

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues and transfers through December totaled \$423.9 million, or 41.6% of the budgeted estimate. Based on current collection trends and information, existing revenues are anticipated to end the year approximately \$15 - \$20 million above budgeted levels (variance of approximately 1.5% - 2.0% when excluding the Beginning Fund Balance), the majority of which represents the expected receipt of one-time Sales Tax and Property Tax revenues.

The following table details actual 2015-2016 General Fund revenue collections through December as compared with budgeted revenue estimates and 2014-2015 actual collections for the same period a year ago. It also details any proposed changes to each category:

2015-2016 General Fund Revenue Status through December (\$ in Thousands)

Category	Budget Estimate	Y.T.D Actual	% of Estimate	2014-2015 % of Actual	Proposed Changes
General Revenue					
Property Tax	\$ 255,210	\$ 70,258	27.5%	28.4%	\$ -
Sales Tax	190,260	32,474	17.1%	18.0%	-
Telephone Tax	21,000	7,975	38.0%	37.8%	-
Transient Occupancy Tax	14,700	6,576	44.7%	44.6%	2,436
Franchise Fees	47,582	18,938	39.8%	40.4%	-
Utility Tax	93,825	32,786	34.9%	35.8%	-
Business Taxes	44,425	24,509	55.2%	51.8%	-
Licenses and Permits	48,721	29,880	61.3%	62.9%	1,500
Fines, Forfeitures, and Penalties	15,356	3,062	19.9%	21.1%	-
Use of Money and Property	4,208	2,222	52.8%	62.5%	-
Revenue from Local Agencies	16,168	4,230	26.2%	10.6%	279
Revenue from the State of California	11,781	969	8.2%	8.3%	533
Revenue from Federal Government	12,708	6,325	49.8%	59.5%	152
Departmental Charges	40,924	22,171	54.2%	53.2%	1,761
Other Revenue	126,836	111,285	87.7%	72.0%	2,695
Sub-Total General Revenue	943,704	373,660	39.6%	38.4%	9,356
Transfers and Reimbursements					
Overhead Reimbursements	37,431	28,937	77.3%	77.2%	-
Transfers	21,280	15,696	73.8%	82.4%	(38)
Reimbursements for Services	17,657	5,648	32.0%	30.6%	-
Sub-Total Transfers and Reimbursements	76,368	50,281	65.8%	67.1%	(38)
TOTALS	\$ 1,020,072	\$ 423,941	41.6%	40.4%	\$ 9,318

**2015-2016
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

OVERVIEW

Through December, the majority of revenues tracked at or above budgeted collections, including: Property Tax, Sales Tax, Transient Occupancy Tax, Business Taxes, Revenue from Local and Federal Agencies, and Other Revenue. These positive variances are partially offset by lower collections in a limited number of categories, including Licenses and Permits; Fines, Forfeitures, and Penalties; Revenue from the State of California; and Departmental Charges.

Recommended Adjustments

As described below, limited revenue adjustments are recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; (2) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures; and (3) complete clean-up actions.

- Implement required technical and rebalancing actions to increase revenue estimates in limited areas to bring estimates in line with revised projections. Major actions include:
 - Increase the Transient Occupancy Tax (TOT) revenue estimate by \$2.3 million to reflect the continued strong growth of the hotel industry.
 - Decrease the estimate for Transfers and Reimbursements by \$225,000 to reflect a reduction in anticipated late fees in the Water Utility Fund.
- Recognize grant, reimbursement, and/or fee related funds (\$6.9 million).
 - The largest items in this category include reimbursement from Calpine for a \$1.0 million payment in lieu of construction and operation of two air monitoring stations in South San José, Parks, Recreation and Neighborhood Services fee activities (\$700,000), the State of California to reimburse for Strike Teams deployed to assist with fires in Lake, Colusa, Yuba, Trinity, Humboldt, Butte, and Fresno counties (\$425,000), Sidewalk Repairs (\$600,000) and Emergency Street Tree Services (\$400,000) funded by property owners. Offsetting increases to the corresponding expenditures are also recommended.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

In total, adjustments recommended in this document result in a net addition of \$9.3 million to the General Fund revenue estimates. Additional detail on these recommended adjustments can be found in Section III of this document. The following discussion highlights major General Fund activities through December in various revenue categories.

PROPERTY TAX

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$255,210,000	\$70,257,785	27.5%	28.4%	\$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, ongoing Property Tax revenues are projected to meet or slightly exceed the budgeted estimate based on the most recent estimates from the County Assessor's Office.

The 2015-2016 Adopted Budget **Secured Property Tax** estimate of \$233.7 million includes \$231.7 million from regular Property Tax receipts and \$2.0 million from the distribution of excess 2014-2015 Education Revenue Augmentation Fund (ERAF) funds. For the regular Property Tax receipts, the estimate was based on the assumption that regular collections would increase approximately 6.0% in 2015-2016. The most recent estimate from the County of Santa Clara, which includes estimated tax roll corrections of \$40.0 million County-wide, is tracking at the 2015-2016 Adopted Budget estimate. This figure will be adjusted during the year based on actual experience. Because tax roll adjustments will continue to occur until the end of May 2016, the Budget Office will continue to work with the County to monitor actual performance and estimate year-end collections.

Based on preliminary information that was received by the County in May 2015, the Adopted Budget also assumed \$2.0 million from 2014-2015 excess ERAF funds. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In 2014-2015, the City received \$6 million from excess funds in 2013-2014. Information regarding the payment this fiscal year is expected to be received from the County in March 2016 and could total last

**2015-2016
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

PROPERTY TAX

year's level. The Administration will continue to monitor the distribution of ERAF receipts and may adjust the budget once further information is provided by the County.

The 2015-2016 **Unsecured Property Taxes** budget estimate is \$13.01 million, which is 0.6% above the prior year collection level. Receipts through December of \$12.4 million typically reflect approximately 90% of the annual revenue for this category (which is received in October). However, actual receipts include an August payment in the amount of \$897,000 that accounts for the final reconciliation of the 2014-2015 fiscal year. Based on historical collection patterns, it is anticipated that collections will exceed the budgeted estimate by approximately \$1.9 million primarily due to the additional true-up payment.

SB 813 Property Tax receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) totaled \$642,000 through December, which is significantly lower than prior year levels of \$1.7 million. A portion of this variance, however, was due to the timing differences, as the payment of \$520,000 for November 2015 that would have typically been reflected in December 2015 was not booked until January 2016. Factoring out that timing difference, receipts are still tracking below the prior year and may fall below 2015-2016 Adopted Budget estimate of \$5.1 million and the 2014-2015 actual collection level of \$6.3 million. Based on preliminary information received from the County, it is estimated that collections may be \$1.3 million below the estimate. This figure may be adjusted during the year based on actual experience as necessary once additional information is known.

Aircraft Property Tax receipts through December totaled \$2.5 million, reflecting growth of 5.7% from the prior year. This collection level exceeds the 2015-2016 Adopted Budget estimate of \$2.40 million, which required growth of approximately 2.8%. Typically, collections through October reflect 95% of the annual revenue for this category. Based on this collection trend and the latest estimate from the County of Santa Clara, it is estimated that revenues will exceed the budgeted estimate by approximately \$170,000.

Based on the latest estimate from the County, the **Homeowners Property Tax Relief** revenue is projected to meet the 2015-2016 Adopted Budget estimate of \$1.03 million.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

SALES TAX

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$190,260,000	\$32,474,322	17.1%	18.0%	\$0

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax. Overall, revenues are tracking above budgeted estimates and it is anticipated that collections will exceed the budgeted estimate of \$190.3 million due to the wind down of the “Triple Flip.”¹

The 2015-2016 Adopted Budget estimate for **General Sales Tax** of \$184.1 million requires growth of 5.4% from the 2014-2015 year-end figure of \$174.7 million. Collections in 2015-2016 will be impacted by prior year accrual adjustments, one-time payments, and the Triple Flip payment from the State. Information on actual receipts for the first quarter of General Sales Tax for the current year was received in December and represented activity for July through September 2015. The first quarter 2015-2016 General Sales Tax revenues were up 2.9% from the same quarter in the prior year. When comparing San José’s cash receipts to those of other jurisdictions, San José’s growth of 2.9% was slightly higher than the growth level of the State as a whole (up 2.4%); and above Northern California (1.8%), San Francisco Bay Area (2.0%), and Santa Clara County (2.6%).

In 2015-2016, the wind down of the “Triple Flip” sales tax adjustments is anticipated. On August 5, 2015, the Department of Finance notified the California State Board of Equalization and the public that the State’s Triple Flip “unwinding” process will be initiated with the defeasance of the Economic Recovery Bonds. It is estimated that the final true-up payment associated with the Triple Flip wind down will be made in August 2016 and will be accrued to 2015-2016. Based on information from the City’s Sales Tax consultant, MuniServices, anticipated adjustments associated with the 2015-2016 Triple Flip payment (including the 2014-2015 true-up payment to be received in January 2016 and the final true-up payment anticipated in August 2016), revenues are currently projected to exceed the budgeted estimate of \$184.1 million by approximately \$10.0 - \$13.0 million. Adjustments based on these one-time payments, as well as any others based upon actual 2015-2016 performance, will be brought forward later in 2015-2016 and will provide a one-time funding source for the 2016-2017 budget process.

¹ As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), one-quarter cent of the City’s one cent Bradley Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, remains in effect until the State’s bond obligations have been satisfied.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

SALES TAX

The City’s Sales Tax consultant, MuniServices, 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, growth of 4.4% was realized in the most recent quarter. The chart below outlines the various sectors of sales tax and the percentage of the total receipts received.

**Sales Tax Revenue Economic Performance
July – September 2015**

Economic Sector	% of Total Revenue	% Change July – Sept 2014 to July – Sept. 2015
Transportation	24.3%	+5.7%
General Retail	24.0%	+0.5%
Business-to-Business	23.0%	+9.0%
Food Products	16.0%	+7.1%
Construction	11.9%	-3.0%
Miscellaneous	0.8%	+42.9%
Total	100.0%	+4.4%

Information on the second quarter collections (October-December sales activity) for this fiscal year will not be received until March 2016.

Through December, the **Proposition 172 Sales Tax** receipts of \$2.9 million are tracking 14.6% above the prior year level of \$2.5 million through the same period. The 2015-2016 budgeted estimate of \$6.2 million requires growth of 7.9% from the 2014-2015 collection level of \$5.7 million. Based on 2014-2015 actual performance and current collection trends, it is anticipated that collections will meet or exceed the budgeted estimate this year.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

TRANSIENT OCCUPANCY TAX

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$14,700,000	\$6,576,342	44.7%	44.6%	\$2,436,000

The current 2015-2016 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$14.7 million, which was built assuming growth of approximately 5% from the 2014-2015 estimated collection level of \$14.0 million. Actual receipts in 2014-2015, however, were even stronger than anticipated and ended the year at the 2015-2016 budgeted estimate of \$14.7 million, and the hotel industry’s solid growth trend continues. Year-to-date receipts through December of \$6.6 million are 14.4% above the prior year. Based on TOT’s continued strong performance, TOT collections are on pace to exceed the 2015-2016 budgeted estimate by \$2.3 million, or approximately 15.0% and end the year at \$17.0 million. This report includes a recommendation to increase the budgeted estimate by \$2,436,000, from \$14.7 million to \$17.1 million. Of this amount, \$2.3 million reflects the year-to-date trend of the local hotel industry and \$136,000 reflects the initial amount attributable to increased TOT revenues from Super Bowl 50 Game Week as described below. Per City Council direction approved as part of the Mayor's March Budget Message for Fiscal Year 2014-2015, the growth in TOT revenues above the established 2013-2014 base level is to be allocated for capital maintenance of the City's cultural facilities. In accordance with this direction, \$2.3 million is recommended for allocation to the Cultural Facilities Capital Maintenance Reserve. A corresponding increase is recommended in the Transient Occupancy Tax Fund, which receives 60% of this tax.

It is important to note that due to the large number of visitors staying in San José hotels during Game Week, an additional minimum amount of \$540,000 in General Fund TOT revenue (\$1.35 million combined in the General Fund and TOT Fund) resulting from Super Bowl 50 is expected in addition to the \$2.3 million cited above. The Administration recommends recognizing \$136,000 of the \$540,000 to offset Police and Fire costs attributable to the increased visitors during Game Week. TOT receipts will continue to be monitored over the coming months and additional adjustments will be brought forward later in the fiscal year, once the positive revenue benefits from Super Bowl 50 are fully realized. Additional details can be found in Section III of this report.

Through December, the average hotel occupancy rate at the 14 major hotels was 74.3%, a slight decrease from the 75.5% occupancy rate for the same period in 2014-2015, while room rates have risen from \$163.72 to \$182.24 (11.3%). The year-to-date average revenue-per-available room (RevPAR) metric of \$135.84 represents an increase of 9.7% from the prior year level.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

FRANCHISE FEES

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$47,582,232	\$18,937,634	39.8%	40.4%	\$0

Franchise Fees are collected in the Electric, Gas, Cable, Tow, Commercial Solid Waste, Water, and Nitrogen Gas Pipeline categories. Through December, Franchise Fee receipts of \$18.9 million were 1.6% above last year's collection level of \$18.6 million. The 2015-2016 budgeted estimate assumes an increase of approximately 1.4% from the prior year. Based on current collection trends, overall, Utility Tax receipts are tracking to meet budgeted estimates.

Electric and Gas Franchise Fees provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in a calendar year (revenues in 2015-2016 are based on calendar year 2015). Actual collections currently reflect formula driven advance amounts; true receipts will not be known until April 2016. Based on current Electricity and Gas Utility Tax receipts for calendar year 2015, it is anticipated that receipts will meet or exceed the 2015-2016 Adopted Budget estimates of \$20.2 million and \$4.8 million respectively.

Commercial Solid Waste Fees of \$4.75 million through December are slightly above prior year levels of \$4.67 million. Collections are expected to reach the 2015-2016 Adopted Budget estimate of \$11.4 million, which reflects the revised methodology of a flat rate for assessing this fee. The revised methodology became effective July 1, 2012.

Cable Franchise Fees of \$2.6 million through December are tracking above prior year levels of \$2.4 million. Based on current collection trends and actual 2014-2015 receipts of \$10.0 million, revenues are anticipated to meet or exceed the current budgeted estimate of \$9.9 million.

Collectively, all other franchise fees including Tow, Water, and Nitrogen Gas Pipeline are tracking to end the year close to the budgeted estimates.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

UTILITY TAX

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$93,825,000	\$32,786,418	34.9%	35.8%	\$0

Utility Tax contains the following categories: Electric, Gas, Water and Telephone. Collections through December of \$32.8 million were tracking 4.7% below the prior year level of \$34.4 million. The majority of this decline, however, was due to differences in the timing of payments and prior year accruals. The 2015-2016 budgeted estimate assumes an increase of approximately 2.5% from the prior year. Based on current collection trends, overall, Utility Tax receipts are tracking slightly below budgeted estimates, but may meet the budget by year-end. Below is a more detailed discussion of the revenue performance in each category.

Through December, **Electric Utility Tax** receipts of \$17.6 million were 3.9% above the prior year level of \$16.9 million and reflect activities through November 2015. Collections are on pace to exceed the 3.6% growth necessary to meet the 2015-2016 Adopted Budget estimate of \$43.8 million.

Gas Utility Tax receipts through December of \$1.8 million were 9.7% below prior year collections of \$1.9 million. However, once adjusted for timing differences in payments and slight variances in accrual levels, receipts are tracking to meet or exceed the estimated budget. Gas Utility Tax receipts are subject to significant fluctuations from the impact of weather conditions and/or rate changes. Collections will continue to be monitored closely since approximately two-thirds of the revenue in this category is typically collected in the second half of the year.

Water Utility Tax collections of \$3.6 million through December are 29.2% below the prior year level of \$5.1 million, however, once adjusted for accruals and timing differences in payments, receipts are tracking to meet or exceed the estimated budget of \$11.6 million by year end; however, this category may experience significant fluctuations due to the impacts of the drought in the earlier months of the fiscal year.

Telephone Utility Tax receipts of \$9.9 million through December are tracking 5.7% below the prior year level of \$10.5 million. The budgeted estimate of \$29.6 million requires growth of 1.8% from prior year collections. As collections are tracking well below the originally anticipated growth rates and prior year collections, receipts may fall below budgeted levels by \$1 million to \$2 million if trends continue. It is important to note that this category is expected to benefit from a change in collections for local prepaid cards. The State Board of Equalization (BOE) confirmed that it has completed processing the agreement

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

UTILITY TAX

for the administration of the Local Prepaid Mobile Telephony Services Collection Act for the City of San José. The BOE will commence collection of the City's Utility Tax on prepaid cards at the rate of 4.5% starting January 1, 2016. Payments will be made to the City at the end of each allocation quarter with the first payment expected in August 2016. While it is not yet known how much additional revenue will be generated from this source, this change will have a positive impact on receipts.

BUSINESS TAXES

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$44,425,000	\$24,509,371	55.2%	51.8%	\$0

Business Taxes include the following major groups of revenue: Cardroom Business Tax, General Business Tax, Marijuana Business Tax, and Disposal Facility Tax. Overall, this category is tracking to exceed the modified budget of \$44.4 million.

Cardroom Business Tax collections reflect the gross receipts tax collected from the two cardrooms located in San José. Collections of \$7.4 million through December are 6.6% above the prior year level of \$6.9 million. Based on current collection trends and actual receipts in 2014-2015 of \$17.0 million, it is anticipated that revenues may exceed the budgeted estimate of \$17.0 million by \$800,000 to \$1.0 million in 2015-2016.

General Business Tax receipts of \$8.4 million are 1.9% below the prior year level of \$8.6 million. The 2015-2016 Adopted Budget estimate of \$11.0 million, however, allows for a drop of 7.2% from the 2015-2016 actuals of \$11.9 million. Much of the decrease experienced in the current year is due to staff assigned to the new Business Tax System implementation team and a vacant position in the Business Tax collecting unit; both of which have impacted the delinquent collection efforts. While collections in 2015-2016 are expected to be slightly lower than those received in 2014-2015, they should meet or exceed the budgeted estimate.

Marijuana Business Tax collections of \$3.8 million are 94.7% above the prior year level of \$1.9 million. Collections were lower in 2014-2015 due to the closure of collective locations adjacent to residential and other sensitive use areas. However, revenues have rebounded as patrons from closed businesses purchase

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

BUSINESS TAXES

their medication from businesses that remain open. The implementation of compliance audits and assessments have also contributed to the revenue increase. Collections are currently expected to exceed the budgeted estimate of \$4.5 million by approximately \$1.0 million to \$2.0 million.

Disposal Facility Tax (DFT) receipts through December of \$4.8 million are tracking 2.1% above the prior year level of \$4.7 million and reflect 40.6% of the budgeted estimate of \$11.9 million. Based on current tracking, revenues are anticipated to exceed budgeted levels by \$275,000, due primarily to an increase in waste from elevated construction activity and new waste sources.

LICENSES AND PERMITS

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$48,721,223	\$29,879,968	61.3%	62.9%	\$1,500,000

Licenses and Permits include the following major groups of revenue: Building Permits, Fire Permits and Miscellaneous Other Licenses and Permits. Through December, revenues of \$29.9 million are tracking 8.9% above the prior year level of \$27.4 million, and, overall, revenues are estimated to meet or exceed budgeted levels due to higher collections in the development fee programs, partially offset by lower receipts in the Other Licenses and Permits category.

Building Permits revenues of \$14.6 million through December are tracking 8.4% above the 2014-2015 collection level of \$13.5 million for the same period. The 2015-2016 budgeted revenue estimate of \$26.0 million allows for a drop of 5.2% from the prior year actuals in this category; however, this has not been the case as revenues in residential and non-residential plan check, non-residential plumbing permits, non-residential mechanical permits, non-residential electrical permits, permit processing fees, record retention fees, and compliance report fees are tracking above estimated levels. Both commercial and industrial activity levels are higher than the same period last year; however, residential permit activity is significantly lower than the same period last year. Development permits to date have consisted mostly of commercial and industrial alterations and multi-family residential units. It is anticipated that Building Permit revenues will exceed the Adopted Budget estimate by at least \$1.5 million as a result of continued strong development activity. Included in this document are recommendations to recognize the additional

**2015-2016
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

LICENSES AND PERMITS

estimated revenues of \$1.5 million with a corresponding increase to the Building Development Fee Program Reserve. This action would increase the Reserve from \$21.1 million to \$22.6 million.

Fire Permits collections through December of \$6.2 million are tracking 6.8% above the 2014-2015 collection level of \$5.8 million for the same period. The 2015-2016 budgeted revenue estimate of \$10.6 million requires growth of \$200,000 (2.2%) from the prior year's collection level. It is anticipated that Fire Permit revenues will exceed the Adopted Budget estimate by \$200,000 higher than prior year's collection level. This category consists of development and non-development related permits.

Development related receipts of \$3.3 million through December are tracking above 2014-2015 collection levels of \$3.0 million (10.1%) for the same period, while the budgeted estimate of \$6.4 million allows for an increase in revenue of 3.5% from the prior year's collections of \$6.2 million. If current collection trends continue, it is anticipated that development-related receipts will achieve, and may exceed, the budgeted estimate by year-end.

Non-development revenues of \$3.0 million primarily represent the first three major billing cycles for non-development fire permits for this fiscal year. With the remaining billing cycle, revenues are anticipated to meet the budgeted estimate of \$4.2 million by year-end.

Miscellaneous Other Licenses and Permits – Revenues of \$9.0 million are tracking 11.3% above prior year levels of \$8.1 million, but are tracking to end approximately \$1.0 million below the budget estimate. The 2015-2016 budget estimate requires growth of 25.0% from the prior year actual collections, primarily reflecting the inclusion of Medical Marijuana Collective Annual Operating Fees (\$1.9 million). The 2015-2016 Medical Marijuana Collective Annual Operating Fee Adopted Budget estimate of \$1.9 million anticipated the inclusion of 20 collectives for the entire fiscal year. However, the Medical Marijuana Collective Annual Operating Fee did not go into effect until the beginning of January 2016. For this reason, revenue collections are expected to end the year at \$765,000, falling below the budgeted estimate by approximately \$1.1 million. Payments are made quarterly to cover the annual fee for the calendar year, and only two quarterly payments will be collected in 2015-2016. It is estimated that \$95,600 will be collected per collective, as at this time 16 collectives have been approved.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$16,168,162	\$4,229,614	26.2%	10.6%	\$279,368

Funding in this category is provided by many local agencies. The largest sources include reimbursement from the Successor Agency to the Redevelopment Agency of the City of San José, a public entity, reimbursement from the Central Fire District for fire services provided by the City to County properties, and Senior Nutrition reimbursement. Revenues are generally performing close to budgeted levels through December, however, it is anticipated that they will exceed budgeted levels by year end as a result of higher than anticipated reimbursements from the Central Fire District and the City's Paramedic Program. A recommended increase of \$279,000 to the budgeted revenue estimate is included in this report and discussed in further detail in Section III of this report.

The largest revenue estimate in the Revenue from Local Agencies category is generally a reimbursement from the Successor Agency to the Redevelopment Agency for the payment of the Convention Center Debt Service. When the 2015-2016 Adopted Budget was developed, it was assumed that SARA would reimburse the City for the Convention Center Debt Service payment that is budgeted in the General Fund of \$15.28 million. However, as part of the 2014-2015 Annual Report actions approved by the City Council in October 2015, the reimbursement was reduced by \$9.8 million to \$5.48 million as a result of Senate Bill 107 that disallowed the reimbursement mechanism used to pay this obligation. The General Fund has been advancing funds to SARA since 2012-2013 to pay debt service on certain City-backed debt, including the Convention Center payment. A reimbursement agreement was established between the City and SARA to reimburse the General Fund within the same fiscal year the advance was made for fiscal years 2012-2013 through 2014-2015, using redevelopment funds for the follow period. Due to the passage of Senate Bill 107 on September 22, 2015, which amended redevelopment dissolution law, the mechanism allowing SARA to reimburse the City on an intra-year basis was disallowed. As such the City did not receive reimbursement for the 2015-2016 loan from the General Fund of approximately \$9.8 million in August 2015 to cover the Convention Center debt payment. The loan will not be repaid until there is sufficient property tax revenue to pay all other enforceable obligations, since obligations to the City are subordinate to all other enforceable obligations. Based on continued moderate tax increment growth, repayment is expected in 10 to 15 years. Using the current level of annual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) and the continued ability to reserve RPTTF each year for debt service, it is anticipated SARA will be able to pay all of its debt service going forward without an advance from the City.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

REVENUE FROM LOCAL AGENCIES

This category includes reimbursements for the City’s Paramedic Program from the County of Santa Clara. The 2015-2016 budgeted estimate is currently \$450,000, however, it is anticipated that approximately \$850,000 will be received. The City receives payments from the Central Fire District for fire services provided to District residents by the San José Fire Department and payments from the County for the Paramedic Program. Beginning in 2013-2014, the County began withholding payments for the first responder advanced life support program (Paramedic Program) because the City had not met the response time performance standards set forth in the agreement with the County. In 2014, the City and County continued to negotiate regarding this issue and executed a Second Amendment to the 911 Emergency Medical Services (EMS) Provider Agreement in December 2014 that expired December 2015. Under this agreement, additional Annex B, Category A funds totaling approximately \$450,000 are expected to be received in 2015-2016 and \$2.0 million was received in 2014-2015 to account for back payment from April 2013 through 2014-2015. If an agreement is extended through the remainder of the year (a third amendment is expected to be brought forward for City Council consideration in late February), additional funds of approximately \$400,000 may be received in 2015-2016. It should be noted that the direct incremental cost to the City to provide the paramedic program totals over \$5.0 million annually.

Minimal budget adjustments are recommended in this report to recognize grant and reimbursement revenues and allocate funding. Section III of this document provides a description of these actions.

DEPARTMENTAL CHARGES

Revenue Status				
	2015-2016		2014-2015	2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$40,923,558	\$22,171,440	54.2%	53.2%	\$1,761,100

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.

**2015-2016
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

DEPARTMENTAL CHARGES

Total revenues of \$22.2 million are tracking \$1.5 million above the prior year of \$20.7 million (7.2%) and are tracking to end the year above the budgeted estimate by approximately \$1.0 million, due primarily to higher than estimated receipts in the Planning Development Fee Program and the PRNS Fee Program, partially offset by lower than estimated receipts in Transportation Fees and Miscellaneous Other Revenue.

Development-related revenues are currently tracking above the prior year collection levels, and are expected to meet or exceed the budgeted estimates if trends continue. Below are highlights of the current status of the development-related fee programs:

Public Works – Public Works revenues through December of \$4.9 million is 8.0% above the prior year level of \$4.5 million. Based on activity through December, revenues related to Engineering such as Residential, Non-Residential, and Private are performing at lower than estimated levels. However, these are offset by higher than estimated collections in other areas, such as Utility Reimbursement-USA Non-Residential, Grading Permits, and Geologic Fees Categories. At this time, collections are projected to meet the 2015-2016 budgeted revenue estimate of \$9.8 million, which requires growth of 5.2% from the prior year.

Planning, Building and Code Enforcement (PBCE) – Through December, Planning Fee revenues of \$3.0 million are 38.7% above the prior year collection level of \$2.2 million. The adopted Planning Fee revenue estimate of \$3.6 million allows for a drop of 27.1% from prior year actuals. However, this has not been the case as overall revenue collections are tracking above estimated levels, with strong performance in all revenue categories except Sale of Publications, Preliminary Review, Residential General Plan Amendments, and Annexations. It is anticipated that Planning Fee revenues will exceed the Adopted Budget estimate by \$900,000 as a result of increased development activity. Budget actions are recommended to recognize additional revenue of \$900,000 with a corresponding increase to the Planning Development Fee Program Earmarked Reserve. This action would increase the Reserve from \$1.7 million to \$2.6 million.

Other Fees – In the non-development fee areas, the PRNS departmental charges are projected to exceed the budgeted estimate of \$17.8 million by at least \$700,000. The Transportation Department is currently tracking below estimated levels due to lower receipts in Minor and Major Development Signal Design Fees. Library fees are also tracking to end the year approximately \$360,000 below the budgeted estimate of \$1.3 million. In addition, other miscellaneous Departmental Charges are tracking below the budgeted estimate due to lower Solid Waste Fees (\$150,000), and lower Animal Care Services Fees (\$125,000).

An action to increase the PRNS budgeted revenue estimate by \$700,000 to account for increased participation levels in recreation classes offered is recommended, bringing the budgeted level to \$18.5 million. An associated increase to the PRNS Fee Activities appropriation is recommended to provide for additional staff and vendor hours needed to support the increased class participation levels.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OTHER REVENUE

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$126,835,861	\$111,285,038	87.7%	72.0%	\$2,694,790

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through December totaled \$111.3 million compared to prior year levels of \$112.7 million. Collections in this category are expected to end the year above or within the budgeted estimate, including the various adjustments recommended in the report that are described in more detail in Section III.

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

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 2015-2016, \$100 million was required to be issued, which is the same amount that was issued in 2013-2014 and 2014-2015.

In the current year, the City has received \$5.8 million in **SAP Center Rental, Parking, and Naming** revenue in accordance with the terms of a new agreement, which is consistent with the budgeted estimate of \$5.8 million.

SB 90 Reimbursements totaled \$1.1 million through December compared to the 2015-2016 Adopted Budget estimate of \$300,000. An upward adjustment may be brought forward at year-end depending on the final SB 90 reimbursements and the overall performance of the Other Revenue category.

Through December, revenue from the **Sale of Surplus Property** totaled \$28,200 compared to \$1.4 million in the prior year. Per information from the Office of Economic Development, it is expected that the revenue estimate of \$1.4 million should be met by year-end.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

TRANSFERS AND REIMBURSEMENTS

Revenue Status				
2015-2016		2014-2015		2015-2016
<u>Budget Estimate</u>	<u>YTD Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$76,368,497	\$50,280,617	65.8%	67.1%	(\$38,000)

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 \$50.3 million through December are tracking above prior year levels of \$46.2 million primarily due to higher than budgeted transfers partially offset by reimbursements for services. Overall, collections are currently tracking close to the budgeted estimate.

Overhead Reimbursements associated with special funds are currently budgeted at \$26.6 million and capital funds are budgeted at \$10.8 million for a total category revenue estimate of \$37.4 million. Through December, overhead collections of \$28.9 million were tracking 1.5% below prior year levels of \$29.4 million. This reflects lower receipts in capital funds due to the delay of various projects. Overhead reimbursements associated with special funds are expected to end the year close to the budgeted estimate; however, the overhead associated with capital funds may fall slightly below the budgeted estimate due to position vacancies in various capital programs.

Transfers includes \$21.3 million in various transfers from other funds. Through December, transfers of \$15.7 million were tracking 79.9% above prior year levels of \$8.7 million. It is estimated that receipts may end the year above budgeted levels primarily due to an anticipated increase in the budgeted transfer from the Construction and Conveyance Tax Fund based on actual performance in that fund. In addition, interest earnings in select funds are currently tracking to exceed budgeted estimate, therefore an increase of \$187,000 is recommended in this document. Revenues will continue to be monitored and adjustments brought forward by year-end as appropriate.

The budget estimate for **Reimbursement for Services** is \$17.7 million, of which \$16.9 million is expected to be generated from the three **Gas Tax Funds**. Currently, Gas Tax revenues of \$5.5 million are down from the prior year levels of \$7.9 million by 30.4%, due to timing of differences in payments. Actual payments through December total \$8.3 million, and are tracking 4.1% above the prior year levels of \$7.9 million. The State Department of Finance released year-end projections in January 2016, that estimated Gas Tax revenues of \$17.7 million for San José, which is 4.9% above the Adopted Budget estimate of \$16.9 million. The Administration will bring forward any adjustments at year-end depending on the overall performance of the Transfers and Reimbursement category.

**2015-2016
MID-YEAR BUDGET REVIEW**

STATUS OF GENERAL FUND REVENUES

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, existing revenues are generally performing within budgeted expectations and are projected to end the year with approximately \$15 - \$20 million in additional revenues. This positive variance represents approximately 1.5% - 2.0% of the budget. The additional revenue is mostly one-time in nature as it is primarily anticipated from Sales Tax as a result of the wind down of the “triple flip” and Property Tax due to a potentially higher ERAF payment. Additional revenue is also expected to be generated from several other categories, including Transient Occupancy Tax, Business Taxes, Revenue from Local Agencies, and Other Revenue.

In total, a net increase of \$9.3 million to the General Fund revenue estimates is recommended in this document. This increase primarily reflects a \$6.9 million increase as a result of net-zero Grants Reimbursements and Fees adjustments as well as a net increase of \$2.4 million in general revenue activity.

The revenue estimates for this year will continue to be updated and used as a starting point in the development of the 2017-2021 General Fund Forecast, due to be released in late February, as well as the 2016-2017 Proposed Budget, due to be released on May 1, 2016. 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.