

2012-2013 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND REVENUES

OVERVIEW

General Fund revenues and transfers through December totaled \$397 million, or 42.6% of the budgeted estimate. Based on current collection trends, existing revenues are tracking to end the year approximately \$7.5 million to \$10 million above expected levels (variance of approximately 1%). This range does not include the technical adjustment necessary to reduce to Tax Revenue Anticipation Notes proceeds and associated expenditures by \$25.0 million or new revenues that are being brought forward as part of this document.

The following table details actual 2012-2013 General Fund revenue collections through December as compared with budgeted revenue estimates and 2011-2012 actual collections for the same period a year ago. It also details the proposed changes to each category:

2012-2013 General Fund Revenue Status through December
(\$ in Thousands)

Category	Budget Estimate	Y.T.D Actual	% of Estimate	2011-2012 % of Actual	Proposed Changes
General Revenue					
Property Tax	\$ 202,925	\$ 57,116	28.1%	29.6%	\$ -
Sales Tax	155,820	40,599	26.1%	25.6%	5,450
Telephone Tax	20,525	7,009	34.1%	33.5%	-
Transient Occupancy Tax	9,100	3,646	40.1%	34.6%	1,000
Franchise Fees	43,625	18,153	41.6%	41.6%	-
Utility Tax	91,855	31,711	34.5%	35.8%	(882)
Business Taxes	40,850	20,302	49.7%	46.7%	1,550
Licenses and Permits	37,935	25,204	66.4%	54.9%	59
Fines, Forfeitures, and Penalties	16,709	6,411	38.4%	43.0%	(1,250)
Use of Money and Property	2,911	1,716	58.9%	55.5%	-
Revenue from Local Agencies	30,888	4,176	13.5%	15.3%	6,935
Revenue from the State of California	11,239	907	8.1%	18.6%	1,291
Rev. from State Govt. - Recovery Act	9	2	22.2%	22.5%	-
Revenue from Federal Government	19,028	4,541	23.9%	14.9%	256
Rev. from Fed. Govt. - Recovery Act	3,502	417	11.9%	26.3%	-
Departmental Charges	32,126	18,421	57.3%	47.4%	471
Other Revenue	146,327	116,025	79.3%	93.9%	(24,564)
Sub-Total General Revenue	865,374	356,356	41.2%	41.5%	(9,684)
Transfers and Reimbursements					
Overhead Reimbursements	32,349	25,284	78.2%	76.4%	-
Transfers	19,208	9,966	51.9%	70.1%	918
Reimbursements for Services	15,185	5,386	35.5%	43.8%	-
Sub-Total Transfers and Reimbursements	66,742	40,636	60.9%	67.2%	918
TOTALS	\$ 932,116	\$ 396,992	42.6%	43.4%	\$ (8,766)

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OVERVIEW

Through December, revenues tracked at or above budgeted collections in a number of categories, including: Sales Tax, Transient Occupancy Tax, Business Taxes, Property Tax and Other Revenue. These positive variances are partially offset by lower collections in a number of categories, including Utility Tax, 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: (1) address urgent fiscal/program needs; (2) implement required technical/rebalancing adjustments; and (3) account for additional new revenue from grants, reimbursements, and fees available to fund additional related expenditures. Significant actions include:

- Recognize \$6.9 million to reflect the receipt of a one-time payment from the County of Santa Clara to reflect the recalculation of prior year Property Tax Administration Fees (PTAF). A corresponding increase to the 2013-2014 Future Deficit Reserve is recommended bringing the Reserve from \$22.5 million to \$29.4 million;
- Implement required technical and rebalancing actions to adjust revenue estimates downward by a net \$17.6 million to bring estimates in line with revised projections. Major actions include:
 - Recognize \$7.6 million in excess revenues in Sales Tax, Transient Occupancy Tax, Business Taxes, and Revenue from the State of California to set aside in the 2012-2013 Ending Fund Balance Reserve.
 - Reduce the Other Revenue category by \$25.0 million (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.
 - Adjust other revenue estimates to more accurately align with projections; adjustments include a \$1.3 million reduction in Parking Fines.
- Recognize grant, reimbursement, and/or fee related funds (\$1.9 million).

In total, adjustments recommended in this document result in a net reduction of \$8.8 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.

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PROPERTY TAX

Revenue Status

2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$202,925,000	\$57,116,396	28.1%	29.6%	\$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 to end the year within the budgeted estimate based on the most recent estimates from the County Assessor's Office.

In the 2012-2013 Adopted Budget, the **Secured Property Tax** estimate of \$185.36 million assumed a 1.3% increase from 2011-2012 estimated collection levels and was aligned with the June 2012 information provided by the Santa Clara County Assessor's Office. Based on 2011-2012 actual collections of \$184.0 million, growth of only 0.7% is needed to meet the 2012-2013 Adopted Budget level. Through December, Secured Property Tax collections of \$43.5 million were 5.8% below the prior year receipts of \$46.2 million and reflect Property Tax installments from the County. The County of Santa Clara has recently provided an updated estimate for 2012-2013 Secured Property Tax of \$185.32 million, which is consistent with the 2012-2013 Adopted Budget estimate reflecting 0.7% growth estimated for this year.

The 2012-2013 collections are based on the value of property assessed on January 1, 2012, with any tax roll corrections. In developing this most recent estimate, the County has made a projection on the value of downward adjustments that will be made during the year of approximately \$46 million county-wide (excluding former redevelopment agency areas), which is higher than in prior years and higher than actual net downward adjustments experienced in 2011-2012 which were approximately \$40 million county-wide (excluding former redevelopment agency areas). This is a preliminary estimate from the County and will be adjusted during the year based on actual experience. Because tax roll adjustments are still occurring and will continue to take place until the end of May 2013, the Budget Office will continue to work with the County to monitor actual performance and estimate year-end collections.

The 2012-2013 **Unsecured Property Taxes** budget estimate is \$11.5 million, which is 3.0% above the prior year collection level. Receipts through December of \$10.6 million typically reflect approximately 90% of the annual revenue for this category (which is received in October). Based on this historical

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PROPERTY TAX

collection trend and the most recent estimate provided by the County of Santa Clara of \$11.6 million, Unsecured Property Tax receipts are projected to meet or slightly exceed the budgeted estimate.

For **SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales), collections totaled \$935,000 through December, which is up 17.1% from the \$798,000 received last year at this time. If the current collection trend continues, receipts in this category are expected to meet or exceed the budgeted estimate. Over the last few years, revenues in this category had fallen significantly, due, in part, to a substantial number of refunds that were due to property owners as a result of declining home values. In 2011-2012, however, receipts of \$3.3 million reflected strong growth and were 194.8% above the 2010-2011 actuals of \$1.1 million and also exceeded the budgeted estimate of \$2.9 million. The 2012-2013 Adopted Budget assumed receipts would remain at the estimated 2011-2012 collection level of \$2.9 million. Based on higher than anticipated receipts in 2011-2012, collections can drop 11.2% in 2012-2013 and meet the budgeted estimate. The most recent estimate from the County of \$2.4 million, however, shows a larger decline of 27.3%. The County will update this figure as the year progresses based on actual performance. Collection trends will be monitored to determine if an adjustment to this revenue estimate is necessary. It should be noted that collection levels in recent years remain well below the high of \$10.1 million received in 2005-2006 and below levels seen just a few years ago (e.g., \$8.0 million in 2006-2007 and \$7.9 million in 2007-2008).

Aircraft Property Tax collections of \$2.0 million through December reflect 96.5% of the budgeted revenue estimate of \$2.1 million. Similar to Unsecured Property Tax, receipts through December typically reflect approximately 90% of the annual revenue for this category. If this historical trend continues, it is estimated that revenues will exceed the budgeted estimate of \$2.1 million by year end. It should be noted that the County of Santa Clara Assessor's Office currently estimates \$2.1 million, a 3.3% decline from 2011-2012 receipts of \$2.2 million.

Based on the latest estimate from the County, the **Homeowners Property Tax Relief** revenue is projected to total \$1.03 million in 2012-2013, which is slightly below the \$1.07 million currently budgeted for this category.

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SALES TAX

Revenue Status

2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$155,820,000	\$40,598,888	26.1%	25.6%	\$5,450,000

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax. Overall, revenues continue to track above budgeted estimates and an increase of \$5.5 million to the revenue estimate is recommended in this report which is recommended to be used to establish the 2012-2013 Ending Fund Balance Reserve.

The 2012-2013 modified budget estimate for **General Sales Tax** is \$151.3 million, which is approximately 1.3% above the actual 2011-2012 collection level. It is currently anticipated that underlying growth of at least 3% will be realized in 2012-2013 based on recent sales tax performance and current economic trends. 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 2012. The first quarter General Sales Tax revenues for 2012-2013 were up 6.4% from the same quarter in the prior year. When comparing San José's cash receipts to those of other jurisdictions, San Jose's growth of 6.4% was slightly below the growth levels of Santa Clara County (up 7.8%), Northern California (up 7.4%), and the State as a whole (up 8.1%).

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, growth of 4.2% was realized in the most recent quarter. As shown in the chart below, this growth was the result of increases in all economic sectors except Business-to-Business. The Transportation sector experienced strong growth of 9.1%, driven primarily by the increase in new auto sales (up 19.7%).

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SALES TAX

**Sales Tax Revenue Economic Performance
July – September 2012**

Economic Sector	% of Total Revenue	% Change July-Sept. 2012 to July – Sept. 2011
General Retail	25.5%	+ 4.1%
Transportation	25.5%	+ 9.1%
Business to Business	22.6%	- 1.4%
Food Products	15.3%	+ 5.4%
Construction	10.4%	+ 3.3%
Miscellaneous	0.7%	+ 13.5%
Total	100.0%	4.2%

The year-over-year increase for the first quarter exceeded the 3.0% economic growth assumed in the 2012-2013 modified budget for this quarter. To reflect this higher growth and to adjust expected growth in the remaining three quarters to 3% over the 2011-2012 actual receipts (when the 2012-2013 Budget was developed, estimates were used for the last two quarters of 2011-2012), a \$4.9 million increase in the Sales Tax estimate is recommended in this report. This funding is recommended to be used to establish the 2012-2013 Ending Fund Balance Reserve.

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.

Through December, the **Proposition 172 Sales Tax** receipts of \$2.2 million are tracking 18.1% above the 2011-2012 collection level of \$1.8 million through the same period. Because the 2011-2012 receipts exceeded the estimate used to develop the 2012-2013 Adopted Budget, the 2012-2013 budgeted estimate of \$4.5 million allows for a decline of 3.0% from the prior year collection level of \$4.7 million. Based on 2011-2012 actual performance and current collections, receipts in this category are expected to reach at least \$5.1 million, reflecting annual growth of 8.8%. An upward adjustment of \$550,000 is recommended in this report to reflect the higher collection level. This funding is recommended to be used to establish the 2012-2013 Ending Fund Balance Reserve.

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TRANSIENT OCCUPANCY TAX

Revenue Status				
2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$9,100,000	\$3,645,454	40.1%	34.6%	\$1,000,000

The 2012-2013 budget estimate for the General Fund **Transient Occupancy Tax (TOT)** allocation (40% of the total tax) is \$9.1 million, which reflects growth of 1.3% from the 2011-2012 collection level of \$9.0 million (which included TOT receipts and TOT compliance revenue). Year-to-date receipts of \$3.6 million are 17.2% above the prior year. Based on current collection trends, TOT revenues in the General Fund are expected to exceed the budgeted estimate by approximately \$1.0 million.

Through December, the average hotel occupancy rate at the 14 major hotels was 64.4%, a significant improvement from the 57.9% occupancy rate for the same period in 2011-2012. Similarly, the average daily room rate through December was \$134.34, a significant improvement from the \$121.99 room rate for the same period in 2011-2012. As of December, the trailing 12-month average revenue-per-available-room (RevPAR) increased to \$87.56, a 23.7% increase from the \$70.76 level experienced in December 2011.

As a result of the higher than anticipated revenue collections, an increase of \$1.0 million to the budgeted revenue estimate is recommended at this time. The recommended increase from \$9.1 million to \$10.1 million represents an 11.0% year-over-year increase. This funding is recommended to be used to establish the 2012-2013 Ending Fund Balance Reserve.

UTILITY TAX

Revenue Status				
2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$91,855,000	\$31,711,004	34.5%	35.8%	(\$882,000)

Utility Tax contains the following categories: **Electric, Gas, Water and Telephone**. Collections through December of \$31.7 million are tracking below the prior year level of \$32.3 million due to the receipt of a \$1.6 million one-time settlement agreement payment from Pacific Gas and Electric (PG&E)

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UTILITY TAX

in 2011-2012. Excluding this one-time payment, receipts through December are tracking 3.0% above the prior year level. The 2012-2013 budgeted estimate assumes an increase of 3.4% from the prior year once adjusted to exclude the \$1.6 million one-time payment from the prior year. Based on current collection trends, overall, Utility Tax receipts are tracking to fall below budgeted estimates and a downward adjustment of \$882,000 is recommended in this report, bringing the budget to \$91.0 million. The majority of this decrease is attributed to lower than budgeted year-end projected receipts in Gas, Electric, and Telephone Utility Tax categories (\$1.9 million) partially offset by higher than anticipated Water Utility Tax (\$1.0 million). Below is a more detailed discussion of the revenue performance in each category and adjustments to the revenue estimate.

Through December, **Electric Utility Tax** receipts of \$15.0 million were tracking 2.4% above the prior year level of \$14.7 million, after excluding the \$1.6 million settlement agreement discussed above. Growth of 3.8% from 2011-2012 actual collections is needed to meet the 2012-2013 budgeted estimate of \$40.6 million. Therefore, based on current tracking, a downward adjustment of \$500,000 is recommended bringing the budget to \$40.1 million. This revised estimate reflects growth of 2.6% over the prior year, accounting for current performance through December and the 2.6% rate increase effective January 2013.

Gas Utility Tax receipts through December of \$1.7 million were 12.2% below the prior year collections of \$1.9 million. Growth of 2.4% from 2011-2012 actual collections is needed, however, to meet the 2012-2013 budgeted estimate of \$9.0 million. Based on current collection trends and anticipated performance through the end of the year, a recommended decrease of \$1.0 million is included in this document, bringing the total budgeted estimate to \$8.0 million. The revised estimate reflects a decline of 9.0% from 2011-2012 actual collections of \$8.8 million. This is consistent with information from PG&E on the drop in gas prices. Actual collections 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 \$4.4 million through December are tracking 16.1% above the prior year level of \$3.8 million. The 2012-2013 estimate of \$10.0 million was based on growth of 7.5% over the projected 2011-2012 collection level of \$9.3 million based on anticipated rate increases. However, because revenues in 2011-2012 ended the year above the estimated collection level, an increase of 4.9% is now needed to achieve the budgeted estimate. Based on current collection trends, a recommended increase to the budget of \$1.0 million is included, bringing the budgeted estimate to \$11.0 million. This would require growth of 15.4% over 2011-2012 receipts. Consumption levels over the next several months will determine if further adjustments to the revenue estimate will be appropriate before the end of the year.

Telephone Utility Tax receipts of \$10.6 million through December are tracking 1.8% above the prior year level of \$10.4 million. The 2012-2013 Adopted Budget estimate of \$32.3 million assumed a 1%

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UTILITY TAX

increase from the estimated 2011-2012 collections; however, because 2011-2012 actual collections of \$31.4 million fell slightly below the estimate used to develop the 2012-2013 Adopted Budget, growth of 2.7% is needed to meet the 2012-2013 budgeted estimate. Based on current collection trends, a decrease of \$382,000 is included in this document bringing the budgeted estimate to \$31.9 million. This revised estimate would allow for a 1.2% decrease from the prior year collection level.

BUSINESS TAXES

Revenue Status

2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$40,850,000	\$20,302,029	49.7%	46.7%	\$1,550,000

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 slightly above the modified budget estimate of \$40.9 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 (\$750,000), Disposal Facility Tax (\$700,000), and Marijuana Business Tax (MBT) (\$100,000) and would bring the total budgeted estimate to \$42.4 million.

Business Tax – collections of \$7.3 million through December were 3.8% above the prior year collection level of \$7.0 million. No growth from the prior year, however, is necessary to meet the budgeted estimate of \$11.3 million. The positive collection trend in this category reflects the gradual economic recovery as well as efforts by the Finance Department to maximize the receipt of this tax. Additionally, on October 23, 2012, the City Council approved a Business Tax Amnesty Program that is also expected to increase receipts in this category. A business owner may file a request for amnesty between, December 1, 2012 and March 29, 2013. Based on current trends and the implementation of the Amnesty Program, revenues are anticipated to exceed the 2012-2013 budgeted estimate. Once the results of the Amnesty Program are known, any necessary revenue estimate adjustment will be brought forward.

Cardroom Business Tax – collections of \$6.6 million through December were tracking 7.3% above the prior year level of \$6.2 million. However, growth of only 2.1% over the 2011-2012 actual collection level of \$14.9 million is needed to meet the 2012-2013 budgeted estimate of \$15.3 million. The increase from the prior year primarily reflects a spike in activity resulting from the opening of Casino M8trix in

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BUSINESS TAXES

August 2012. Based on current collection trends and actual 2011-2012 receipts, collections are tracking to exceed the budgeted estimate and an increase of \$750,000 (to \$16.0 million) to this category is recommended in this document and provides funding for required rebalancing actions as recommended in this document. This will allow for a 7.1% increase in this category when compared to the prior year.

Marijuana Business Tax – collections of \$1.7 million through December reflect collections for July through November and are 19.8% above the prior year collection level of \$1.4 million. Based on current collection trends, receipts in this category are projected to exceed the 2012-2013 budgeted estimate of \$3.6 million. An increase of \$100,000 is recommended in this report, adjusting the budgeted estimate to \$3.7 million, which is consistent with the 2011-2012 actual collection level. If current collection trends continue, however, it is likely that an additional upward adjustment will be possible by year-end. It should be noted that there remains continued uncertainty regarding this program and the potential impacts from any federal actions. This additional revenue provides funding for required rebalancing actions as recommended in this document.

Disposal Facility Tax (DFT) – Receipts through December of \$4.7 million are tracking 2.6% above the prior year level of \$4.6 million. The 2012-2013 Adopted Budget estimate of \$10.7 million was built on the assumption that revenues would fall slightly from an estimated collection level of \$10.8 million in 2011-2012 as waste diversion was expected to continue to reduce receipts in this category. However, because actual 2011-2012 collections of \$11.2 million were higher than anticipated, receipts can fall 4.2% in 2012-2013. Based on current collection trends, receipts are tracking above the budgeted estimate of \$10.7 million and an increase of \$700,000 to the estimate is included in this document to set aside funding for the 2012-2013 Ending Fund Balance Reserve (\$668,000) and provide funding for required rebalancing actions as recommended in this document (\$32,000). With this adjustment, the revised estimate of \$11.4 million would require growth of 2.1% over prior year receipts. Due to the timing of billing cycles, this projection only takes into account billings through November.

LICENSES AND PERMITS

Revenue Status

2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$37,935,108	\$25,203,437	66.4%	54.9%	\$58,495

Licenses and Permits include the following major groups of revenue: **Building Permits, Fire Permits and Miscellaneous Other Licenses and Permits**. Through December, revenues of \$25.2 million are

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LICENSES AND PERMITS

tracking 4.8% about the prior year level of \$24.1 million. Overall, revenues are estimated to meet or exceed budgeted levels. Development-related activity experienced very significant growth in 2011-2012 and this strong performance continues in 2012-2013. Separate actions to increase revenues and staffing resources were brought forward and approved by the City Council on January 29, 2013 for the Building and Fire Fee Programs; therefore, only a \$58,000 increase in this category is recommended in this document. This reflects the overhead associated with the actions recommended in the separate memorandum, partially offset by a downward adjustment of \$4,000 to correctly categorize a cardroom table administrative fee revenue estimate adjustment from the Transfers and Reimbursements category to the Licenses and Permits category.

Building Permits – Building Permit revenue of \$12.4 million through December is tracking 7.6% above the 2011-2012 collection level of \$11.5 million for the same period as well as 19.2% above the 2012-2013 budgeted estimate. In the 2012-2013 Adopted Budget, the revenue estimate of \$19.7 million allows for a drop of 20.9% in this category; however, this has not been the case as revenues in building plan check, building permits, plumbing permits, mechanical permits, electrical permits, and permit processing categories are tracking well above estimated levels. Strong revenue receipts are being driven by an increase in residential and industrial permits, offset by slower commercial activity. It is anticipated that Building Permit revenues will exceed the adopted 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 and approved by the City Council on January 29, 2013. These actions included the addition of 10 positions for the Building Development Fee Program, offset by additional revenues of \$915,000, in order to keep pace with the increased demand. Further information on the approved actions can be found at <https://ca-sanjose.civicplus.com/DocumentCenter/View/11261>. In addition, an increase to the revenue estimate of \$50,510 is included in this report to recognize the overhead reimbursement to the General Fund as a result of the added 10 positions to the program.

Fire Permits – Through December, Fire Permit collections of \$5.5 million were tracking above estimated levels and 1.5% above the prior year receipts of \$5.4 million. To meet the budgeted estimate of \$9.3 million, collections in this category can decline by 2.6% when compared to the prior year. The development-related revenues, which totaled \$2.8 million through December, are currently tracking to conservatively exceed the budgeted estimate of \$5.2 million by approximately \$400,000. This increased activity has resulted in the need for additional resources to meet the plan check and inspection service demands. Separate actions to increase revenues, staffing and other resources were brought forward and approved by the City Council on January 29, 2013. The actions included the addition of 1.0 Senior Hazardous Materials Inspector, offset by additional revenue of \$114,000. In addition, an increase to the revenue estimate of \$12,116 is included in this report to recognize the overhead reimbursement to the General Fund as a result of the added position. At this time, the Fire Department projects that the Non-Development program revenues, which totaled \$2.7 through December, will end the year at budgeted revenue levels of \$4.1 million.

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LICENSES AND PERMITS

Miscellaneous Other Licenses and Permits – Revenues of \$7.3 million are tracking 2.8% above prior year levels of \$7.1 million and are generally tracking at anticipated levels through December. The 2012-2013 modified budget estimate of \$9.0 million allows for a decline of 4.5% from the prior year, primarily reflecting a lower estimate for the vacant/dangerous buildings permits. Based on current collections, revenues are anticipated to meet budgeted estimates by year end.

FINES, FORFEITURES, AND PENALTIES

Revenue Status				
2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$16,708,500	\$6,411,171	38.4%	43.0%	(\$1,250,000)

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 received \$6.4 million, or 38.4% of the budget estimate, with collections tracking 18.9% below the prior year primarily due to lower Parking Fines. The 2012-2013 budgeted estimate allows for a decline of only 9.0%. A downward adjustment of \$1.25 million reflects significantly lower than estimated Parking Fines revenue.

Parking Fine revenue totaled \$4.0 million through December, which was 21.4% below the \$5.1 million collected through the same period last year. The 2012-2013 budget estimate of \$11.0 million allows for a drop of 6.6% from the 2011-2012 collection level of \$11.8 million. When the 2012-2013 Adopted Budget was developed, it was assumed that Parking Fine revenues would experience a decline in 2012-2013 as a result of the transition of parking compliance officers that were transferred from the Airport Department to the Department of Transportation. The reduction in collections, however, has been larger than anticipated due to several factors, including: a more significant impact associated with the training and transition of parking compliance officers; reduction in parking activity in neighborhoods around the HP Arena due to the delayed hockey season; a higher level of staff absences due to a combination of injuries and non-work related injuries/illness; and a slight decrease in the number of parking citations issued by police officers due to other police priorities. A downward adjustment of \$1.25 million to the Parking Fine revenue estimate, therefore, is recommended in this document. The reduction in revenue is partially offset by a reduction in the Parking Citations/Jail Courthouse appropriation (\$400,000).

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FINES, FORFEITURES, AND PENALTIES

Business Tax penalties of \$375,000 through December are tracking 23.7% below prior year levels due to the impacts of the Business Tax Amnesty Program and are expected to end the year below the budgeted estimate of \$1.0 million. It is anticipated, however, that lower collections in this area will be offset by higher Business Tax receipts. Once the results of the Business Tax Amnesty Program are known, any necessary revenue estimate adjustment will be brought forward.

REVENUE FROM LOCAL, STATE, AND FEDERAL AGENCIES

Revenue Status					
	2012-2013		2011-2012		2012-2013
	<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
Local Agencies	\$30,888,290	\$4,176,340	13.5%	15.3%	\$6,935,316
State of California	\$11,248,425	\$909,093	8.1%	18.7%	\$1,291,340
Federal Government	<u>\$22,529,930</u>	<u>\$4,957,697</u>	22.0%	17.5%	<u>\$256,040</u>
TOTAL	\$64,666,645	\$10,043,130	15.5%	16.7%	\$8,482,696

This section provides information for 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 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, 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, a recommended increase of \$6.9 million to the budgeted revenue estimate is included in this report as discussed below.

The largest revenue estimate in the Revenue from Local Agencies is a reimbursement from the Successor Agency to the Redevelopment Agency for the payment of the Convention Center Debt Service. No revenues have been received through December for the 2012-2013 budgeted estimate of \$15.3 million, however, the method and timing of payment is currently under review.

A \$6.9 million increase to the 2013-2014 Future Deficit Reserve is offset by a one-time payment from the County of Santa Clara, which reflects the recalculation of prior year **Property Tax Administration Fees (PTAF)**. The City of Alhambra et al. had successfully sued the County of Los Angeles regarding

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the calculation of these fees. The litigation concerned whether SB 1096 Triple Flip and Vehicle License Fee revenues should be excluded from the calculation of SB 2557 Property Tax Administration Fees (PTAF). The Supreme Court of California denied a rehearing of the City of Alhambra et al. v. County of Los Angeles, therefore upholding the prior ruling on the recalculation of SB 2557 Property Tax Administration Fees. On January 25, 2013, the County notified the City that it was prepared to remit the disputed PTAF. The City's additional PTAF for the affected years from 2004-2005 through 2011-2012 totaled \$6.9 million, \$6.7 million in PTAF adjustments and earned interest of \$223,000. This unbudgeted revenue is recommended to be allocated to the 2013-2014 Future Deficit Reserve. In addition, PTAF for 2012-2013 and moving forward will be calculated in accordance with the Court's decision. This change is reflected in this document through a recommended reduction in the City-Wide Property Tax Administration Fee appropriation in 2012-2013 and funding levels will be adjusted as part of the 2014-2018 Five Year Forecast.

Additional budget adjustments are recommended in this report to recognize revenues and allocate funding for the following: County Public Health Department support for the Communities Putting Prevention to Work Grant – Obesity Prevention Initiative (\$36,316) and the Interactive Digital Art Spaces Grant (\$15,000). A technical clean-up of the 2011 Emergency Medical Preparedness Grant – Fire (\$16,000) corrects the categorization and reallocated this estimate to Revenue from the Federal Government. 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.

This category also includes a payment from the State for the Vehicle License Fees Collection In Excess, which totaled \$525,000 in 2012-2013. Vehicle License Fee revenues collected by the Department of Motor Vehicles as a result of certain compliance procedures are allocated equally to counties and cities and are apportioned on a population basis. The payment received in 2012-2013 reflects the reconciliation for 2011-2012. When the 2012-2013 Adopted Budget was developed, the timing and amount of that payment was not known. A \$525,000 increase to the revenue estimate is recommended in this document to recognize this revenue.

Other budget adjustments totaling \$766,000 are recommended to account for new grants or changes in existing grants and include the following: California Gang Reduction, Intervention and Prevention (CALGRIP) Grant (\$426,375); State Homeland Security Grant Program (\$149,235); Anti-Drug Abuse Grant 2012-2013 (\$101,777); Partners in Reading Program Grant (\$53,902); Local Enforcement Agency Grant (\$29,451); Avoid the 13 Grant 2012-2013 (\$5,600);. Section III of this document provides a description of these actions.

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REVENUE FROM LOCAL, STATE, AND FEDERAL AGENCIES

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 \$256,000 are recommended to account for new grants or changes in existing grant and include the following: 2010 Urban Area Security Initiative (UASI) Grant – Police (\$100,000); National Forum Capacity-Building Grant OJJDP 2012-2015 (\$62,500); Bulletproof Vest Partnership Grant (\$36,827); Fire Department Strike Team (\$30,713); and Organized Crime Drug Enforcement Task Force Grants (\$10,000). In addition, an increase of \$16,000 correctly categorizes the 2011 Emergency Medical Preparedness Grant – Fire revenue estimate adjustment from the Revenues from the Federal Government category to the Revenue from the State category. Section III of this document provides a description of these actions.

DEPARTMENTAL CHARGES

Revenue Status				
2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$32,126,081	\$18,420,906	57.3%	47.4%	\$470,378

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 \$18.4 million are tracking above the prior year of \$16.2 million (13.4% above) and are tracking to end the year close to the budgeted estimate of \$32.1 million. Collections in the Transportation, Public Works, Planning, and Parks, Neighborhoods and Recreation Departments are tracking to meet or exceed estimated levels, which offset the lower than anticipated collections in the Police and Library Departments, which are tracking 18.8% and 10.3% below expected levels respectively.

Two 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 (\$424,000) and an increase to Public Works Fee Program to

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DEPARTMENTAL CHARGES

recognize the overhead associated with the staffing augmentations recommended in a separate memorandum (\$46,378) as discussed below.

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

Public Works – Public Works revenues through December of \$4.1 million are tracking 32.3% above the prior year level of \$3.1 million. The 2012-2013 budget estimate of \$5.7 million allows for a decline of 22.2% from the prior year collection level of \$7.3 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 2012-2013. Non-residential revenues are also performing above anticipated levels. As discussed in the Development Services Staffing Needs memorandum that was reviewed and approved by the City Council on January 29, 2013, development revenues are on track to exceed the budgeted revenue estimate by at least \$2.0 million. To address the increased workload associated with this higher activity level, an action was approved as part of that memorandum to add 2.0 Engineering Technicians, 1.0 Associate Engineering Technician, 1.0 Senior Engineering Technician, 1.0 Associate Engineer, and 1.0 Senior Engineer positions, offset by an increase to the revenue estimate of \$338,000. In addition, an increase to the revenue estimate of \$46,378 is included in this report to recognize the overhead reimbursement to the General Fund as a result of the added positions. 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.

Planning, Building and Code Enforcement (PBCE) – Through December, Planning Fee revenue of \$1.5 million is 20.4% above the prior year collection level of \$1.2 million. The \$2.6 million adopted Planning Fee revenue estimate allows for a drop of 9.2% from the prior year actuals; however, overall revenue collections are tracking above estimated levels and it is anticipated that Planning Fee revenues will achieve, and likely exceed, the budget estimate. The 2012-2013 Modified Budget includes a reserve of \$520,000 for this program, significantly lower than prior years. Therefore, as revenues continue to be volatile, no ongoing changes to program revenue or cost assumptions are recommended. This program will continue to be monitored and adjustments brought forward as appropriate as part of the annual budget process.

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OTHER REVENUE

Revenue Status

2012-2013		2011-2012		2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$146,326,782	\$116,025,209	79.3%	93.9%	(\$24,563,862)

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through December 2012 totaled \$116.0 million. This represents an increase of 6.5%, or \$7.1 million, from the December 2011 level of \$108.9 million. This increase was primarily due to the receipt of \$5.0 million in proceeds from the sale of 14.5 acres of the Airport West property to the Earthquakes, LLC with a corresponding increase in expenditures to pay off a portion of the HUD 108 loan associated with this property. When factoring out the additional sale of property proceeds, Other Revenue collections through December 2012 totaled \$111.0 million – an increase of \$2.1 million (1.9%) from the prior year level.

Collections in this category are expected to end the year approximately \$24.6 million below the budgeted estimate due almost entirely to the recommended reduction in the TRAns proceeds (\$25.0 million) based on the actual issuance level in 2012-2013 partially offset by some higher than anticipated revenue collections. These major transactions are described in more detail below.

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 2012-2013, 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, net-zero decreases to both revenues and expenditures of \$25.0 million are recommended in this document to align the budget with actual issuance levels.

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

In the current year, the City has received \$5.3 million in **HP Pavilion Rental, Parking, and Naming** revenue, meeting the current budgeted estimate of \$5.3 million in accordance with the arena agreement.

Investment Cost Reimbursement and **Banking Services** revenues through December of \$887,000 and \$399,000, respectively, are tracking within estimated levels. Any variances in these categories would be offset by a corresponding variance in related expenditures.

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SB 90 Reimbursements totaled \$342,000 through December compared to the 2012-2013 Adopted Budget estimate of \$250,000. 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 \$5.6 million compared to \$560,000 in the prior year. This reflects a \$5.0 million increase from the receipt of proceeds from the sale of 14.5 acres to the Earthquakes, LLC as discussed above with a corresponding increase in expenditures. Once adjusting for this, revenues of \$656,000 are 17.1% above prior year levels. The Office of Economic Development currently anticipates that revenues in this category will meet the budgeted estimate of \$6.4 million in 2012-2013.

A number of additional adjustments are also recommended to recognize revenue and allocate funds to specific projects and programs, including the following: Maddie Lifesaving Grant (\$370,000), Energy Efficiency Program (\$34,200); and the Parent Project Grant (\$31,938). Section III of this document provides a description of these actions.

TRANSFERS AND REIMBURSEMENTS

Revenue Status

	2012-2013		2011-2012	2012-2013
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$66,741,908	\$40,636,311	60.9%	67.2%	\$918,376

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 \$40.6 million through December are tracking below the prior year level of \$46.8 million primarily due to lower budgeted transfer amounts and lower reimbursement amounts partially offset by higher overhead reimbursements. Overall, collections are currently tracking close to the budgeted estimate.

Overhead Reimbursements – Overhead reimbursements associated with special funds is currently budgeted at \$22.9 million and capital funds is budgeted at \$9.4 million for a total category revenue estimate of \$32.3 million. The 2012-2013 budget estimate is consistent with the 2011-2012 actual levels. Through December, overhead collections of \$25.3 million were tracking 2.2% above prior year levels of \$24.7 million. This reflects the net impact of higher receipts in special funds (\$1.1 million), partially offset by lower receipts in capital funds (\$529,000). While overall collections are currently

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TRANSFERS AND REIMBURSEMENTS

tracking slightly above estimated levels through December, it is anticipated that revenues may fall below the budgeted estimate by year-end. While the overhead associated with special funds is expected to end the year close to the budgeted estimate, the overhead associated with capital funds may fall below the budgeted estimate due to position vacancies in various capital programs. Overhead reimbursements will be monitored closely and adjustments will be brought forward later in the fiscal year as necessary.

Transfers – This category includes \$19.2 million in various transfers. Through December, transfers of \$10.0 million were tracking within estimated levels, but below the prior year level of \$15.3 million. This reduction from the prior year reflects the changes in the budgeted transfers. Recommended increases in this category of \$918,000 reflect the following adjustments: an increase in the budgeted transfer from Construction and Conveyance Tax Fund (\$880,000) based on higher revenue collections in that fund, an increase in a transfer from the Community Facilities Revenues Fund (\$26,000) for reimbursement of staffing oversight costs; and the final payment from the Standard Plans and Specification Load from the Public Works Support Fund (\$8,245). In addition, an upward adjustment of \$4,131 to correctly categorize a cardroom table administrative fee revenue estimate adjustment from the Transfers and Reimbursements category to the Licenses and Permits category is included.

Reimbursement for Services – The budget estimate for this category is \$15.2 million, of which \$14.5 million is expected to be generated from the three **Gas Tax Funds**. Currently, Gas Tax revenues of \$5.4 million through December are tracking to meet or slightly exceed the budgeted estimate by year-end.

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 \$7.5 million to \$10 million in additional revenues. This positive variance represents approximately 1% of the budget. Additional revenue is also expected to be generated from the one-time payment from the County associated with the recalculation of Property Tax Administration Fees (\$6.9 million) as well as various net-zero grants and reimbursements.

A net downward adjustment of \$8.8 million to the General Fund revenue estimate is recommended. This decrease primarily reflects a \$25.0 million reduction in the anticipated revenue from the TRANS (and associated expenditures) based on the actual debt issuance required for City cash flow purposes this year. Excluding this action, net upward adjustments total \$16.2 million and reflect higher projected collections (\$14.3 million) as well as various net-zero grants, reimbursements, and fee adjustments (\$1.9 million). Major revenue-related items include the establishment of the 2012-2013 Ending Fund Balance Reserve (\$7.6 million of excess revenues) and an increase to the 2013-2014 Future Deficit Reserve (\$6.9

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CONCLUSION

million) funded by a one-time payment from the County based on the recalculation of prior year Property Tax Administration Fees.

The revenue estimates for this year will continue to be updated as part of the 2014-2018 General Fund Forecast, due to be released late February, as well as the 2013-2014 Proposed Budget, due to be released on May 1, 2013. 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.