). Under Proposition 13, which was approved by the voters in 1978, assessed values of all real property adjust with the 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 2010-2011 tax roll was a decrease of 0.237%.

In the 2011-2012 Adopted Budget, Secured Property Tax receipts are estimated at \$183.6 million, based on the assumption that collections would increase 1% from the 2010-2011 projected collection level. This projected increase is the net result of three factors: the increase in the CCPI and the anticipated increase in residential valuation, partially offset by a reduction in commercial valuation. The CCPI adjustment for the 2011-2012 tax roll is an increase of 0.753%. Based on actual 2010-2011 collections and the latest information from the County of Santa Clara, Secured Property Tax receipts for 2011-2012 are estimated at \$183.3 million, or 0.9% above the 2010-2011 collection level. To reflect this slightly lower estimate, a downward adjustment of \$327,000 to this revenue estimate is recommended as part of the 2010-2011 Annual Report actions.

- **SB 813 Property Tax** – The SB 813 Property Tax component represents the retroactive taxes on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. In 2010-2011, receipts of \$1.1 million fell 26.7% below the modified budget of \$1.5 million, were down 63.0% from 2009-2010 (\$3.0 million) and down 80.6% from 2008-2009 collections (\$5.7 million). This continued decline was expected given the general weakness in the housing market and the actions by the County of Santa Clara Controller's Office to process a substantial backlog of refunds. When the 2011-2012 Adopted Budget was developed, it was assumed that collections would return to the level experienced during 2009-2010 of \$3.0 million. However, based on the latest information from the County of Santa Clara, 2011-2012 receipts are projected at \$2.3 million. A downward adjustment of \$656,000 to this category is recommended as part of the 2010-2011 Annual Report to reflect this lower estimated collection level.
- **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 \$10.9 million in 2010-2011 were \$692,000 (6.8%) above the 2010-2011 Modified Budget of \$10.2 million, but \$1.4 million (11.4%) below collection levels in 2009-2010 (\$12.3 million). Revenues in this category have proved to be continually volatile over the last decade, with growth in this category dependant primarily on increases in the value of

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## GENERAL FUND REVENUE PERFORMANCE

### Property Tax (Cont'd.)

personal property. In the 2011-2012 Adopted Budget, the revenue estimate was set at \$11.5 million based on a 5% growth factor applied to the estimated 2010-2011 collection level. Based on the most recent estimates provided by the County of Santa Clara, collections in this category are projected at \$11.1 million for 2011-2012, an increase of 1.8% over the 2010-2011 actual receipts, but less than the level assumed in the 2011-2012 Adopted Budget. A downward adjustment of \$346,000 to this category is recommended as part of the 2010-2011 Annual Report actions to reflect this lower estimate.

- **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 2009-2010 actual collections. A \$30,000 reduction to the 2011-2012 revenue estimate is recommended to reflect the latest projection from the County of Santa Clara, bringing the budget down from \$1.1 million to \$1.07 million.

As described above, a downward adjustment of \$1.4 million to the 2011-2012 Property Tax revenue estimate is recommended as part of the 2010-2011 Annual Report actions. The City's Property Tax performance will be closely monitored in 2011-2012 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.

### Sales Tax

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax. Overall Sales Tax collections for 2010-2011 of \$138.0 million were 0.6% (\$786,000) below the 2010-2011 Modified Budget, but represent an 8.4% increase from collections in 2009-2010 (\$127.2 million). Following is a discussion of the two Sales Tax components:

- **General Sales Tax** – In the General Sales Tax category, collections of \$133.9 million fell below the modified budget estimate of \$135.0 million, but were 8.6% above the 2009-2010 collection level of \$123.3 million. Prior to 2010-2011, collections in this category had experienced two years of declines from \$149.5 million in 2007-2008 to \$127.8 million in 2008-2009 and to \$123.3 million in 2009-2010.

The 2010-2011 actual General Sales Tax figure of \$133.9 million reflects performance for the first three quarters of 2010-2011, during which growth of 11.7% (1<sup>st</sup> quarter), 10.4% (2<sup>nd</sup> quarter) and 3.5% (3<sup>rd</sup> quarter) was experienced, as well as estimated growth of approximately 1% for the last quarter combined with prior year true-up adjustments.

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**GENERAL FUND REVENUE PERFORMANCE**

**Sales Tax (Cont'd.)**

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 2010-2011 based on the 1% growth projection. Since the accrual was processed, preliminary Sales Tax data for the fourth quarter have become available and shows an actual increase of 11.7%. While details by economic sector for the last quarter's performance are not yet available, this higher growth rate generated an additional \$2.6 million in revenue.

The City's Sales Tax consultant, MuniServices, LLC, has provided economic performance data for the four quarters ending March 2011, as displayed in the chart below. This analysis measures sales tax receipts, excluding state and county pools, and adjusts for anomalies, payments to prior periods, and late payments.

**Sales Tax Revenue Economic Performance  
April 2010 – March 2011**

<b>Economic Sector</b>	<b>% of Total Revenue</b>	<b>% Change from April 2010 – March 2010</b>
General Retail	28.0%	6.2%
Business to Business	24.5%	2.6%
Transportation	21.7%	12.1%
Food Products	15.6%	12.1%
Construction	9.5%	11.0%
Miscellaneous	0.7%	- 5.9%
<b>Total</b>	<b>100.0%</b>	<b>8.5%</b>

As a result of this recent performance, an increase to the 2011-2012 General Sales Tax budget estimate of \$6.2 million is recommended as part of the 2010-2011 Annual Report actions to recognize the additional revenue generated from the fourth quarter 2010-2011 (\$2.6 million) and higher estimated collections based on the adjusted starting point for 2011-2012 (\$3.6 million). This adjustment will allow for 2% economic growth in 2011-2012 over the actual 2010-2011 collections. This growth rate is lower than the 3.5% increase assumed with the 2011-2012 Adopted Budget was developed. However, given the stronger performance in 2010-2011, which establishes a higher base from which to measure growth, and the current economic uncertainty, the 2% growth factor is believed to be more prudent at this time. With this adjustment, the 2011-2012 General Sales Tax estimate will be \$143.0 million, which is 6.8% above the 2010-2011 year-end figure of \$133.9 million. This increase reflects the one-time prior year adjustments and true-up payments as well as the 2% underlying economic growth. Additional adjustments may be brought forward during 2011-2012 based on actual performance. Data for the first quarter of 2011-2012 (July – September activity) will not be available until December 2011.

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### Sales Tax (Cont'd.)

- **Proposition 172 Half-Cent Sales Tax** – Receipts of \$4.1 million were up 7.5% compared to the 2010-2011 budgeted estimate of \$3.8 million and up 4.1% when compared to the 2009-2010 collection level of \$3.9 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 2010-2011, Telephone Line Tax collections of \$20.6 million fell 0.4% (\$82,000) below the budgeted estimate of \$20.7 million, but increased slightly from 2009-2010 levels (0.7%, \$143,000).

### Transient Occupancy Tax

In 2010-2011, receipts of \$7.2 million for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) exceeded the modified budget estimate of \$6.7 million by 7.5% and increased 4.7% from the 2009-2010 collection level of \$6.9 million. The higher than budgeted 2010-2011 revenue is due to the average occupancy rate for the City's 14 largest hotels climbing from 55.9% to 59.8%, and a \$4 increase in the average room rate for these hotels (from \$117 to \$121).

The 2011-2012 budget assumed approximately 2.0% growth from the 2010-2011 estimate at the time the budget was developed. Because the actual 2010-2011 receipts were above this estimate, the \$7.2 million 2011-2012 budget now allows for a 0.3% decline from the 2010-2011 level. Given the current uncertain economic outlook and the possibility of temporary negative impacts from the Convention Center expansion construction project, no adjustment to this revenue category is recommended at this time.

### Franchise Fees

Franchise Fee collections of \$41.3 million were slightly below (-0.7%) the 2010-2011 Modified Budget level of \$41.6 million, but were 7.5% above the 2009-2010 collection level of \$38.4 million.

Significant increases in the Electric, Gas, and Cable Television Franchise Fees were partially offset by slight decreases in the City's General Tow and Commercial Solid Waste Franchise Fees. Following is a discussion of the major Franchise Fee components:

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### Franchise Fees (Cont'd.)

- **Electric and Gas Franchise Fees** – For 2010-2011, collections were based on activity that occurred during calendar year 2010. Electric Franchise Fees collections of \$17.7 million were less than 1.0% or \$148,000 below the 2010-2011 Modified Budget level of \$17.8 million and 14.2% above the 2009-2010 collection level of \$15.5 million. Gas Franchise Fees of \$4.5 million ended the year at the budgeted estimate and 14.3% above the 2009-2010 collection level primarily as a result of increased gas prices.
- **Commercial Solid Waste Franchise Fee (CSW)** – Collections of \$9.5 million were 0.9% below the 2010-2011 Modified Budget estimate of \$9.6 million and 4.2% below the prior year collection level of \$9.9 million. This category has experienced declines in each of the last four years, dropping from \$12.5 million in 2006-2007 to \$9.5 million in 2010-2011. The declining revenues are attributed to an increase in recycling as well as the impacts from the steep economic downturn. In the 2011-2012 Adopted Budget, the revenue estimate for this category was set at \$9.6 million, based on the estimated 2010-2011 collection level when the Adopted Budget was developed. A downward adjustment of \$400,000 to the 2011-2012 revenue estimate is recommended based on the actual performance for 2010-2011, allowing for a 3.2% decline from 2010-2011 actual levels. Effective July 2012, 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. Starting next year, the new fee will be set at \$5 million per year for each of two geographic collection districts, each to be served by one franchise, and will be subject to an annual consumer price index adjustment.
- **Cable Television Franchise Fees** – Actual 2010-2011 collections ended the year at the budgeted estimate of \$8.4 million and were 10.3% above the 2009-2010 collection level of \$7.6 million. This increase is partially attributable to cable provider rate increases.
- **City-Generated Tow, Water, and Nitrogen Gas Pipeline Franchise Fees** – Receipts in these categories were relatively consistent with the budgeted estimates but varied from 2009-2010 collection levels. City-Generated Tow Franchise Fee receipts of \$1.0 million met the budget estimate, but were 16.7% below the prior year collection level of \$1.2 million. Water Franchise Fee collections of \$209,000 were 1.0% above the budget estimate of \$207,000, but 8.3% below the prior year collection level of \$228,000. Nitrogen Gas Pipeline Franchise Fee receipts of \$55,000 were above the budgeted estimate of \$50,000 and the 2009-2010 collection level of \$48,000.

### Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$87.9 million were 0.1% above the 2010-2011 Modified Budget level of \$87.8 million and 0.1% above (\$200,000) the 2009-2010 actual level of \$87.7 million.

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### Utility Tax (Cont'd.)

- **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 3.2% above the 2009-2010 level of \$37.9 million. Gas Utility Tax collections of \$8.7 million were at the 2010-2011 Modified Budget estimate and 1.2% above the 2009-2010 collection level of \$8.6 million. The variance in revenue collections was due to a combination of various rate changes and consumption levels throughout the year.
- **Water Utility Tax** – Receipts in this category of \$8.6 million were 4.4% below the modified budget level of \$9.0 million and 1.1% below the 2009-2010 collection level of \$8.7 million despite a January 2011 rate increase of 3.1%.
- **Telephone Utility Tax** – Collections of \$31.5 million in this category were slightly (1.6%) above the modified budget level of \$31.0 million and 3.1% below (\$1.0 million) the prior year collection level of \$32.5 million. The decline from the prior year primarily reflects a combination of continuing migration from land-line service to less-expensive wireless service, intense price competition among wireless service providers, and increased use of service plans that bundle voice service with data service, which qualifies for a federal exemption from the Telephone Utility Tax.

### Licenses and Permits

Revenues in this category include the Cardroom Tax, Business Tax, Disposal Facility Tax, Fire Permits, Building Permits, and various other health and public safety permits and licenses. Overall, Licenses and Permits collections of \$76.7 million were 1.5% above the modified budget level of \$75.5 million and 16.2% above (\$10.7 million) the 2009-2010 collection level of \$66.0 million. The significant increase over the prior year is a result of substantial growth in the Cardroom Tax, Business Tax, Fire Permits, and Building Permits categories, partially offset by lower collections in the Disposal Facility Tax category. Following is a discussion of the major Licenses and Permits components:

- **Cardroom Tax** – Collections in this category reflect the gross receipts tax collected from the two cardrooms located in San José. Effective August 13, 2010, with the approval of the Cardroom Tax Ballot measure by voters in June 2010, the Cardroom Tax rate increased from 13% to 15% and increased the maximum number of card tables from 80 to 98. Receipts of \$14.8 million ended the year above (1.8%) the modified budget estimate of \$14.5 million and 18.2% above the prior year actual level of \$12.5 million. While receipts ended the year \$2.2 million above the prior year, this collection level fell short of the original growth estimate of \$5.0 million associated with the ballot measure.



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**Licenses and Permits (Cont'd.)**

- **Business Tax** – Collections of \$10.9 million in this category are consistent with the modified budget estimate and on par with the 2009-2010 collection level of \$10.9 million. The lack of growth in Business Tax receipts for 2010-2011 reflects the relatively weak economic recovery.
- **Marijuana Business Tax** – On November 2, 2010, San José voters approved Measure U, which permits the City to impose a gross receipts business tax on all marijuana businesses in the City. Effective March 1, 2011, the Marijuana Business Tax (“MBT”) rate set by the City Council is 7% of gross receipts. The partial year MBT revenues totaled \$1.2 million, which was 9.1% above the budgeted estimate of \$1.1 million. Currently, there are in excess of 105 marijuana collectives with Business Tax Certificates in San José. As regulations approved by the City Council are implemented to reduce the number of collectives, it is anticipated that monthly revenues will decline in 2011-2012. The 2011-2012 revenue estimate of \$2.5 million accounts for that potential reduction. Actual receipts in 2011-2012 will be closely monitored to determine if adjustments are necessary during the year.
- **Disposal Facility Tax** – Collections of \$11.1 million ended the year slightly above the budgeted estimate of \$11.0 million and 4.4% below the 2009-2010 collection level of \$11.6 million. Similar to the Commercial Solid Waste Franchise fees, collections in this category have declined in each of the past four years from \$14.7 million in 2006-2007 to \$11.1 million in 2010-2011. Revenue from the Disposal Facility Tax is impacted by the economy, waste exports, and waste diversion. In the 2011-2012 Adopted Budget, the revenue estimate for this category is set at \$10.9 million, based on the assumption that receipts would drop 3.5% from the 2010-2011 estimated collection level of \$11.3 million assumed at the time the budget was developed. A downward adjustment of \$200,000 to the 2011-2012 revenue estimate is recommended as part of the 2011-2012 Annual Report actions based on the actual performance for 2010-2011. The revised 2011-2012 estimate of \$10.7 million would allow for a 3.6% decline from the actual 2010-2011 collection level.
- **Fire Permits** – Fire Fee receipts of \$8.0 million at year-end were 7.9% below the estimate of \$8.7 million, but 15.0% above the prior year level of \$6.8 million. The original 2010-2011 estimate of \$7.1 million was built assuming a slight increase of activity levels from the previous year. However, an upward adjustment of \$1.2 million to the Development revenue estimate, as well as an upward adjustment of \$404,000 to the Non-Development revenue estimate, were approved in the 2010-2011 Mid-Year Budget Review to reflect an increase in activity in both programs.

Non-Development revenue of \$3.4 million from Annual Renewable Permits, Non-Renewable Permits and Inspections, and other Miscellaneous activities were well below (24.5%) estimated levels of \$4.6 million. Combined revenues of \$527,000 from non-renewable

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### Licenses and Permits (Cont'd.)

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 \$87,000 (19.7%) higher than budgeted levels and \$186,000 (54.7%) higher than prior year's year-end revenue of \$341,000. However, annual renewable permits revenue of \$2.9 million was 29.3% (\$1.2 million) lower than estimated and \$500,000 (15.6%) lower than the prior year's year-end revenue. This is mainly due to a bad debt write-off of \$1.0 million at the end of 2010-2011, and \$200,000 less in estimated revenue from Santa Clara's County's Hazardous Materials Certified Unified Program (CUPA) due to the transfer of the administration of the program from the City to the County.

Development revenues from Architectural Plan Check and Inspection, Engineering Systems (Alarms and Sprinklers) Permits and Inspections, and Miscellaneous revenues ended the year at \$4.6 million, above the modified revenue estimate of \$4.2 million. As discussed above, in the 2010-2011 Mid-Year Budget Review, the budgeted Development revenue of \$3.0 million was adjusted upward to align with increases in development activity. Because year-end collections exceeded the modified budget estimate, an increase to the Fire Fee Reserve of \$333,000 is recommended as part of this document. When combined with the Fire Department Fee Program expenditure savings and interest earnings of \$218,000, the Fire Fee Program Reserve is recommended to be increased by a total of \$551,000.

A portion of the savings in the Fire Fee Program (\$84,000) is recommended to be transferred from the Fire Fee Program Reserve to the Building Fee Reserve. This action will reimburse the Building Fee Program for partially funding a Hazardous Materials Inspector position in the Fire Department to staff a second Special Tenant Improvement/Industrial Tool Installation (STI/ITI) line that was approved in 2010-2011. In addition, adjustments to the estimated Retirement and Unemployment rates for 2011-2012, as directed in the City Council approved Mayor's June Budget Message for Fiscal Year 2011-2012, generated additional savings to the Fire Fee Program. An additional \$36,000 (\$19,000 for Retirement and \$18,000 for Unemployment) are recommended to be transferred to the Fire Fee Program Reserve to reflect those savings.

- **Building Permits** – Receipts of \$22.4 million ended the year 6.7% (\$1.4 million) above the modified budget estimate of \$21.0 million and 37.4% above the prior year level of \$16.3 million. As identified in Bi-Monthly Financial Reports and the Mid-Year Budget Review, Building Permit revenues in the first half of 2010-2011 were above anticipated levels primarily due to a surge in residential permit activity in December 2010. In recognition of increased permit revenues, the budget estimate was increased by \$5.3 million during 2010-2011.

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### Licenses and Permits (Cont'd.)

A total of 2,208 residential units received permits in 2010-2011, with a valuation of \$386.9 million, up from \$149.3 million in 2009-2010. It should be noted that the building permit revenue associated with new residential permits more than doubled last year's level, primarily from a surge in permit valuation in December 2010 as a result of two new housing developments in the North San José area. Commercial valuation was at approximately \$225.0 million, which was 16.6% below last year's level. The number of projects requiring plan check was 5,654 in 2010-2011, an increase of approximately 12% from 5,049 from the prior year. The total number of building inspections conducted in 2010-2011 was 93,999, increasing approximately 8.3% from 86,825 inspections during the previous year.

This document includes a recommendation to increase the Building Fee Reserve from \$7.7 million to \$9.6 million, an increase of \$1.9 million. This funding was derived from a combination of revenue surplus in 2010-2011 (\$1.4 million), expenditure savings in 2010-2011 (\$266,000), a positive adjustment related to a year-end reconciliation of retirement and unemployment contributions (\$172,000), and a reimbursement from the Fire Fee Program for Hazard Materials Inspector position to staff a second Special Tenant Improvement/Industrial Tool Installation (STI/ITI) line (\$85,000).

### 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 \$17.9 million in this category were 4.8% above the modified budget estimate of \$17.1 million and up 11.9% from the prior year collection level of \$16 million.

Parking fines, the largest component of this revenue category, ended the year at \$11.7 million. This collection level slightly exceeded the modified estimate of \$11.3 million (3.4%) and increased 14.8% from the 2009-2010 collection level of \$10.2 million. A portion of this increase was due to State-mandated fine increases implemented mid-way through 2010-2011 and a portion 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.

Municipal Code and Vehicle Code Fines ended the year at \$4.0 million, which was 3.7% above the modified budget estimate of \$3.8 million and was 1.6% above the 2009-2010 collections of \$3.9 million. The City also received \$1.1 million from Business Tax Penalties, 6.0% above the modified budget estimate of \$1.0 million, but 9.8% below the prior year collections of \$1.2 million. False Alarm fines totaled \$462,000, exceeding both the modified budget estimate of \$345,000 and the prior year collection level of \$222,000.

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### 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 \$3.6 million ended the year slightly above the modified budget level of \$3.5 million and the prior year collection level of \$3.2 million. Rental income (\$2.3 million) and subrogation revenues (\$1.1 million) exceeded both the budgeted estimates and the prior year collection levels, while interest income (\$0.3 million) fell below the prior year and budgeted levels. A settlement of a workers' compensation claim resulted in the large increase in subrogation recovery. In addition, the City's pre-payment of the City's contribution to its two retirement plans in July 2010, and lower levels of earmarked reserves resulted in a significantly low cash balance. The net investment yield in the General Fund also dropped from 1.59% in 2009-2010 to 0.55% in 2010-2011. The yield is down from 3.02% in 2008-2009.

### 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 for City staff and overhead costs from the San Jose Redevelopment Agency (SJRA); the reimbursement from the SJRA for payment of the Convention Center debt service and eligible capital expenditures (which enables the City to fund the San José BEST Program); 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 \$44.1 million in the Local Agencies category ended the year below the budgeted estimate of \$45.8 million, with a negative variance of 3.7%. This collection level is 8.3% below the \$48.1 million collected in 2009-2010. Reimbursements of \$29.3 million from the SJRA fell below the budgeted estimate by \$672,000, but this shortfall was offset by expenditure savings. The SJRA reimbursements also fell \$4.5 million (13.4%) below the 2009-2010 level due primarily to budget re-balancing actions brought forward as part of the 2010-2011 Adopted Budget and during 2010-2011 to help to address the financial difficulties faced by the SJRA. In 2010-2011, the Central Fire District payment of \$5.2 million was 1.8% above the modified budget estimate of \$5.1 million, but fell 13.8% below the prior year collection level of \$6.0 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 reflects reduced property tax revenues in 2010-2011. The payment of \$1.7 million from the County for the City's Paramedic Program was slightly below both the budgeted estimate and prior year collection level of \$1.8 million. Lastly the CAL-ID program and Automated Finger Information System reimbursements of \$3.5 million fell \$844,000 below the budget estimate of \$4.3 million. This variance was anticipated and revenues were rebudgeted as part of the 2011-2012 Adopted Budget.

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### Revenue from the State of California

The major State revenues include Motor Vehicle In-Lieu Fees, Airplane In-Lieu Fees, and State Grants. Revenue from the State of California of \$17.8 million ended the year 1.5% below the modified budget estimate of \$18.1 million, but 52.1% above the prior year actual level of \$11.7 million. The variance from the modified budget estimate was due primarily to lower than estimated Motor Vehicle In-Lieu payments.

Motor Vehicle In-Lieu payments totaled \$2.5 million in 2010-2011, which tracked 8.7% below the modified budget of \$2.8 million and 23.3% below the prior year collection level of \$3.3 million. Included in this report is a recommendation to eliminate the 2011-2012 revenue estimate for Motor Vehicle In-Lieu payments of \$2.8 million to reflect the recent State approved bill (SB 89), which eliminated these payments beginning in 2011-2012 as a State Budget balancing action. In 2011-2012, this ongoing revenue loss will be partially offset by an adjustment to recognize a one-time Motor Vehicle In-Lieu true-up payment of \$2.1 million that accounted for underpayments in prior years (2006-2007 through 2009-2010). Currently, in response to this take, as outlined in a memo from the Executive Director of the League of California Cities, Chris McKenzie, "the League board of directors unanimously approved filing a lawsuit against the State to challenge the last-minute...legislation that diverted \$130 million in Motor Vehicle In-Lieu funds from cities in connection with the State budget" as of September 29, 2011. The petition filed in Sacramento County Superior Court asks that the State allocate the VLF as outlined under law as it existed prior to SB 89 and AB 118. This issue will continue to be monitored closely as this matter progresses.

Airplane In-Lieu collections of \$2.4 million ended the year at the modified budget estimate and 39.0% below the 2009-2010 collection level of \$4.0 million. This drop in revenue was due to the re-basing of a number of high-value aircraft to airfields outside of the City's jurisdiction. The Airplane In-Lieu revenue category has been moved to the Property Tax category in the 2011-2012 Adopted Budget.

State grants and reimbursements totaled \$2.6 million, which was at the modified budget estimate. This was the result of many variances both up and down in grant reimbursements. Major variances include: higher than anticipated 911 Emergency Communication Reimbursements of \$753,000 (201.2% above the budgeted estimate of \$250,000); no reimbursement for the CAD Network Upgrade compared to the budgeted estimate of \$480,000; and lower 2010-2011 Driving Under the Influence Enforcement and Awareness Grant revenues of \$246,000 (35.7% lower than the budgeted estimate of \$382,000). Included in the 2011-2012 Adopted Budget were the rebudget of revenues for various State grants in the amount of \$1.1 million to account for the anticipated receipt in 2011-2012 of revenues that were not received in 2010-2011. Included in this report are recommendations to adjust previous rebudgets based on actual year-end performance, as described in Section III.

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## GENERAL FUND REVENUE PERFORMANCE

### Revenue from the Federal Government

The revenue in this category is generated by various federal grants and reimbursements. In 2010-2011, Revenue from the Federal Government of \$5.8 million was 42.3% below the modified budget estimate of 10.1 million but 14.0% above the 2009-2010 collection level of \$5.1 million. A portion of these grants (\$2.8 million) was rebudgeted to 2011-2012 as part of 2011-2012 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 III 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 2010-2011, ARRA Revenue from the Federal Government of \$3.5 million was \$7.5 million below the modified budget estimate of \$11.0 million. However, \$7.7 million of these grants was rebudgeted to 2011-2012 as part of the 2011-2012 Adopted Budget. This rebudget amount, however, 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 grants based on actual performance, as described in Section III 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. Collections of \$32.1 million for Departmental Charges were 2.2% above the modified budget estimate of \$31.5 million and were above the 2009-2010 collection level of \$27.3 million (17.8%). A brief description of the performance in each of the departmental fee categories is provided below.

- **Library Departmental Fees** – Collections of \$1.4 million ended the year 27% below the modified budget estimate of \$1.9 million and 13% below the 2009-2010 receipts of \$1.6 million. The decreased revenue in 2010-2011 was due to lower fine revenue received, reflecting the reduction in hours at the Martin Luther King, Jr. Library and branch libraries, in addition to service improvements for the online renewal of materials.
- **Parks, Recreation, and Neighborhood Services (PRNS) Departmental Fees** – Collections of \$13.7 million ended the year slightly below (1.2%) the modified budget estimate of \$13.8 million. This differential was more than offset by lower than expected spending in activities supported by this revenue. This collection level was 24% above the prior year level of \$11.0 million due primarily to increased revenues from Happy Hollow Park and Zoo,

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**Departmental Charges (Cont'd.)**

reflecting a full year of operation of this facility. PRNS Fee Activities revenue (\$5.8M), Parking revenue (\$1.4M), and Facility Rentals revenue (\$0.7M) performances are the highest on record.

- **Planning Departmental Fees** – Collections of \$2.6 million ended the year 4.0% above the modified budget estimate of \$2.5 million, but 2.6% below the prior year level of \$2.7 million. As identified in the Bi-Monthly Financial Reports and the Mid-Year Budget Review, Planning Fee revenue throughout 2010-2011 was slightly above anticipated levels. In recognition of increased revenues, budget estimates were slightly increased. Even with the adjustments to the revised budget estimate, actual collections collected were above the revised budget estimate. Fee categories with significantly higher than anticipated revenues include Non-Residential Environmental Clearance, Non-Residential Conditional Use Permits, and Public Noticing, offset by several fee categories that fell below budgeted levels and include: Residential and Non-Residential General Plan Amendments, and Residential and Non-Residential Planned Development Rezoning/Rezoning. This document includes a recommendation to increase the Planning Fee Reserve from \$677,000 to \$1.2 million, an increase of \$558,000. This funding was derived from a combination of a revenue surplus of \$103,000 in 2010-2011, expenditure savings of \$436,000, and a positive \$20,000 adjustment related to a year-end reconciliation of retirement and unemployment contributions.
  
- **Police Departmental Fees** – Collections of \$1.74 million at year-end were 9.2% (\$176,000) below the modified budget estimate of \$1.92 million and 10.2% (\$198,000) below actual collections of \$1.94 million in 2009-2010. This variance is primarily due to lower collections of Vehicle Impound Release fees (\$251,000), State Reimbursements for Police Extraditions (\$37,000), Miscellaneous Bureau of Administration/Bureau of Investigations Revenue (\$28,000), Towing Service Dispatch (\$27,000), and Photostat (Police Records/Reports) (\$15,000). The lower collections are partially off-set by higher collections in Police Officer Standards Training (POST) (\$90,000), Restitution Permits/City Probation (\$64,000), Reimbursements for Police Officers Attending Court (\$15,000), and Miscellaneous Police Revenue (\$12,000). The 2010-2011 budgeted estimate assumed a higher level of revenue collection from Vehicle Impound Release fees, State Reimbursement for Police extraditions, Miscellaneous Bureau of Administration/Bureau of Investigations Revenue, Towing Service Dispatch, and Photostat (Police Records/Reports) based on prior year collection trends and fee revisions approved for 2010-2011 to maintain cost recovery. However, as a result of lower than anticipated activity levels in these areas, collections fell below budgeted estimates.

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## GENERAL FUND REVENUE PERFORMANCE

### Departmental Charges (Cont'd.)

- **Public Works Departmental Fees** – Collections of \$5.7 million ended the year 11% above the modified budget estimate of \$5.1 million and almost 35% above the \$4.2 million collected in 2009-2010. Revenues in utility excavations, non-residential engineering, residential and non-residential underground service alert locating, utilities, erosion and sediment control, underground service alert locating, residential streetlight and signal design and inspection, planned development rezonings, private streets engineering, and grading permits categories all performed at higher than estimated levels. However, this performance was offset by lower than anticipated collections for residential engineering, geological control application fees, non-residential streetlight design, non-residential signal and streetlight inspection, traffic reports, site development permits development review, and conditional use permits development review categories. The revenue surplus of \$535,000 in 2010-2011 in the Development Fee Program combined with the expenditure savings of \$530,000 and interest earnings attributed to the program of \$7,000 results in a recommendation in this report to increase Public Works Development Fee Program Earmarked Reserve by \$1.1 million from \$1.2 million to \$2.3 million.
- **Transportation Departmental Fees** – Collections of \$1.1 million ended the year \$317,000 or 40.7% above the modified budget estimate of \$779,000 and 10.6% (\$105,000) above the \$991,000 collected in 2009-2010. Collections exceeded the modified level due primarily to higher than budgeted collection of development fees (\$102,000), sidewalk repair fees (\$60,000), special event fees (\$34,000) and residential permit parking fees (\$23,000). Other categories ended the year with slight positive or negative variances.
- **Miscellaneous Departmental Fees and Charges** – Collections of \$5.9 million ended the year 10.7% above the modified budget estimate of \$5.3 million and was 23.9% above the prior year actual level of \$4.8 million. The Solid Waste Enforcement fee, which is the largest component of this category, ended the year at \$3.5 million, which was 1.2% above the modified budget estimate and 23.4% above the prior year collection level of \$2.9 million.

### Other Revenue

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue receipts of \$92.6 million were 0.1% below the budgeted estimate of \$92.7 million and 242.6% above the 2009-2010 collection level of \$27.0 million. The primary reason for the significant increase from 2009-2010 is the \$75.0 million in borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes in July (\$40.0 million) and October (\$35.0 million) 2010. There were a number of individual line items with positive or negative variances to the modified budget. The lines items with the largest negative variances included: the Silicon Valley Energy Watch grant (\$339,000); Vendor Audit Pilot Program revenue (\$200,000); Parades Celebrations Cost Reimbursement for the Office of Economic



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## GENERAL FUND REVENUE PERFORMANCE

### Other Revenue (Cont'd.)

Development (\$200,000); and Tree Maintenance Activities (\$333,000). These were offset with positive variances including: SB 90 State reimbursements for mandated services (up \$151,000), Comcast PEG Access Capital (up \$293,000); Willow Senior Center Fire Damage (up \$362,000), Miscellaneous City-Wide Revenues (up \$139,000).

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 III of this report.

### Transfers and Reimbursements

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall collections ended the year at \$92.1 million, which was at the 2010-2011 budgeted estimate. This was realized as a result of higher than budgeted estimated Overhead Reimbursements and Transfers offset by lower than estimated Reimbursements for Services.

- **Overhead Reimbursements** – Payments from other funds for overhead costs of \$34.5 million ended the year 0.5% above the modified budget estimate of \$34.3 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 by higher than anticipated collections from various capital funds (e.g., Branch Libraries Bond Fund, Neighborhood Securities Bond Fund, and the San José/Santa Clara Treatment Plant Capital Fund,) based on actual activity levels.
- **Transfers** – Revenue from the Transfers category of \$41.5 million ended the year slightly above the modified budget level of \$41.4 million (0.1%). The transfer from the Construction and Conveyance Tax Fund to the General Fund of \$2.1 million was \$135,000 higher than estimated based on slightly higher Construction and Conveyance Tax receipts. The General Fund receives 15% of the Parks C&C Tax receipts to support parks maintenance activities.
- **Reimbursement for Services** – Collections of \$16.1 million in the Reimbursements for Services category were 1.4% below the modified budget level of \$16.4 million. The negative variance of \$228,000 was due to lower than budgeted reimbursement for the Deferred Compensation Program (\$146,000), which was accompanied by expenditure savings, and the lack of reimbursement from the Maintenance Assessment District Funds (\$125,000), which was the result of an error. Budget actions are recommended in this document to correct for this error and reimburse the General Fund for the services provided.

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### Summary

In 2010-2011, total revenues received by the General Fund of \$876.2 million were lower than the modified budget level by \$12.0 million or 1.3%. After adjusting for \$12.9 million of grant and reimbursement related revenues not received in 2010-2011, but rebudgeted to 2011-2012 as part of the 2011-2012 Adopted Budget, revenues actually ended the year \$873,000 (0.1%) above the budgeted estimate. This is an extremely small variance given the diversity of the over 500 City revenues and the overall size of the General Fund. The \$876.2 million of 2010-2011 revenue represents a significant increase of \$93.6 million (up 12%) from the actual 2009-2010 collections (\$782.6 million). As described in this section, the primary reason for this increase is the \$75 million in borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANS) issued for cash flow purposes in July (\$40 million) and October (\$35 million) 2010. Adjusting for the TRANS issuance, General Fund revenues in 2010-2011 totaled \$801.2 million, an increase of \$18.6 million (2.4%) from the 2009-2010 level.

The 2010-2011 revenue estimates were built on the assumption that the slow pace of recovery from the economic recession would continue to impact the City's economic performance. Actual performance in 2010-2011 was consistent with this general assumption. Some revenue categories, such as Property Tax and Construction and Conveyance Tax, continued to be impacted by the downturn; while other categories, such as Sales Tax, have shown some improvement from the low collection levels experienced in recent years. Slow economic growth has been factored into the 2011-2012 revenue estimates. Given the uncertain state of the economy, it may be necessary to revisit those assumptions if economic conditions worsen. The Administration will actively monitor collections for 2011-2012 through the Bi-Monthly Financial Report and Mid-Year Budget Review process, and return to the Mayor and City Council with recommendations for any revisions as necessary.