

<p>2008-2009 MID-YEAR BUDGET REVIEW Section I</p>
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STATUS OF GENERAL FUND REVENUES

Overview

General Fund revenues and transfers through December totaled \$319.5 million, or 38.7% of budgeted estimate. While revenues to date were tracking only slightly below projected levels, receipts are expected to experience more significant declines in the second half of the fiscal year as a result of the severe recession. The revenue adjustments recommended in this document reflect the anticipated impact of the deteriorating economy.

Several of the economically sensitive revenue categories are expected to end the year below budgeted estimates, including Property Tax, Sales Tax, Transient Occupancy Tax, Business Tax, Motor Vehicle In-Lieu, and Use of Money and Property. The development-related fees are also expected to fall well below the Adopted Budget levels. The lower collections in these categories are expected to be partially offset by higher collections in other non-economically sensitive categories, including Transfers and Reimbursements and Utility Taxes. A description of the performance in each of these categories is included in this section.

General Fund receipts through December were 11.1% (\$32.0 million) above the amount received last year at this time. A significant portion of this growth, however, is the result of timing differences between collections in the two years. For example, amounts for Property Tax that were booked in December in 2008-2009 were not booked until January in 2007-2008. After taking these timing differences into account, however, we project that a number of the revenue categories will end the year below

both the prior year and the current budgeted estimates.

Recommended Adjustments

A series of adjustments that result in a net reduction of \$9.0 million to the General Fund revenue estimates are recommended in this document to (1) bring revenue estimates in line with revised projections based on economic trends and updated collection information; (2) to reduce a transfer into the General Fund from the Construction Excise Tax Fund as a budget balancing action in that fund; and (3) account for additional new revenue from grant programs and reimbursement for services, available to fund additional related expenditures.

The overall impacts of the recommended actions in the General Fund are summarized in the following chart:

Category	\$ in millions
Sales Tax	(6,223,000)
Licenses and Permits	(1,774,650)
Transfers and Reimbursements	(1,297,665)
Transient Occupancy Tax	(1,054,000)
Use of Money and Property	(968,500)
Property Tax	(875,000)
Fines, Forfeitures & Penalties	(800,000)
Departmental Charges	(410,000)
Revenue from Local Agencies	3,196,346
Revenue from the State of California	897,400
Other Revenue	178,485
Revenue from the Federal Government	83,754
Total	<u>(\$ 9,046,830)</u>

The following discussion highlights overall General Fund activities through December by revenue category.

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PROPERTY TAX

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$208,267,000	\$59,966,604	28.8%	14.2%	(\$875,000)

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); and Homeowners Property Tax Relief.

The 2008-2009 **Current Secured Property Tax** budget estimate is \$192.1 million. Through December, actual Current Secured Property Tax collections of \$48.1 million were well above the prior year receipts of \$17.2 million due only to the timing of payments.

Based on information from the County of Santa Clara Controller-Treasurer's Office, the Secured Property Tax roll is expected to reach \$191.2 million, which is \$875,000 (less than 1%) below the 2008-2009 Modified Budget of \$192.1 million. A downward adjustment of \$875,000 is recommended in this report to reflect the lower projected revenue. With the revised Secured Property Tax estimate, year-over-year growth of 4.2% is projected, slightly below the 4.7% growth needed to meet the adopted estimate.

The 2008-2009 **Current and Prior Unsecured Property Taxes** budget estimate is \$11.1

million, which is consistent with the prior year collection level. Receipts through December totaled \$10.4 million, which was slightly above the \$10.3 million received last fiscal year. This reflects the large payment received in October, which typically accounts for approximately 90% of the total receipts in this category. Based on actual collections and information from the County, collections in this category are expected to meet the budgeted estimate of \$11.1 million by year-end.

Through December, **SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) of \$1.26 million were only 6.5% below the prior year level of \$1.35 million.

This collection pattern is unusual given the large declines in home prices that have occurred. The December 2008 average single family home median sales price of \$452,000 was 35% below the December 2007 figure of \$699,000. While only a small drop is currently reflected in year-to-date receipts, it is anticipated that collections will fall significantly in this area during the remainder of the year based on the current

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housing market. Collections in the next several months will provide a much better indicator of receipts in this category since approximately 80% of the revenue in this category is typically collected in the second half of the year.

A substantial drop-off in SB 813 Property Tax receipts was anticipated when the 2008-2009

Adopted Budget was developed based on the assumption that real estate activity would continue to decline through this fiscal year. Receipts can fall by approximately 50% from the \$7.9 million collected in 2007-2008 and still meet the 2008-2009 budget estimate of \$3.9 million in this category.

SALES TAX

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$152,536,000	\$36,632,705	24.0%	19.2%	(\$6,223,000)

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax.

The 2008-2009 budget estimate for **General Sales Tax** is \$148.0 million, which is approximately 1% below the 2007-2008 actual collection level.

As discussed in the September-October Bi-Monthly Financial Report (MFR), the receipts for the first quarter of **General Sales Tax** for the current year were received in December. These receipts represented activity for July

through September, and in total were down 0.4% from the same quarter in the prior year.

When comparing San José's cash receipts to those of other jurisdictions, San José's decrease of 0.4% was better than the performance of Santa Clara County (down 2.8%), Northern California (down 2.2%) and the State as a whole (down 3.2%).

While cash receipts were down only 0.4% in the first quarter, Sales Tax collections on an economic basis were down 2.8%. The City's Sales Tax consultant, MuniServices Company,

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provided economic performance data, which is considered to a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding state and county pools and adjusts for anomalies, payments to prior periods, and late payments.

On an economic basis, the drop in the most recent quarter was the result of declines in every economic sector:

- General Retail: down 2.7%
- Business-to-Business: down 2.3%
- Transportation: down 2.5%
- Construction: down 6.5%
- Food Products: down 1.3%
- Miscellaneous: down 5.1%

In this most recent quarter, General Retail remained the largest sector in San José representing 26.9% of the sales tax activity, followed by Business-to-Business (25.9%), Transportation (22.0%), Food Products (14.5%), Construction (10.0%), and Miscellaneous (0.7%).

When the 2008-2009 Adopted Budget was developed, it was assumed that collections in 2008-2009 would be essentially at the 2007-2008 Adopted Budget levels. However, because collections in 2007-2008 were slightly higher than anticipated, receipts in 2008-2009 can

actually decline by approximately 1% and still meet the 2008-2009 budgeted estimate.

While collections in the first quarter of 2008-2009 are within the budgeted estimate, it is anticipated that General Sales Tax receipts in the remaining three quarters will fall well below projected levels based on the severe economic recession.

A 5% decline in Sales Tax receipts from the prior year is currently projected. This will allow a drop of approximately 6.5% in each of the remaining three quarters. Under this scenario, total collections would fall below the budgeted estimate of \$148.0 million by \$6.0 million. In order to plan for this projected decline, a downward adjustment of \$6.0 million to the General Sales Tax revenue estimate is recommended as part of this document.

The 2008-2009 **Proposition 172 Half-Cent Sales Tax** adopted budget estimate of \$4.5 million requires growth from the prior year of 0.5%. However, year-to-date receipts of \$1.9 million are 1% below the prior year. Based on the current collection trends and the expectation that Sales Tax receipts will continue to experience very weak performance, a downward adjustment of \$223,000 to the Proposition 172 Sales Tax category is recommended as part of this document.

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TRANSIENT OCCUPANCY TAX

Revenue Status				
2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$9,972,000	\$3,840,538	38.5%	38.8%	(\$1,054,000)

The 2008-2009 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (40% of the total tax) is \$10.0 million. To meet the budgeted estimate, growth of 4.3% over the prior year collection level is needed.

Current year collections are currently tracking below budgeted levels. Through December, collections of \$3.8 million were 3.7% above last year's level of \$3.7 million. It should be noted that the growth experienced from last year was the result of additional revenue from compliance efforts. Factoring out the compliance revenue, TOT receipts are actually 2.8% below the prior year.

In recent months, the occupancy and room rates at the 14 major hotels have been declining. In the first quarter of the fiscal year, occupancy rates were higher in two of the three months when compared to the prior year. In the second quarter, however, occupancy rates were below the prior year in every month. Room rates have declined in five of the six months of the fiscal year when compared to 2007-2008 levels. In December, total occupancy at the 14 major hotels was 42.72%, which was below the prior

year level of 44.94%. The average room rate has also declined from \$138.95 in December 2007 to \$129.27 in December 2008.

While TOT receipts are currently tracking only slightly below expected levels, it is anticipated that this category will fall further below the budgeted estimate by year end as a result of the current economic downturn. Based on a study performed by independent consultant Horwath HTL and adjustments for compliance audits, collections are expected to end the year 6.7% below 2007-2008 levels (allowing a drop of 13% from January through June 2009). If this drop occurs, revenues will fall short of the budgeted estimate by \$1.1 million.

A downward adjustment of \$1,054,000 is recommended in this document based on the lower revenue projections for this category.

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FRANCHISE FEES

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$41,621,000	\$15,189,783	36.5%	39.3%	\$0

Franchise Fees contains the following categories: **Electricity, Gas, Commercial Solid Waste, Cable Television, City-Generated Vehicle Tow and Water.**

The annual reconciliation report from Pacific Gas and Electric (PG&E) concerning **Electricity** and **Gas** gross receipts and the resulting amount of franchise fees owed for calendar year 2008 will not be received until April, and, as a result, firm conclusions cannot be drawn concerning the status of these two revenue accounts until that report is received. Based on currently available gross receipts information, however, it is estimated that both Gas and Electric Franchise Fees will end the year close to the budgeted estimates.

Commercial Solid Waste (CSW) Franchise Fees collections through December of \$3.5 million tracked below prior year levels of \$4.5 million due, in part, to timing differences in receipts and variances in accruals compared to the previous year. After factoring out these differences, collections were tracking to end the year below the budgeted estimate of \$12 million by \$1 million or more. The economic slowdown has led to a decrease in the tons of solid waste collected, and hence to a decrease in

this revenue stream. Some improvement in collections is expected in the coming months due to a reclassification of Municipal Solid Waste, which occurred in December. Staff will continue to monitor these revenues closely and bring forward adjustments at year-end, if necessary.

Cable Television Franchise Fees of \$1.8 million represent collections for only one quarter through December, due to the typical quarter lag in receipts. Year-to-date receipts are tracking within 1% of the prior year level, while the 2008-2009 adopted estimate allows for a drop of approximately 3%. Based on current collection trends, fees from this category are expected to meet or slightly exceed the budgeted estimate of \$6.9 million by year-end.

City-Generated Vehicle Tow Fees of \$492,000 are tracking within estimated levels and are expected to meet the budget estimate of \$1.2 million by year-end.

Water Franchise Fee revenue through December of \$105,000 is currently tracking within estimated levels and is expected to meet the 2008-2009 budget estimate of \$244,000 by year-end.

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UTILITY TAX

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$83,690,000	\$35,190,544	42.0%	40.4%	\$0

Utility Tax contains the following categories:
Electric, Gas, Water and Telephone.

Electric Utility Tax receipts of \$17.4 million were tracking close to the prior year level of \$17.3 million. Growth of 4.3% is needed, however, to meet the Electric Utility budget estimate of \$38.8 million. At this point, collections are still projected to end the year at the budgeted estimate as a result of a 6% average rate increase instituted by Pacific Gas and Electric Company effective October 2008.

Gas Utility Tax receipts of \$3.5 million were 8.9% above the prior year of \$3.2 million, primarily reflecting the changes in the price of gas. This trend, however, is not expected to continue. Based on commercial and residential forecasts provided by Pacific Gas and Electric Company, average gas costs are expected to drop in almost all remaining months of the fiscal year. The 2008-2009 Adopted Budget estimate of \$10.7 million actually allows for a drop of 5.1% from the prior year collection level.

Collections in the next several months will provide a much better indicator of receipts in this category since over 70% of the revenue in

this category is typically collected in the second half of the year.

Water Utility Tax collections of \$4.3 million through December are tracking above the prior year level of \$3.6 million. This higher collection level was primarily due to an accrual adjustment at the end of 2007-2008. Collections are currently on target to exceed the budgeted estimate of \$8.5 million by year-end. It should be noted, however, that this category is always subject to fluctuations related to the amount of precipitation received, particularly in the spring. Consumption levels over the next several months will determine if adjustments to the revenue estimate will be appropriate before the end of the year.

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Telephone Utility Taxes receipts of \$10.0 million through December are tracking 11.2% above the prior year level of \$9.0 million. Based on the 2007-2008 actual receipts of \$26.1 million and the current collection trends, receipts are on track to meet or slightly exceed the budgeted estimate of \$25.7 million by year-end. This collection level may be impacted by

the November 2008 ballot measure approved by the voters that is scheduled to take effect in April 2009. This measure lowered the tax rate by 10% and modernized the tax base. Any adjustment to this revenue estimate will be brought forward later in the fiscal year based on actual performance.

LICENSES AND PERMITS

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$78,940,120	\$37,900,620	48.0%	55.1%	(\$1,774,650)

Licenses and Permits include the following six major groups of revenue: **Business Tax, Cardroom Business Tax, Disposal Facility Tax, Building Permits, Fire Permits** and **Miscellaneous Other Licenses and Permits.**

Business Tax – collections of \$8.0 million through December were tracking below the prior year level of \$9.6 million. A portion of this drop was the result in changes to the billing cycle. Factoring out this difference, collections are still expected to fall below both the 2007-2008 collection level of \$12.6 million and the 2008-2009 budget estimate of \$13.3 million. The Finance Department projects that Business

Tax collections will end the year approximately \$1.0 - \$1.5 million below the budgeted estimate. The current economic slowdown has impacted the number of businesses as well as staffing levels, which directly impact Business Tax receipts. A downward adjustment of \$1.0 million is recommended in this document based on the revised projection.

Cardroom Business Tax – collections of \$5.8 million through December were tracking above the prior year level of \$5.0 million. Based on collection trends in recent years and actual performance through December, this revenue category is expected to exceed the budget

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LICENSES AND PERMITS
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estimate of \$12.0 million by \$1 million. Based on this revised projection, an increase of \$1.0 million to this revenue is recommended in this document.

Disposal Facility Tax (DFT) – Receipts through December of \$5.2 million, or 39.5% of the budgeted amount (\$13.2 million), are tracking 3.7% below prior year levels of \$5.4 million. The 2008-2009 Adopted Budget allows for a drop of 5.3% in this category. Receipts are experiencing declines due to the slowdown in economic activity, which has led to the disposal of fewer tons of solid waste. Given the current economic conditions, collections may end the year slightly below the budgeted estimate. Staff will continue to monitor these revenues closely and bring forward adjustments at year-end, if necessary.

Building Permits – Building Permit receipts through December totaled \$10.3 million, or 43.1% of the adopted estimate of \$23.9 million. This collection level was 1.7% above the prior year level of \$10.1 million through six months. The 2008-2009 estimate was built assuming a continuation of the activity levels projected for 2007-2008, with a general fee increase of 10% and specialized fee adjustments. Actual 2007-2008 collections, however, ended the year below these estimated levels. As a result, 21% revenue growth is needed to meet the adopted revenue estimate in the Building Fee Program.

A majority of the revenue categories in the Building Fee Program have performed at lower than anticipated levels through the first half of

2008-2009 and will not come close to annual budgeted estimates. As reported in the Bi-Monthly Financial Reports and an Information Memorandum distributed to City Council on December 2, 2008, collections in this category have been tracking significantly below budget.

In response to the projected shortfall, the City Council approved a rebalancing plan on January 27, 2009 that will reduce revenue estimates by \$5.7 million (24%) to a total level of \$18.1 million. To offset the lower collection level, a combination of expenditure reductions and the use of the Building Program Fee Reserve are recommended.

An additional reduction of \$200,000 is recommended in this report to reflect the loss of overhead from the development fee program to the General Fund from actions taken on January 27, 2009. The Budget Office, in conjunction with the Planning, Building and Code Enforcement Department, will continue to analyze revenue levels to determine if any further adjustments to the revenue estimate will be necessary before the end of the year.

In December, residential building permit activity vaulted to its highest level in over four years (817 units), accounting for over one-half of all new dwelling units expected during the entire fiscal year. Permits were issued for more than 12 individual projects. This spike was largely attributed to developers pulling permits before the changes to the Uniform Building Code took effect on January 1, 2009. Developers wanted to maintain the validity of

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prior plan check approvals. Permit levels are expected to fall back to the very depressed levels experienced in the months prior to December.

Building permit valuation is at a 25-year low. For the first six months of 2008-2009, new plan checks have averaged 447/month compared to last year's 542/month. In addition, the number of building inspections being requested have dropped from a typical daily count of 1,000 to a low of 200 to 561 inspections per day (in November). In December, on average, the number of daily building inspections continued to be extremely low at 432 per day.

Fire Permits – collections through December of \$4.7 million were tracking below (8%) estimated levels and below (7.6%) the prior year receipts of \$5.1 million. Development-related collections of \$2.3 million were 12.5% below the \$2.6 million received through December 2007, due to lower than anticipated revenue in non-renewable permits and plan check fees. Overall development activity is falling short of budgeted revenue estimates due to decreased activity in residential, commercial, and industrial development.

In anticipation of this lower collection level, the following actions are recommended as part of this report to bring the Fire Development Fee Program revenues and expenditures into alignment: a \$1.0 million downward adjustment to the budgeted revenue, elimination of 3.0 vacant positions (1.0 Senior Engineer, 1.0 Associate Engineer, and 1.0 Engineer II), and

use of \$765,000 of the Fire Fee Reserve. An additional reduction of \$150,000 is recommended in this report to reflect the loss of overhead from the Fire Development Fee Program to the General Fund.

Non-development permit revenues through December of \$2.4 million were tracking 10.8% above prior year receipts. Annual renewable permit receipts are expected to end the year at budgeted levels.

Miscellaneous Other Licenses and Permits – Revenues in this category are generally tracking within anticipated levels through December.

A downward adjustment to the Cardroom Table Fee of \$424,000 is recommended to reflect the anticipated reduction of the 2008-2009 table fee of \$31,027 to the 2007-2008 Adopted level of \$24,482.

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FINES, FORFEITURES, AND PENALTIES

Revenue Status				
2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$15,726,000	\$6,238,189	39.7%	47.0%	(\$800,000)

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

Through December, this category has generated \$6.2 million, a decrease of 15% from last year. This lower collection level is primarily the result of an over-accrual in the County Municipal Court Fines category to 2007-2008 that has negatively impacted collections this year. A downward revision of \$600,000 is

recommended to address this over-accrual. An additional reduction of \$200,000 is recommended in this category based on current collection trends.

Over half of the revenue in this category is generated from Parking Fines. Through December, Parking Fines totaled \$3.4 million, or 38.9% of the budgeted estimate of \$8.7 million. Collections are tracking below expected levels due, in part, to the booking of a portion of the December receipts in January. Staff vacancies are also impacting collections in this area.

REVENUE FROM THE USE OF MONEY AND PROPERTY

Revenue Status				
2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$11,721,500	\$4,956,445	42.3%	42.4%	(\$968,500)

The largest source of revenue in this category is **General Fund Interest Earnings**. This category also includes interest earnings from

several other funds, and interest on senior staff home loans.

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Overall, receipts of \$5.0 million through December were down 35% from the prior year level of \$7.6 million. The lower collection level in 2008-2009 is the result of lower cash balances in the General Fund as well as a lower interest yield. The pre-payment of the City's contribution to its two retirement plans in August 2008 has also reduced the interest earnings received during the year. This reduction, however, will be more than offset by expenditure savings associated with lower retirement contributions. As part of the 2007-2008 Annual Report actions, a \$1.5 million reduction to the General Fund revenue estimate for this category was approved to reflect the lower interest earnings expected as a result of the retirement contributions pre-payment.

The interest yield is also expected to be lower this fiscal year. Current economic conditions have reduced potential investment yields for the type of securities predominately included within the City's portfolio (U.S. Government

Agencies) as other market participants seek to invest in the safety of U.S. Government issues to minimize their financial exposure. As the demand for these investments rises, yields on these conservative investments decline. The Finance Department has reduced its interest earnings rate projections for 2008-2009 from 3.41% to 3.22%.

Based on lower interest rates and cash balances, interest earnings are expected to fall below budgeted estimate for the General Fund (down \$713,500) and those funds whose interest earnings are allocated to the General Fund (down \$315,000). These lower collections are expected to be partially offset by higher collections for City Hall Coffee Cart rental revenue (\$10,000) and Communications Facilities Rentals (\$50,000). A downward adjustment of \$968,500 is recommended in this report to bring the revenue estimate in line with current projections.

REVENUE FROM LOCAL AGENCIES

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$47,895,053	\$24,590,051	51.3%	37.4%	\$3,196,346

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The largest entities in this category are: the **Redevelopment Agency**, the **Water Pollution Control Plant** and **Municipal Water System**, and the **Central Fire District**.

Redevelopment Agency reimbursements through December totaled \$8.1 million, which is 46.1% of the budgeted estimate of \$17.5 million. Collections are currently tracking within estimated levels. It is anticipated that all General Fund costs incurred on behalf of the Redevelopment Agency will be reimbursed by year-end.

The Redevelopment Agency also reimburses the City for the Convention Center lease payment budgeted at \$14.3 million for 2008-2009. Through December, \$10.6 million has been received. It is anticipated that the full amount of the estimate will be received by year-end.

Payments are also received from the **Water Pollution Control Plant** and the **Municipal Water System** enterprise funds in lieu of various taxes and fees, which the City would receive if these operations were privately owned. Payments through December totaled \$1.8 million and it is anticipated that the year-end receipts will be close to the budgeted estimate of \$2.4 million.

Through December, payments of \$902,000 from the **Central Fire District** for fire services provided by the City are tracking within estimated levels. The year-to-date payment reflects the true-up from 2007-2008. The largest payments for this category, which is

budgeted at \$6.0 million, are expected to be received in January and June 2009. Collections are projected to exceed the budgeted estimate due to the true-up payment from 2007-2008. An upward adjustment of \$900,000 is recommended in this document to account for this payment.

Overall, the **Other Reimbursements** from various agencies are typically tracking within estimated levels through December.

The following adjustments are recommended in this report to the Revenue from Local Agencies category:

- Increase of \$980,937 to recognize funding from the Alum Rock (\$415,596), Berryessa (\$199,826), and San Jose Unified (\$365,515) School Districts to support the After School Program.
- Increase of \$500,000 to recognize funding from the San Jose Redevelopment Agency to reimburse the City for eligible capital projects, which will free up funds for the Safe Summer Initiative.
- Increase of \$239,669 to recognize funding from the City of Mountain View for the Silicon Valley Regional Interoperability Project.
- Increase of \$182,052 to recognize funding from the San Jose Redevelopment Agency to support two temporary Code Enforcement Inspectors in the Strong Neighborhoods Initiative and Neighborhood Business District areas.

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- Increase of \$83,000 to recognize CAL-ID funding to support the Mobile Identification Services Project.
- Increase of \$80,515 to recognize funding from the County of Santa Clara to support the Senior Nutrition Program.
- Increase of \$76,582 to recognize funding from the County of Santa Clara for Police crossing guard services.
- Increase of \$57,713 to recognize funding from the San Jose Redevelopment Agency for Code Enforcement overtime funding to perform monthly inspections of the nightclubs and bars in the evening hours.
- Increase of \$54,818 to recognize CAL-ID funding for a Network Engineer position in the Police Department.
- Increase of \$22,060 to recognize the return of City funds from the San Jose Redevelopment Agency (SJRA) for the Edenvale/Great Oaks Project. Initially, SJRA planned to make the landscaping improvements in these neighborhoods and the City transferred funding for this project. However, the SJRA was not able to perform certain improvements and the funds have been returned to the City, which will now make the improvements.
- Increase of \$14,000 to recognize funding from the County of Santa Clara to reimburse the City for an initial supply of epinephrine auto injectors.
- Increase of \$5,000 to recognize a Regional Innovation Grant from the City of Sunnyvale to offset General Fund staff costs in the Work2Future Program.

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

REVENUE FROM THE STATE OF CALIFORNIA

Revenue Status				
2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$11,102,828	\$6,424,294	57.9%	69.3%	\$897,400

The major State revenues include **Motor Vehicle In-Lieu Fees**, **Airplane In-Lieu Fees**, and **State Grants**.

Motor Vehicle In-Lieu Fee (VLF) revenue through December totaled \$1.5 million, which represents a 29% decrease from the prior year collection level of \$2.1 million. Reflecting the virtual collapse of the auto sales market, Motor Vehicle In-Lieu payments are projected to end the year below the budgeted estimate of \$5.1 million by approximately \$2.1 million based on recent collection trends. As a reflection of how severely this revenue source has been impacted, the City received no payments from the State in November and December since the Motor Vehicle In-Lieu payments were not sufficient to cover the base administrative fees that are paid before the City receives any of these funds. A payment, however, was received in January 2009. A downward adjustment of \$2,146,000 is recommended based on the updated projection. This revised estimate of \$3.0 million would allow a drop of approximately 27% from last year.

Airplane In-Lieu Fees of \$4.4 million have already exceeded the budgeted estimate of \$2.8 million but are slightly below the prior year collection level of \$4.8 million. Receipts in this category are expected to end the year \$1.8 million above the budgeted estimate. An upward adjustment of \$1.8 million is recommended to reflect this revised estimate.

A number of **State grants** are also budgeted in this category. It is anticipated that the majority of these grant funds will be received as budgeted. The Public Library Fund grant, however, is expected to end the year \$34,000 below budget based on the revised estimate from the State. A decrease of \$34,000 to this revenue estimate is recommended to reflect this change.

The following adjustments are recommended in this report to the Revenue from the State category to recognize additional grant funds. These grant revenues and the associated expenditures are described in Section III of this document.

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

**REVENUE FROM THE STATE OF CALIFORNIA
(CONT'D.)**

- Increase of \$920,250 to recognize reimbursement from the State for expenditures incurred by the Fire Department for strike team deployments.
- Increase of \$103,799 to recognize funding from the State Bureau of Narcotics Enforcement to support the South Bay Metro Task Force.
- Increase of \$100,681 to recognize funding from the Governor's Office of Emergency Services for the 2008-2009 Anti-Drug Abuse Grant.
- Increase of \$70,000 to recognize funding for addressing work performed for the State of California Local Update of Census Address program.
- Increase of \$29,650 to recognize funding for the Local Enforcement Agency program to be used for landfill enforcement activities.
- Increase of \$17,500 to recognize funding from the Superior Court of California to support upgrades to the Electronic Citation (E-cite) devices.
- Increase of \$10,800 to recognize funding from the Council of Aging Silicon Valley for the Senior Companion Program.
- Increase of \$7,960 to recognize funding from the State for Emergency Communications Center Equipment.
- Increase of \$7,060 to recognize a grant from California Library Literacy Services for Adult and Family Literacy programs.
- Increase of \$7,000 to recognize funding from the Office of the District Attorney to support the Rapid Enforcement Allied Computer Team (REACT).
- Increase of \$2,700 to recognize funding from the State Office of Traffic Safety for a Street Racing grant.

REVENUE FROM THE FEDERAL GOVERNMENT

Revenue Status				
2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$5,424,507	\$717,888	13.2%	27.1%	\$83,754

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

**REVENUE FROM THE FEDERAL GOVERNMENT
(CONT'D.)**

Almost all of the revenue in this category is received from federal grant programs. It is currently assumed that the budgeted grant proceeds will be collected by the end of the year according to the grant payment schedules that are in effect.

The largest grants in this category include the following: Bay Area Urban Area Security Initiative (SUASI) Grant (\$2.1 million); Internet Crimes Against Children (\$550,000); Juvenile Justice and Delinquency Prevention Grant (\$497,000); Early Childhood Education (\$277,000); Human Trafficking Prevention Grant (\$266,000); and Metropolitan Medical Strike Team Grant (\$258,000).

The following adjustments are recommended to the Revenue from the Federal Government category:

- Increase of \$55,909 to recognize reimbursement from the federal government for expenditures incurred by the Fire Department for strike team deployments.
- Increase of 42,090 to recognize funding from the United States Department of Justice for the Bulletproof Vest Partnership Grant.
- Decrease of \$14,245 to the FY 2005 Human Trafficking Prevention Grant to account for the amount of grant that was not expended before the end of the grant period and will not be received.

DEPARTMENTAL CHARGES

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$30,905,714	\$14,696,467	47.6%	50.6%	(\$410,000)

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.

Police – Through December, Police revenues of \$816,000 were at 46.3% of the adopted revenue estimate of \$1.8 million. Collections are tracking at the prior year level but slightly below budgeted estimates. A slight negative variance of approximately \$50,000 is currently

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STATUS OF GENERAL FUND REVENUES
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DEPARTMENTAL CHARGES
(CONT'D.)

projected due primarily to lower than anticipated Police Officers' Standards Training (POST) reimbursements.

Public Works – Development fee revenue totaled \$3.6 million through December, or 47.4% of the budgeted estimate of \$7.5 million. To meet the 2008-2009 adopted estimate, growth of 4.3% over the prior year is needed. Receipts are currently tracking within projected levels, with growth of 16.2% over last year. Several revenue categories have performed better than anticipated in the first half of 2008-2009 including residential and non-residential engineering, utility excavations, private streets engineering, and electrical design. These increases have been partially offset by lower than anticipated collections in geologic fees, materials testing non-residential, USA utilities, planned development rezonings, tentative maps, and traffic reports. Although revenues are tracking within anticipated levels, and are expected to meet the Adopted Budget estimate, the Department has expenditure control plans in place should revenues begin to fall below estimated levels. In addition, the fee reserve (\$131,000) could be used if expenditures were to exceed revenues before year-end.

The Budget Office, in conjunction with the Public Works Department, will continue to analyze revenue and expenditure levels to determine if any adjustments to the revenue estimate will be necessary. As these are cost recovery fees, any adjustment to the revenue estimate would have to be accompanied by a

corresponding adjustment in appropriations or in the fee reserve.

Transportation – Departmental fee revenue of \$626,000 is tracking above expected levels through December due to higher than projected signal review fees. Receipts in this area totaled \$243,000, which was above the annual budgeted estimate of \$195,000. Transportation fees are expected to meet the budgeted estimate of \$1.0 million by year-end.

Library – Overall, departmental fee revenue of \$432,000 through December tracked within estimated levels and should meet the budgeted estimate of \$1.2 million by year-end.

Planning, Building and Code Enforcement (PBCE) – Overall, planning fee revenues of \$2.4 million were tracking significantly lower than anticipated reaching only 35% of the budgeted year-end estimate of \$6.7 million. Anticipated year-end revenue is tracking approximately 27% below projected levels, and year-to-date revenues of \$2.4 million are well below last year's \$3.7 million level. In line with the other development-related fee areas, the 2008-2009 estimate was built assuming a continuation of the activity levels of last year, with the higher fee levels approved by City Council. For the Planning Fee Program this would require a net 1.7% increase.

All of the revenue categories in the Planning Fee Program, including both residential and non-residential, have performed at lower than anticipated levels through the first half of 2008-

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

**DEPARTMENTAL CHARGES
(CONT'D.)**

2009 and will not come close to annual budgeted estimates. As reported in the Bi-Monthly Financial Reports and in an Information Memorandum distributed to the City Council on December 2, 2008, collections in this category could fall short by as much as \$2.0 million. In response to the projected shortfall, the City Council approved a rebalancing plan on January 27, 2009 that will reduce revenue estimates by \$1.8 million (28%) bringing the year end revenue estimate to \$4.9 million. An additional reduction of \$100,000 is recommended in this report to reflect the loss of overhead from the development fee program to the General Fund from actions taken on January 27, 2009.

The Budget Office, in conjunction with the Planning, Building and Code Enforcement Department, will continue to analyze revenue levels to determine if any further adjustments to the revenue estimate will be necessary before the end of the year.

Parks, Recreation and Neighborhood Services (PRNS) – Overall, departmental fee revenues of \$4.2 million totaled 65.3% of the budgeted estimate of \$6.5 million. This collection level exceeded expectations due to higher Fee Activity receipts. An upward adjustment of \$90,000 is recommended in this document to recognize Fee activity revenue and allocate these funds to support these fee class activities.

Miscellaneous Departmental Charges – This category, which is budgeted at \$6.3 million,

includes the Solid Waste Enforcement Fee with a budgeted estimate of \$3.3 million, the Business Tax Administration Fee budgeted at \$1.4 million, various Animal Control Fees budgeted at \$504,000, and other miscellaneous fees budgeted at \$1.1 million.

Through December, collections of \$2.7 million are tracking within estimated levels in most categories. It is anticipated, however, that the new Business Tax Administration Fee will fall below the budget estimate of \$1.4 million by as much as \$400,000 based on the latest estimates provided by the Finance Department. The number of business accounts for which the fee applies is significantly lower than originally anticipated when the fee was calculated. The Finance Department has done extensive work on validating the Business Tax accounts, which has resulted in the drop off of accounts that are no longer active. A downward adjustment of \$400,000 is recommended to reflect this lower collection level.

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

OTHER REVENUE

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$20,940,372	\$14,777,265	70.6%	49.9%	\$178,485

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through December of \$14.8 million were \$3.1 million above the prior year level of \$11.7 million.

Collections in this category are expected to end the year close to the budgeted estimate. Following is a discussion of the major sub-categories in the Other Revenue category:

In the current year, the City has received \$4.32 million in **HP Pavilion Rental, Parking, Suite, and Naming** revenue, which is approximately 1% below the budgeted estimate of \$4.38 million.

Airport West Option Payments in the amount of \$6.0 million is budgeted for 2008-2009. Through December, the full \$6.0 million has been received.

Sidewalk Repair Activity revenue is received when the City performs sidewalk repair services for non-owner occupied residences and the property owners reimburse the City for those costs. Through December, Sidewalk Repair

revenue of \$112,000 was 28.0% of the adopted estimate. Activity in this category typically increases in the second half of the year, but collections may still fall short of the budgeted estimate of \$400,000. Any shortfall, however, should be offset by lower expenditures.

Banking Services revenue of \$435,000 tracked at 41% of the budgeted estimate of \$1.1 million. This revenue category is still on track to meet the budgeted level; however, any variance in this revenue would be offset by a corresponding variance in related expenditures.

SB 90 Reimbursements from the State for State-mandated programs were budgeted at \$350,000 for 2008-2009. Through December, collections totaled \$128,000. This budget estimate would be met by year-end if the City receives its funding for eligible State claims.

Through December, revenue from the **Sale of Surplus Property** totaled \$311,000, which is below the budgeted estimate of \$961,000. It is anticipated that collections will meet the budgeted estimate by year-end.

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

**OTHER REVENUE
(CONT'D.)**

As described in Section III of this report, several actions are recommended to recognize revenue and allocate the funds to specific projects:

- Increase of \$157,536 to recognize Commercial Solid Waste Fees remitted by Allied Waste Services of North America for solid waste service provided to public school districts from January to October 2008.
- Increase of \$50,000 to recognize funds received as part of a developer agreement from Hitachi to mitigate the environmental impact of its project.
- Increase of \$41,195 to recognize funding from unused Flexible Spending Account funds to be allocated to the Wellness Program Reserve.
- Increase of \$22,754 to recognize gated event revenue from the American Festival concerts, the San José Jazz Festival, and the Mariachi Festival.
- Increase of \$7,000 to recognize funding from Pacific, Gas and Electric for the PG&E Summer Cooling Shelter Program.
- Decrease of \$100,000 to reduce the revenue estimate for the San José Cycling Event.

TRANSFERS AND REIMBURSEMENTS

Revenue Status

2008-2009		2007-2008		2008-2009
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$106,078,981	\$58,366,165	55.0%	60.0%	(\$1,297,665)

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.

Overhead Reimbursements – Overhead associated with operating funds is currently

budgeted at \$15.1 million. In addition, overhead associated with special and capital funds is budgeted at \$18.6 million for a total revenue estimate of \$33.7 million. Through December, overhead collections of \$24.1 million were tracking within estimated levels. As part of this document, a net upward adjustment of \$2,127,560 is recommended to

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STATUS OF GENERAL FUND REVENUES
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TRANSFERS AND REIMBURSEMENTS
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reflect the impact of the final 2008-2009 overhead rates for the Airport operating funds, that were released after the adoption of the budget.

Transfers – This category includes \$54.5 million in various transfers. Through December transfers of \$28.7 million were tracking within estimated levels. The following adjustments are recommended in this document:

- Increase the transfer from the Airport Maintenance and Operations Fund for Police Services by \$955,000 to fund Police overtime staffing at the Airport while airport security is elevated to the Orange Alert level.
- Increase the transfer from the Integrated Waste Management (IWM) Fund by \$60,775. A General Fund allocation will be used to pay public school districts that have executed Waste Reduction and Recycling Cooperation Agreements with the City for commercial solid waste fees remitted to the City by haulers. This payment from the General Fund will include the amounts associated with AB 939 fees received for commercial solid waste service to schools and remitted to the IWM Fund. The recommended transfer from the IWM Fund

will reimburse the General Fund for the payments associated with the AB 939 fees.

- Decrease the transfer from the Construction Excise Tax Fund by \$3.5 million as a budget balancing solution in this Fund. Offsetting expenditure reductions in the General Fund are also recommended.
- Decrease the transfer from the Parks and Park Yards Construction and Conveyance (C&C) Tax Funds by \$390,000 based on the revised C&C Tax revenue estimates, of which the General Fund receives a portion to support maintenance and operations.
- Decrease the transfer from the Airport Maintenance and Operations Fund for Police Services by \$51,000 to reflect a true-up of 2007-2008 costs.

Reimbursements for Services – The budget estimate for this category is \$17.8 million, of which \$17.2 million is expected to be generated from the three **Gas Tax Funds**. Gas Tax collections of \$5.5 million tracked below the prior year level of \$6.1 million. Based on current collection trends, receipts in this category are expected to drop below the budgeted estimate. To account for this lower collection trend, a downward adjustment of \$500,000 is recommended in this document.

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

CONCLUSION

A comprehensive review of all General Fund revenue accounts was performed based upon receipts through the first six months of the year. While revenues to date were tracking only slightly below projected levels, receipts are expected to experience more significant declines in the second half of the fiscal year as a result of the severe economic downturn. The revenue adjustments recommended in this document have been formulated to account for these steeper declines anticipated through the remainder of the fiscal year. Given the extreme volatility and uncertainty surrounding the current economic environment, additional adjustments may be necessary by year-end.

Included in this document is a net downward adjustment of \$9.0 to the General Fund revenue estimates. This includes net downward adjustments of \$13.7 million to account for current collection trends (\$9.2 million), rebalancing actions associated with the Construction Excise Tax Fund (\$3.5 million),

and rebalancing actions in the Fire Development Fee Program (\$1.0 million). This decrease was partially offset by grants and reimbursements of \$4.7 million.

Downward revenue adjustments resulting from the poor economy were factored into the 2010-2014 Preliminary General Fund Forecast that was released in November 2008. The revenue estimates for this year will continue to be updated as part of the final 2010-2014 General Fund Forecast due to be released in February 2009 and will serve as the starting point for developing the estimates for 2009-2010.

As always, staff will continue to closely monitor our 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.