

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jennifer A. Maguire

**SUBJECT: RECOMMENDED 2012-2013  
NET-ZERO GENERAL FUND  
REVENUE ADJUSTMENTS**

**DATE:** June 11, 2012

Approved

Date

6/11/12

## RECOMMENDATION

The following adjustments to the 2012-2013 Proposed Budget for the General Fund are recommended:

1. Increase the 2012-2013 General Fund Beginning Fund Balance estimate by \$3,200,000 to recognize the additional Sales Tax revenue that is projected for 2011-2012.
2. Decrease the Property Tax revenue estimate by \$2,450,000.
3. Decrease the Franchise Fees revenue estimate by \$700,000.
4. Decrease the Revenue from Local Agencies revenue estimate by \$50,000.

## BACKGROUND

Since the release of the 2012-2013 Proposed Operating Budget on May 1, 2012, additional information has become available regarding key General Fund revenue sources. To reflect this latest information, budget adjustments are recommended to increase the 2012-2013 Beginning Fund Balance revenue estimate based on higher 2011-2012 Sales Tax receipts (up \$3.2 million), offset by decreases to the Property Tax (down \$2.45 million), Franchise Fees (down \$700,000), and Revenue from Local Agencies (down \$50,000) revenue estimates.

## ANALYSIS

### *Sales Tax Revenue Adjustment*

Last week, the State Board of Equalization (BOE) provided data on the Sales Tax cash receipts for the third quarter of 2011-2012. In the third quarter, the City's Sales Tax collections totaled \$35.0 million, up 14.2% from the 2010-2011 third quarter Sales Tax collections of \$30.7 million. The 14.2% year-over-year increase for that quarter exceeded the approximately 3.0% increase assumed in the 2011-2012 Modified Budget and the 3.5% growth assumed in the development of the 2012-2013 Proposed Budget. An increase of \$3.2 million to the 2012-2013 Beginning Fund Balance estimate is recommended to reflect the higher than anticipated third quarter Sales Tax performance.

At this point, it is not yet clear how much of the third quarter Sales Tax increase is attributable to third quarter ongoing economic activity and how much is the result of positive adjustments for activity in prior quarters that would be considered one-time in nature. Over the coming weeks, as more information becomes available, the City's sales tax consultant will be performing a detailed analysis to identify the portion of the third quarter Sales Tax collections resulting from that quarter's activity and to allocate the third quarter collections by economic segment.

Because it is not yet known how much of the third quarter increase reflects ongoing activity, it would be premature to suggest adjustments to the growth assumptions for the fourth quarter 2011-2012 or the 2012-2013 Sales Tax estimate. The scheduled release date for the fourth quarter Sales Tax revenues is mid-September 2012. Adjustments, if appropriate, will be brought forward in 2012-2013 once this analysis has been completed.

### ***Property Tax Revenue Adjustment***

Each month, the Santa Clara County Assessor's Office provides data on the growth in real property (gross land and structural values) for the upcoming fiscal year that is used to project the anticipated growth in Secured Property Tax receipts. In June, this figure dropped to 1.32% growth from the 2.89% growth presented in May 2012 and the 2.82% growth presented in April 2012. According to the County Assessor's Office, this drop is due to the inclusion of additional reassessments resulting from the drop in property values (Proposition 8 adjustments) as well as the elimination of the 2% California Consumer Price Index (CCPI) adjustment to the parcels that are under Proposition 8 review. There were approximately 7,000 additional parcels that received Proposition 8 adjustments in San José reflected in the June 2012 report. In addition, the 2% CCPI adjustment was eliminated for approximately one-third of the City's parcels as these properties remain under Proposition 8 review. Given the severity of the drop and the questions that remain regarding these adjustments, City staff has asked the County Assessor's Office to provide more detailed information about the breakdown of these Proposition 8 adjustments. This information will likely not be available for at least another few weeks. The County Assessor's Office continues to work on the roll for 2012-2013 and additional adjustments will be implemented before the close of the roll, particularly for the non-residential properties. The Administration will continue to work with the County to monitor the Property Tax performance for San Jose and to gain a better understanding of the application of the Proposition 8 adjustments.

Currently, the 2012-2013 Secured Property Tax revenue estimate assumes growth of 2.75% over the 2011-2012 projected collection level. Although many questions remain, based on the latest information from the County Assessor's Office, this growth factor appears to be too high. Therefore, a downward adjustment of \$2.62 million to the 2012-2013 Property Tax revenue estimate is recommended at this time and will bring the Secured Property Tax growth estimate to 1.3% for 2012-2013. This downward adjustment is slightly offset by a net increase of \$170,000 to the other Property Tax categories based on actual performance in 2011-2012. These adjustments include an increase to the revenue estimate for the SB 813 Property Tax category (supplemental taxes) of \$700,000 (from \$2.2 million to \$2.9 million) based on higher than anticipated performance in 2011-2012, and downward adjustments to the Unsecured Property Tax category of \$320,000 (from \$11.85 million to \$11.53 million) and the Aircraft Property Tax

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**Subject: Recommended 2012-2013 Net-Zero General Fund Revenue Adjustments**

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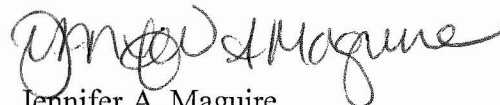
category of \$210,000 (from \$2.28 to \$2.07 million) based on slightly lower than anticipated collections in 2011-2012. If the information provided by the County indicates that further adjustments to the Property Tax revenue estimates are warranted, they will be brought forward in 2012-2013.

### ***Franchise Fees Revenue Adjustment***

The 2012-2013 Proposed Budget included a \$19.0 million estimate for Electric Franchise Fees and \$4.8 million for Gas Franchise Fees. In April of each year, Pacific Gas and Electric (PG&E) provides a reconciliation of the amount owed to the City. In 2011-2012, the payment from PG&E was significantly lower than anticipated in the Electric Franchise Fee category. As discussed in the Proposed Budget, the Finance Department has been working with PG&E to understand the reconciliation for 2011-2012 and the rationale for the lower collection level. While this analysis is ongoing, it appears this lower collection level may be due to lower than anticipated receipts from third party electricity providers. Assuming there are no adjustments to the 2011-2012 Franchise Fees payments received from PG&E, a net downward adjustment of \$700,000 is recommended for 2012-2013. For the Electric Franchise Fees category, a downward adjustment of \$800,000 (from \$19.0 million to \$18.2 million) is recommended and reflects a 2.9% increase from the \$17.7 million received in 2011-2012 to reflect an approved rate increase in January 2012. This downward adjustment is partially offset by a recommended increase to the Gas Franchise Fees estimate of \$100,000 (from \$4.8 million to \$4.9 million), which is consistent with the actual 2011-2012 collection level with no rate increase assumed.

### ***Revenue from Local Agencies Adjustment***

The City receives reimbursement from the Central Fire District for County areas covered by the San Jose Fire Department. These payments are based on the property tax assessments for fire services collected in those areas that are passed on to the City. In 2012-2013, reimbursements from the Central Fire District are estimated to total \$4.7 million, reflecting a 2.5% increase over the 2011-2012 estimated collection level. A downward adjustment of \$50,000 is recommended to account for a lower growth factor of 1.3% in 2012-2013 based on the updated information from the County Assessor's Office as described earlier.



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