

**2011-2012
MID-YEAR BUDGET REVIEW
Section I**

STATUS OF GENERAL FUND REVENUES

Overview

- General Fund revenues and transfers through December totaled \$394.3 million, or 44% of the budgeted estimate. Based on current collection trends, revenues are tracking to end the year \$4 million to \$8 million above expected levels (variance of 0.4% to 0.9%).

The following table details actual 2011-2012 General Fund revenue collections through December as compared with budgeted revenue estimates and 2010-2011 actual collections for the same period a year ago. It also details the proposed changes to each category:

**2011-2012 General Fund Revenue Status through December
(\$ in Thousands)**

Category	Estimate	Actual	Estimate	% of Actual	Changes
General Revenue					
Property Tax	\$ 200,095	\$ 59,684	29.8%	53.0%	\$ -
Sales Tax	147,129	39,421	26.8%	37.5%	3,321
Telephone Tax	20,525	6,878	33.5%	41.2%	-
Transient Occupancy Tax	7,202	3,110	43.2%	37.5%	1,098
Franchise Fees	42,625	17,335	40.7%	39.8%	-
Utility Tax	88,035	32,347	36.7%	41.1%	2,210
Business Tax	38,595	19,192	49.7%	46.6%	1,579
Licenses and Permits	34,556	24,052	69.6%	64.5%	(1,380)
Fines, Forfeitures, and Penalties	17,471	7,902	45.2%	47.8%	(500)
Use of Money and Property	2,474	1,694	68.5%	37.2%	-
Revenue from Local Agencies	21,372	4,697	22.0%	49.4%	(3,943)
Revenue from the State of California	14,769	2,614	17.7%	8.7%	(635)
Rev. from State Govt. - Recovery Act	380	82	21.6%	24.0%	-
Revenue from Federal Government	15,989	2,264	14.2%	34.4%	212
Rev. from Fed. Govt. - Recovery Act	8,177	1,180	14.4%	31.5%	-
Departmental Charges	29,377	16,242	55.3%	49.5%	594
Other Revenue	140,177	108,843	77.6%	89.6%	(23,980)
Sub-Total General Revenue	828,948	347,537	41.9%	50.6%	(21,424)
Transfers and Reimbursements					
Overhead Reimbursements	33,269	24,737	74.4%	78.9%	(1,446)
Transfers	23,556	15,263	64.8%	74.1%	-
Reimbursements for Services	16,514	6,774	41.0%	23.0%	-
Sub-Total Transfers and Reimbursements	73,339	46,774	63.8%	66.9%	(1,446)
TOTALS*	\$ 902,287	\$ 394,311	43.7%	52.3%	\$ (22,870)

* These figures exclude the Beginning Fund Balance. Included in this report is a \$213,000 adjustment to augment the Beginning Fund Balance based on the completed 2010-2011 Comprehensive Annual Financial Report. Once adjusted for this, the total change is a negative \$22.66 million.

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Through December, revenues tracked at or above budgeted collections in a number of categories, including: Sales Tax, Transient Occupancy Tax, Utility Tax, Business Tax, and Other Revenue. These positive variances are partially offset by lower collections expected in a number of categories, including Property Tax, Licenses and Permits, Fines, Forfeitures and Penalties, Revenue from Local Agencies, and Transfers and Reimbursements.

Recommended Adjustments

Various revenue adjustments are recommended in this document to accomplish the following actions:

- Establish a \$12.0 million 2011-2012 Ending Fund Balance Reserve from excess revenues (\$3.7 million) and expenditure savings (\$8.3 million). The 2012-2013 Preliminary Forecast assumed this level of fund balance would be available at the end of 2011-2012 as a funding source in 2012-2013.
- Eliminate the reimbursement from the San Jose Redevelopment Agency (SJRA) for a portion of the Convention Center Lease Payment. Since the adoption of the 2011-2012 Budget, it was determined that the SJRA would be able to fund this lease payment cost in full (rather than have the General Fund provide \$10.0 million toward the payment as originally anticipated). Therefore, a decrease of \$5.4 million is recommended in Revenue from Local Agencies (offset by a \$15.4 million reduction in expenditures). The net savings of \$10.0 million is recommended to be

allocated to the 2012-2013 Future Deficit Reserve.

- Increase the 2011-2012 Beginning Fund Balance by \$213,000 based on a final reconciliation to the 2010-2011 Comprehensive Annual Financial Report.
- Address technical clean-ups and allocate grant, reimbursement, and/or fee related funds. This includes a \$25.0 million reduction to the Other Revenue category (offset by an expenditure reduction) to reflect the lower Tax Revenue Anticipation Notes (TRANS) proceeds based on the actual issuance needed to address the City's cash flow needs. The TRANS issuance totaled \$100 million rather than the \$125 million originally budgeted.
- Recognize revenues and the associated expenditures for various grants, reimbursements, and fee programs (\$1.7 million).

In total, adjustments recommended in this document result in a net reduction of \$22.7 million to the General Fund revenue estimates to (1) bring revenue estimates in line with revised projections based on economic trends and updated collection information; (2) account for additional new revenue from grant programs and reimbursement for services available to fund additional related expenditures; and (3) implement technical adjustments.

The following discussion highlights major General Fund activities through December in various revenue categories.

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PROPERTY TAX

Revenue Status

2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$200,095,000	\$59,683,918	29.8%	53.0%	\$0

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Airplane In-Lieu Tax, and Homeowners Property Tax Relief. Overall, Property Tax revenues are tracking close to the budgeted estimates but may end the year slightly below (\$400,000) the budget based on the most recent estimates from the County Assessors Office. The current estimate, however, is within 0.2% of the modified budget.

For 2011-2012, the modified budget estimate for **Secured Property Taxes** of \$183.3 million allows for a 0.9% increase from 2010-2011 actual collections. Through December, actual Current Secured Property Tax collections were \$46.2 million. Although the collections through December were 49% below the prior year receipts of \$91.0 million, this large decrease reflects timing differences in the receipt of payments rather than revenue performance. Adjusting for the timing differences, current year collections through December were 0.6% above the prior year collections.

The 2011-2012 collections are based on the value of property assessed on January 1, 2011, with any tax roll corrections. In November 2011, the County of Santa Clara provided its latest estimates for Secured Property Tax receipts, which incorporated higher projected negative roll corrections. Based on this estimate of \$182.9 million, a slight downward adjustment to the Secured Property Tax estimate may be necessary as it is \$372,000 below the current budget estimate and would reflect a marginal increase of 0.7% from the prior year. Because tax roll adjustments are still occurring and will continue to take place until the end of May 2012, the Budget Office will continue to work with the County to monitor actual performance and estimate year-end collections. Should a budget adjustment be necessary, it will be brought forward by the end of the fiscal year.

The 2011-2012 **Unsecured Property Taxes** budget estimate is \$11.1 million, which is 1.9% above the prior year collection level. Receipts through December of \$10.4 million typically reflect approximately 90% of the annual revenue for this category (which is received in October). Based on this historical collection trend, Unsecured Property Tax receipts are

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projected to exceed the budgeted estimate by almost \$400,000.

For **SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales), collections totaled \$798,000 through December. No payments had been received this time last year due to a high number of downward assessment adjustments and a significant number of refund payments for the prior year. In 2011-2012, the budget assumed collections would return to normal levels. While collections are anticipated to improve, they are still tracking to end the year below the modified budget estimate of \$2.3 million. In its most recent projections, the County lowered its estimate from \$2.3 million to \$1.8 million. While this collection level is up from the \$1.1 million received in 2010-2011, it remains well below the \$3.0 million received in 2009-2010

and the \$5.7 million received in 2008-2009. Receipts will continue to be monitored closely and should an adjustment be necessary, a recommendation will be brought forward by the end of the year.

Aircraft Property Tax collections of \$2.15 million through December reflect 96.3% of the budgeted revenue estimate of \$2.23 million. Similar to Unsecured Property Tax, receipts through December typically reflect over 90% of the annual revenue for this category. Should the historical trend continue, total receipts will slightly exceed the modified budget by year-end by approximately \$150,000.

It is anticipated that **Homeowners Property Tax Relief** revenue will be received at approximately the budgeted level of \$1.1 million.

SALES TAX

Revenue Status

2011-2012		2010-2011		2011-2012
Budget Estimate	Y.T.D. Actual	% of Estimate	% of Actual	Proposed Changes
\$147,129,000	\$39,420,858	26.8%	37.5%	\$3,321,000

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax. Overall, revenues continue to track above budgeted estimates and a total increase of \$3.3 million is recommended in this report.

The 2011-2012 budget estimate for **General Sales Tax** is \$143.0 million, which is approximately 6.8% above the actual 2010-2011 collection level. This estimate reflects

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underlying growth of 2% and one-time prior year adjustments and true-up payments. The receipts for the first quarter of General Sales Tax for the current year were received in December and represented activity for July through September 2011. The first quarter General Sales Tax revenues for 2011-2012 were up 8.4% from the same quarter in the prior year.

When comparing San José's cash receipts to those of other jurisdictions, San Jose's strong growth of 8.4% was slightly better than the performance of Santa Clara County (up 7.4%), but was slightly worse than Northern California (up 9.4%), and the State as a whole (up 9.2%).

The City's Sales Tax consultant, MuniServices Company, provides economic performance data to the City which is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding State and county pools, and adjusts for anomalies, payments to prior periods, and late payments.

On an economic basis, the 5.7% growth in the most recent quarter was the result of increases in all economic sectors, with the Transportation sector experiencing the largest gain of 16%. This growth was driven by increases in service stations receipts (up 20%) and new auto sales (up 17%).

**Sales Tax Revenue Economic Performance
July – September 2011**

Economic Sector	% of Total Revenue	% Change July-Sept. 2011 to July – Sept. 2010
General Retail	25.9%	+ 1.1%
Transportation	24.6%	+ 16.0%
Business to Business	23.0%	+ 1.2%
Food Products	15.3%	+ 5.4%
Construction	10.5%	+ 6.9%
Miscellaneous	0.7%	+ 0.8%
Total	100.0%	5.7%

The year-over-year increase for the first quarter exceeded the 2.0% growth assumed in the 2011-2012 Modified Budget. To reflect this higher growth and to increase the expected growth in the remaining three quarters from 2% to 3%, a \$3.05 million increase in the Sales Tax estimate is recommended in this report.

Information on the second quarter collections (October-December sales activity) for this fiscal year will not be received until March. The City's Sales Tax performance will continue to be closely monitored to determine if any additional budget adjustments are necessary.

The 2011-2012 **Proposition 172 Half-Cent Sales Tax** adopted budget estimate of \$4.1 million requires growth of 1.1% from the prior year. Year-to-date receipts of \$1.8 million are 9.1% above the prior year and, if the current collection trend continues, Proposition 172 Half-Cent Sales Tax revenues will end the year above the budgeted estimate. Accordingly, a recommended increase of \$271,000 is included in this document. Staff will continue to monitor these revenues closely and bring forward adjustments later in the year, if necessary.

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TRANSIENT OCCUPANCY TAX

Revenue Status				
2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$7,202,000	\$3,110,438	43.2%	37.5%	\$1,098,000

The 2011-2012 budget estimate for the General Fund **Transient Occupancy Tax (TOT)** allocation (40% of the total tax) is \$7.2 million, which allows for a decline of 0.3% from the 2010-2011 collection level. Year-to-date receipts of \$3.1 million are 14.8% above the prior year.

Through December, the average hotel occupancy rate at the 14 largest hotels was 57.9%, a slight improvement from the 57.5% occupancy rate for the same period in 2010-2011. For the same 14 hotels, the average daily room rate through December was \$122.19, a 4.1% increase from the \$117.42 room rate for

the same period in 2010-2011. As of December, the trailing 12-month average revenue-per-available-room (RevPAR) increased to \$70.76, an increase from the \$66.64 level experienced in December 2010.

As a result of the higher than anticipated revenue collections, an increase of \$1.1 million to the budgeted revenue estimate is recommended at this time. The recommended increase from \$7.2 million to \$8.3 million will bring the estimate in line with current year experience.

UTILITY TAX

Revenue Status				
2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$88,035,000	\$32,346,997	36.7%	41.1%	\$2,210,000

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Utility Tax contains the following categories: **Electric, Gas, Water and Telephone.** While collections through December of \$32.3 million are tracking below the prior year level of \$36.1 million, this decline is the result of timing differences in payments. After accounting for timing differences, collections are tracking 4.1% above the prior year. Growth of 0.17% is needed to meet the budgeted estimate of \$88.0 million.

Overall, revenues are tracking to exceed the budgeted estimate by year-end. An increase of \$2.2 million to the revenue estimate is recommended, bringing the budget to \$90.2 million. The majority of this increase is attributed a final settlement payment from PG&E (\$1.56 million) with the remaining increase attributed to higher than budgeted year-end projected receipts in Gas and Telephone Utility Tax categories (\$650,000). Below is a more detailed discussion of the revenue performance in each category and adjustments to the revenue estimate.

In December, the City and PG&E came to a final settlement agreement 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 Jose properties in PG&E's billing system. This resulted in a one-time payment of \$1.56 million that is recommended to be recognized in this report in the Utility Tax category.

Through December, **Electric Utility Tax** receipts of \$14.7 million were tracking 17.0% below the prior year level of \$17.7 million.

This significant variance is a result of the timing of payments. Once adjusted for actual receipts through December, collections are currently tracking 0.3% above the prior and expected to end the year within the budgeted estimate.

Gas Utility Tax receipts through December of \$1.9 million were 21% below the prior year collections of \$2.4 million. This significant variance is the result of a timing difference in payments. Factoring out this timing difference, adjusted December receipts of \$2.5 million actually rose 3.7% from prior year level. Based on current collection trends and anticipated performance through the end of the year, a recommended increase of \$250,000 is included in this document, bringing the total budgeted estimate to \$9.0 million. The revised estimate would require growth of 3.8% over 2010-2011 actual collections of \$8.7 million. Actual collection in the Gas Utility Tax area are subject to significant fluctuations from impact of weather conditions and/or rate changes, as such, revenues will continue to be monitored closely for projected year end performance.

Water Utility Tax collections of \$3.8 million through December are tracking 8.2% below the prior year level of \$4.2 million due to differences in the timing of payments. Factoring out the timing differences, adjusted receipts of \$4.5 million are tracking 8.2% above the 2010-2011 level. This growth level slightly exceeds the 7.1% increase over the prior year needed to meet the budgeted estimate. At this point, receipts are projected to meet or exceed the budgeted estimate. Consumption levels over the next several months will determine if adjustments to the revenue estimate will be appropriate before the end of the year.

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Telephone Utility Taxes receipts of \$10.4 million through December are tracking below the prior year level of \$11.9 million due to timing differences in payments. Factoring out these timing differences as well as accrual adjustments, receipts are tracking 3.5% above the prior year levels. The 2011-2012 Adopted Budget estimate of \$30.8 million assumed no increase from the estimated 2010-2011 collections; however, because 2010-2011 actual collections of \$31.5 million exceeded the

estimate used to develop the 2011-2012 Adopted Budget, collections in this category can now decrease slightly (2.3%) in 2011-2012 from actual 2010-2011 collections. Based on current collection trends, an increase of \$400,000 is included in this document bringing the budgeted estimate to \$31.2 million. This revised estimate would still allow for a 1% decline from the prior year collection level.

BUSINESS TAXES

Revenue Status

2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$38,595,000	\$19,191,804	49.7%	46.6%	\$1,579,000

Business Taxes include the following major groups of revenue: **Business Tax, Cardroom Business Tax, Marijuana Business Tax and Disposal Facility Tax.** Overall, this category is tracking to exceed the modified budget estimate of \$38.6 million. As part of this report, a \$1.6 million increase to this category is recommended to reflect higher than expected receipts in Cardroom Tax (\$729,000) and Marijuana Business Tax (MBT) (\$850,000) and would bring the budgeted estimate to \$40.2 million.

Business Tax – collections of \$7.0 million through December were 3.9% below the prior

year collection level of \$7.3 million. Collections are expected to end the year close to the budgeted estimate of \$11.0 million.

Cardroom Business Tax – collections of \$6.2 million through December were tracking 8.8% above the prior year level of \$5.7 million. This increase from the prior year in part reflects the impact of the Cardroom Tax ballot measure that was approved by the voters in June 2010. The ballot measure increased the Cardroom 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

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first two months of last year. Based on current collection trends and actual 2010-2011 receipts of \$14.8 million, collections are tracking to exceed the budgeted estimate; accordingly, an increase of \$729,000 (to \$15.1 million) to this category is recommended in this document. This will allow for a 2.3% increase in this category when compared to the prior year.

Marijuana Business Tax – collections of \$1.4 million through December reflect collections for July through November. Based on the current collection trends, receipts in this category are projected to exceed the 2011-2012 budgeted estimate of \$2.5 million. Accordingly, an increase of \$850,000 is recommended to bring the budgeted estimate in line with year-end

projections. This action would bring the revised 2011-2012 estimate to \$3.4 million. This additional revenue is recommended to be used as part of the rebalancing plan to offset the loss in the Medical Marijuana Regulatory Fees (\$1.4 million) as described in the document.

Disposal Facility Tax (DFT) – Receipts through December of \$4.6 million are tracking 2.2% below the prior year level of \$4.7 million. Current collections are tracking to meet the revised budget estimate of \$10.7 million, which allows for a 3.4% decline from the 2010-2011 collection level.

LICENSES AND PERMITS

Revenue Status

2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$34,555,700	\$24,052,169	69.6%	64.5%	(\$1,380,000)

Licenses and Permits include the following major groups of revenue: **Building Permits, Fire Permits** and **Miscellaneous Other Licenses and Permits**. Through December, revenues of \$24.1 million continue to track to meet or exceed budgeted levels with one major exception, the anticipated loss in Medical Marijuana Regulatory Fee Program revenue. Therefore, a net downward adjustment of \$1.4 million is recommended to reflect this anticipated loss and other minor adjustments.

Building Permits – Building Permit revenues of \$11.5 million through December are tracking 11.7% below the 2010-2011 collection level of \$13.0 million for the same period, but well above the budgeted estimate. The 2011-2012 budgeted revenue estimate allows for a drop of 26.1% in this category to account for a large spike in activity last fiscal year that was not expected to be repeated this fiscal year. Revenues in building plan check, building

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permits, electrical permits, and permit processing categories are tracking above estimated levels. Strong revenue receipts are being driven by an increase in commercial and industrial permits, offset by slow residential activity. It is anticipated that Building Permit revenues will achieve, and likely exceed, the budget estimate as a result of increased development activity. This additional activity has necessitated additional staffing resources to meet the plan check and inspection service demands. Separate actions to increase revenues and staffing resources were brought forward for consideration on the January 31, 2012, City Council Agenda. These actions include the addition of 16 positions for the Building Fee Program, offset by additional revenues of \$1.9 million, in order to keep pace with the increased demand. Further information on the approved actions can be found at http://www.sanjoseca.gov/clerk/Agenda/20120131/20120131_0403.pdf.

Fire Permits – Through December, Fire Permit collections of \$5.43 million were tracking above estimated levels and 5.5% above the prior year receipts of \$5.15 million. The development-related revenues are currently tracking to conservatively exceed the budgeted estimate of \$3.96 million by approximately \$200,000. This increased activity has resulted in the need for additional staffing resources to meet the plan check and inspection service demands. Separate actions to increase revenues and staffing resources were brought forward for consideration on the January 31, 2012, City Council Agenda. The actions include the addition of 2.0 Associate Engineers and 1.0 Hazardous Materials Inspector I/II, offset by additional revenue of \$172,000. At this time,

the Fire Department projects that the Non-Development program will end the year at budgeted revenue levels of \$3.86 million.

Miscellaneous Other Licenses and Permits – Revenues of \$7.1 million are tracking 4.3% above prior year levels of \$6.8 million and, with the exception of the Medical Marijuana Regulatory Fee Program revenue, are generally tracking at anticipated levels through December. Growth of 23.5% is needed in 2011-2012 to meet the budgeted estimate, with almost 70.0% of this growth related to the new Medical Marijuana Regulatory Fee Program revenue. Consistent with the assumptions presented in the Bi-Monthly Financial Report for September-October, on January 10, 2012, the City Council accepted the Certificate of Sufficiency issued by the County of Santa Clara Registrar of Voters for the referendum to repeal the Regulatory Ordinance for the Medical Marijuana Regulatory Fee Program. As a result, the \$1.4 million in cost recovery regulatory fees established under the Regulatory Ordinance are not anticipated to be received in 2011-2012. Rebalancing actions are recommended in this document to fully offset this loss in revenue through the recognition of additional Marijuana Business Tax and program expenditure reductions. Additional information on the Medical Marijuana Program rebalancing adjustment can be found in Section III of this document under Recommended Budget Adjustments in the General Fund.

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FINES, FORFEITURES, AND PENALTIES

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<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$17,471,000	\$7,901,779	45.2%	47.8%	(\$500,000)

Fines, Forfeitures, and Penalties include the following groups of revenue: **Parking Fines**, the City's share of **Vehicle Code Fines**, **County Municipal Court Fines**, **Administrative Citation Fines and Penalties**, and **Cardroom and Business Tax Penalties**.

Through December, this category has generated \$7.9 million, or 45.2% of the budget estimate, and collections are tracking 7.8% below the

prior year. The 2011-2012 budgeted estimate allows for a decline of only 2.5%. A downward adjustment of \$500,000 is recommended to account for total annual receipts projected to fall below budgeted levels, particularly in areas such as Municipal Court Fines.

Receipts will continue to be monitored closely as the year continues with additional adjustments brought forward as necessary.

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REVENUE FROM LOCAL, STATE, AND FEDERAL AGENCIES

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	2011-2012		2010-2011		2011-2012
	Budget Estimate	Y.T.D. Actual	% of Estimate	% of Actual	Proposed Changes
Local Agencies	\$21,372,175	\$4,697,467	22.0%	49.4%	(\$ 3,942,760)
State of California	\$15,149,223	\$2,695,651	17.8%	8.8%	(\$ 634,904)
Federal Government	\$24,165,690	\$3,444,250	14.3%	33.3%	\$ 212,382
TOTAL	\$60,687,088	\$10,837,368	17.9%	40.3%	(\$4,365,282)

This section provides information of the revenues received from other agencies, which are budgeted separately.

Revenue from Local Agencies – Funding in this category is provided by many local agencies. The largest line items include reimbursement from the San Jose Redevelopment Agency, reimbursement from the Central Fire District for fire services provided by the City to County properties, CAL-ID support, reimbursement for the City's Paramedic Program, and Senior Nutrition reimbursement. Revenues are generally performing close to budgeted levels through December. However, there are a number of budget adjustments to account for activities expected through the remainder of the fiscal year.

The largest adjustment is the recommended elimination of the reimbursement from the San Jose Redevelopment Agency (SJRA) for a portion of the Convention Center Lease Payment. Since the adoption of the 2011-2012 Budget, it was determined that the SJRA would

be able to fund this lease payment cost in full (rather than have the General Fund provide \$10.0 million toward the payment as originally anticipated). Therefore a recommended decrease of \$5.4 million is recommended in Revenue from Local Agencies (offset by a \$15.4 million reduction in expenditures). The net savings of \$10.0 million is recommended to be allocated to the 2012-2013 Future Deficit Reserve.

Other budget adjustments recognize revenues and allocate funding for the following: County support for the Senior Nutrition Program (\$665,000); County Public Health Department support for the Communities Putting Prevention to Work Grant – Obesity Prevention Initiative (\$105,000); and County support for the Grace Community Center Electronic Health Records Grant (\$59,000). A downward adjustment of \$20,593 is recommended for the Year 5 San José After School District Contracts to close-out this project.

An additional technical adjustment recategorizes the After School Education revenue of \$608,000

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from Revenue from the State of California to Revenue from Local Agencies. Section III of this document provides a description of these actions.

Revenue from the State of California (including American Recovery and Reinvestment Act) – This category includes various grants and reimbursements from the State of California, including the American Recovery and Reinvestment Act. It is currently assumed that the budgeted amounts will be collected by year-end.

Budget adjustments totaling \$83,739 are recommended to account for new grants or changes in existing grants and include the following: 9-1-1 Communications Center Maintenance (\$51,510); Local Enforcement Agency Grant (\$29,229); and Rapid Enforcement Allied Computer Team (REACT) (\$3,000).

A downward adjustment of \$719,000 corrects the incorrect categorization of revenues for the After School Education (-\$608,000), Summer Youth Nutrition Program (-\$61,000), and State Homeland Security Grant Program (-\$50,000) and reallocates this funding to the appropriate categories: Revenue from Local Agencies and Revenue from the Federal Government. Section III of this document provides a description of these actions.

Revenue from the Federal Government (including American Recovery and Reinvestment Act) – The revenue in this category is received from federal grant programs, including the American Recovery and Reinvestment Act. It is currently assumed that the budgeted grant proceeds will be collected by year-end.

Budget adjustments totaling \$101,600 are recommended to account for new grants or changes in existing grant and include the following: 2009 Urban Areas Security Initiative (UASI) Grant – Police (\$67,000); 2009 Urban Areas Security Initiative (UASI) Grant – Fire (\$45,000); Bulletproof Vest Partnership Grant (\$18,620); and the South Bay Shakedown Task Force (\$13,101); and Northern California Regional Intelligence Center (-\$42,121).

Additional technical adjustments recognizing \$111,000 corrects the incorrect categorization of revenues for Summer Youth Nutrition Program (\$61,000) and State Homeland Security Grant Program (\$50,000) and reallocates funding from the Revenue from the State category. Section III of this document provides a description of these actions.

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**STATUS OF GENERAL FUND REVENUES
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DEPARTMENTAL CHARGES

Revenue Status

2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$29,377,372	\$16,241,772	55.3%	49.5%	\$593,500

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

Total revenues of \$16.2 million are tracking slightly above the prior year of \$15.9 million (2.1% above) and are tracking to end the year close to the budgeted estimate of \$29.4 million. Collections in the Transportation, Library, and Parks, Neighborhoods and Recreation Departments are tracking to meet or exceed estimated levels, which offset the lower than anticipated collections in the Police Department, which are tracking 8.2% below expected levels.

A couple of budget actions are recommended in the Departmental Charges category to account for activity anticipated in the second half of the year. This includes an increase to the Parks, Recreation and Neighborhood Services Fee Activities (\$600,000) and an increase to the Lake Cunningham Skate Park fees (\$50,500). A downward adjustment of \$57,000 corrects the incorrect categorization of revenues for the Senior Nutrition Program donations in

Departmental Charges and reallocates it to the Other Revenue category.

Below are highlights of the current status of the development-related fee programs:

Public Works – Public Works revenues through December of \$3.1 million are well above the prior year level of \$2.7 million. Revenues in most residential categories are tracking above estimated levels due to several single-family and multi-family residential projects that were received in the first six months of 2011-2012. Non-residential revenues are also performing above anticipated levels. As discussed in the Development Services Staffing Needs memorandum on the January 31, 2011 Council Agenda, collections are projected to exceed the budgeted revenue estimate of \$4.8 million by approximately \$600,000. To address the increased workload associated with this higher activity level, an action was recommended in that memorandum to make permanent a temporary Engineer position. Due to the volatile nature of these revenues, the City Manager's Budget Office and Public Works Department will continue to monitor both development and utility revenues closely. If

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(CONT'D.)**

current collection trends continue, a budget adjustment will be brought forward before the end of the year.

Planning, Building and Code Enforcement (PBCE) – Through December, Planning Fee revenue of \$1.2 million is at the same collection level as the prior year. The \$2.5 million adopted Planning Fee revenue estimate; however, allows for a drop of 6.8% from the prior year actuals. Overall revenue collections are tracking within estimated levels and it is anticipated that Planning Fee revenues will

achieve the budget estimate. As discussed in the Development Services Staffing Needs memorandum on the January 31, 2011 Council Agenda, the Planning, Building and Code Enforcement Department staff also project a spike in Planning Fee revenue within the next six to eight months based on North San José activity. Because this activity is expected to continue into 2012-2013, that memorandum included a recommendation to make permanent a temporary Planner II position in Planning Development, funded by the Fee Supported Reserve for Planning.

OTHER REVENUE

Revenue Status

2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$140,176,949	\$108,843,448	77.6%	89.6%	(\$23,979,927)

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through December 2011 totaled \$108.8 million. Although this represents an increase of \$25.9 million from the December 2010 level of \$83.0 million, the 2011 total includes \$100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes, while the 2010 total includes \$75.0 million of TRANs issuance, a \$25.0 million year-over-year increase. Factoring out the TRANs issuance, Other Revenue collections through December

2011 totaled \$8.8 million – a slight increase of \$890,000 (11.2%) from the prior year level.

Collections in this category are expected to end the year approximately \$24.7 million below the budgeted estimate due almost entirely to the recommended reduction in the TRANs proceeds (\$25.0 million) partially offset by some higher than anticipated revenues collections. The 2011-2012 modified budget includes TRANs proceeds of \$125.0 million; however, only \$100 million of TRANs were issued this year based on the actual cash flow needs.

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(CONT'D.)**

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

In the current year, the City has received \$5.1 million in **HP Pavilion Rental, Parking, and Naming** revenue, which is approximately 4.2% above the budgeted estimate of \$4.8 million. Accordingly, an increase of \$307,000 is recommended to bring the budgeted estimate in line with collections.

Investment Cost Reimbursement and Banking Services revenues through December of \$942,000 and \$466,000, respectively, are tracking within estimated levels. Any variances in these categories would be offset by a corresponding variance in related expenditures.

SB 90 Reimbursements totaled \$286,000 through December. The 2011-2012 Adopted Budget had not included an estimate for this revenue category due to the continued uncertainty regarding the payment level from the State. As a result, an increase in the budget estimate of \$286,000 is recommended to reflect these payments.

Through December, revenue from the **Sale of Surplus Property** totaled \$560,000, which is well below the budgeted estimate of \$1.8 million. The Office of Economic Development currently anticipates that revenues in this category will reach \$1.5 million in 2011-2012. Based on this lower projection, a downward adjustment of \$300,000 is recommended.

Beginning in 2010-2011, the City has been required to issue **Tax and Revenue Anticipation Notes (TRANS)** annually for cash flow purposes due to the pre-payment of the City's retirement contributions. In 2011-2012, original estimates projected the necessary funding to be \$125.0 million; though upon execution, only \$100.0 million was required to be issued. As such, a net-zero decrease to both revenues and expenditures of \$25.0 million are recommended in this document to align the budget with actual issuance levels.

A number of additional adjustments are also recommended to recognize revenue and allocate funds to specific projects and programs, including the following: Sidewalk Repair Program (\$500,000); Enhance Fitness and Matter of Balance Programs Grant (\$50,000); Urban Village Plans (\$50,000); the Parent Project Grant (\$28,000); the Health Trust Communities Putting Prevention to Work Grant (\$25,000); Animal Care Services - Humane Society of Silicon Valley Grant (\$18,000); Lake Cunningham Skate Park donations (\$10,000); and the Target Youth Intervention Services Grant (\$10,000).

An additional technical adjustment of \$57,000 corrects the incorrect categorization of revenues for the Senior Nutrition Program donations and reallocates funding from Departmental Charges. Additional details can be found in Section III of this report.

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**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

TRANSFERS AND REIMBURSEMENTS

Revenue Status				
2011-2012		2010-2011		2011-2012
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$73,338,705	\$46,773,707	63.8%	66.9%	(\$1,445,843)

The following are sources of revenue in this category: reimbursements to the General Fund for **Overhead** costs, revenue received as **Transfers** from other City funds, and **Reimbursements** for services rendered. Collections of \$46.8 million through December are tracking well below the prior year level of \$61.6 million primarily due to lower budgeted transfer amounts.

Overhead Reimbursements – Overhead associated with operating funds and special funds is currently budgeted at \$22.5 million. In addition, overhead associated with capital funds is budgeted at \$10.8 million for a total revenue estimate of \$33.3 million. Through December, overhead collections of \$24.7 million were tracking 9.0% below prior year levels of \$27.2 million. The 2011-2012 budget estimate allows for a drop of only 3.5%. Based on current collection trends, a downward adjustment of

\$1.4 million is recommended primarily to reflect lower capital overhead reimbursements. Staff vacancies supporting the various capital programs are contributing to the lower collection level.

Transfers – This category includes \$23.6 million in various transfers. Through December, transfers of \$15.3 million were tracking within estimated levels but below the prior year level of \$30.7 million. This reduction from the prior year reflects the changes in the budgeted transfers.

Reimbursement for Services – The budget estimate for this category is \$16.5 million, of which \$15.7 million is expected to be generated from the three **Gas Tax Funds**. Revenues through December were tracking at the budgeted estimate.

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CONCLUSION

A comprehensive review of all General Fund revenue accounts was performed based on activity through the first six months of the year. Based on current collection trends, revenues are generally performing within budgeted expectations and are projected to end the year with additional revenues of approximately \$4 million to \$8 million. This positive variance represents only 0.4% to 0.9% of the budget.

Based on the higher current year collections, budget actions are recommended in this document to recognize \$5.4 million of this additional revenue and allocate it to support a portion of the 2011-2012 Ending Fund Balance Reserve (\$3.7 million) and to address funding needs identified in this report (\$1.7 million). Other net-zero adjustments are recommended to recognize various grants, reimbursements, and fee activity and to bring the budget into alignment with budgeted expectations.

The revenue estimates for this year will continue to be updated as part of the final 2013-2017 General Fund Forecast, due to be released late February, as well as the 2012-2013 Proposed Budget, due to be released early May.

As always, staff will continue to closely monitor the City's current year financial status and report to the City Council any significant developments through the Bi-Monthly Financial Reports. The January/February Bi-Monthly Financial Report will be brought to the Public Safety, Finance and Strategic Support Committee in April.