

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

STATUS OF SELECTED SPECIAL FUNDS

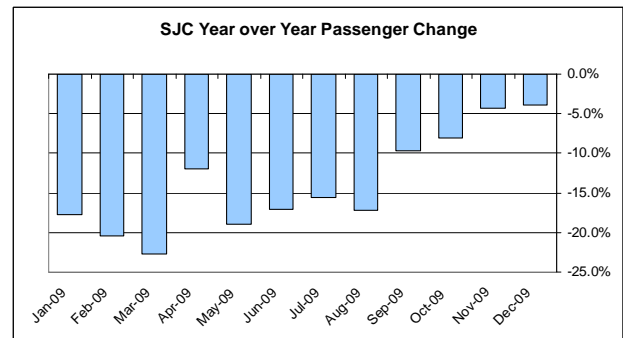
Airport Operating Funds Overview

Airport Activity

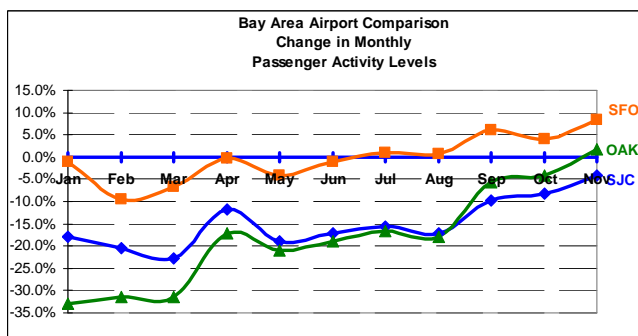
As part of the 2008-2009 Annual Report, the projected 2009-2010 passenger activity levels were decreased by 7.0%. The reduction was based both on 2008-2009 year-end activity and projected flight schedules through the fall. The corresponding decrease to revenue projections totaled \$4.5 million. Activity at Mineta San José International Airport (SJC) through the first half of the year is in line with these lower projections, with very recent signs that the two-year decline in passenger activity may be leveling out.

Activity at the Airport seems to be following the same pattern as the airline industry as a whole. Generally the airline industry is cautious about the future and anticipates that demand trends at best are improving and at worst are stable. The industry maintains that profitability will improve as the worst of the economic slump recedes. These trends have begun to show in the competitive bay area airport system, though both Oakland and San Francisco have seen greater year-to-date growth than San José.

Through November 2009, San Francisco's passenger traffic was up by 3.8% year-to-date, Oakland passenger traffic showed a decline of 9.5%, and for comparison purposes San José experienced an 11.6% decline year-to-date. The graphic below shows the monthly year over year change to passenger levels at Mineta San José International Airport for calendar year 2009.



At San José, fiscal year-to-date passenger traffic, landings, and takeoffs are all less than the prior year. Cargo weights and rental car activity also trail prior year levels. Year-to-date (through December), passenger activity has decreased by a total of 499,702 passengers, or 10.5%.



Operations at the Airport (landings and take offs) decreased by 16.8% from activity in 2008-2009, with passenger carrier operations declining 14.1% and commuter activity declining 10.8%. General Aviation itinerant, local operations, and military operations decreased by 24.4% from last year, primarily due to the temporary closure of the General Aviation runway. Cargo activity has declined

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Airport Operating Funds Overview
(Cont'd.)**

Airport Activity (Cont'd.)

14.3%, although December registered the first increase since April 2008. Rental car contracts, representing activity through November, trail last year by 22.1%. Parking hourly exits are down by 17.0% for the year and daily exits decreased by 16.6%. Actual parking lot revenue is 17.3% less than the previous year.

The Airport will continue to monitor and proactively report on activity levels and associated revenue performance. The following section provides details on the Airport's operating revenues and expenditures.

Airport Forecast

The Airport continues to have significant fiscal concerns regarding the future, and without significant increases in passengers, the Airport continues to face shortfalls for the near future. The Airport is projecting a \$17 million shortfall for 2010-2011, which is a combination of the effects of the economy on the travel industry and the debt financing of the Airport's Terminal Area Improvement Program. The Airport has developed an internal 2009-2010 Cost Management Plan and anticipates generating approximately \$5.9 million in savings in the current year that can be applied to future budget challenges. Savings are available due in part to reduced passenger levels that result in lower parking operator costs, reduced shuttle bus hours and operational costs, efficiencies of new buildings with respect to utility costs and

adhering to tight budget control measures. By addressing these issues now, the Airport will be better prepared to meet the upcoming challenges associated with an uncertain economic environment and its impact on Airport operations.

As part of the 2009-2010 Mid-Year Budget Review, recommended adjustments are limited to increases related to negotiated health benefit costs and Airport Police overtime costs associated with Orange Alert level security at checkpoints. The amount of overtime required by the Transportation Security Administration (TSA) is currently under review, and if it is determined that the current levels of security are no longer required, a budget action to return the unspent portion will be brought forward at year-end. Also recommended is the reduction of funding for Police services. The Airport and Police Departments made a collaborative decision to support this reduction that brings Police staffing in line with TSA requirements without compromising passenger, Police or Airport staff, or public safety. Pending City Council approval of this recommended reduction, a total Police staffing complement of 43 positions will remain to support Police security services at the Airport. Also recommended is the elimination of a vacant Contract Compliance Specialist position from the Airport Living Wage Program. In November 2008, three positions were added to support this program, and it has been determined that one of them may be eliminated and the program still run successfully.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Airport Operating Funds Overview
(Cont'd.)**

Airport Forecast (Cont'd.)

A complete financial summary of the Airport Maintenance and Operation Fund and the Airport Revenue Fund are included later in this document.

Airport Revenues

As of December 31, 2009, year-to-date operating revenues in the Airport Revenue Fund total \$50.3 million. Overall revenue performance finished the first six-month period with a very small positive variance relative to the modified budget estimate. The modified budget includes a \$4.5 million reduction approved in the 2008-2009 Annual Report associated with the 7.0% decrease in passenger activity described in the section above. While revenues are in line with the lower targets, they are less than the same period in 2008-2009 and 2007-2008, reflecting a two-year decline.

Revenue in Landing Fees, Terminal Rentals, Airfield and General and Non-Aviation categories are tracking above the budgeted estimate, while categories heavily dependent on passenger traffic such as Food, Beverage and Retail concessions and Long-term Parking are trailing estimated levels. Consistent with prior years, certain revenues were not recorded in December due to the closure of City offices for the holiday furlough.

Airport Expenditures

Two operating funds exist to provide Airport services: the Airport Maintenance and Operation Fund and the Airport Customer Facilities and Transportation Fee Fund. The Airport Maintenance and Operation Fund provides funding for Personal Services and Non-Personal/Equipment expenditures associated with Airport operations, including but not limited to, Airport staff, Airport police services, Station 20 aircraft rescue and fire fighting services, interdepartmental charges, and overhead to the General Fund. The Airport Customer Facilities and Transportation Fee Fund accounts for costs associated with rental car busing services between the consolidated rental car facility and the terminals.

Airport Maintenance and Operation Fund departmental expenditures through December 2009 are tracking at budgeted levels in both the Personal Services and Non-Personal/Equipment categories. Additional information on this fund is available in the following pages.

Both Personal Services and Non-Personal/Equipment costs in the Airport Customer Facilities and Transportation Fee Fund are also tracking below estimated levels.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Airport Maintenance and Operation Fund

	2009-2010 Adopted Budget	Change	2009-2010 Current Modified	2009-2010 YTD Actual	2009-2010 % of Budget	2008-2009 % of Budget
<i>Beginning Fund Balance</i>	14,333,378	745,812	15,079,190	N/A	N/A	N/A
<i>Carry-over Encumbrance</i>	3,760,124	(2,114,349)	1,645,775	N/A	N/A	N/A
<i>Transfers</i>	101,630,676	0	101,630,676	50,815,338	50.0%	51.3%
TOTAL SOURCES	119,724,178	(1,368,537)	118,355,641	50,815,338		
<i>Expenditures</i>	85,578,394	(2,685,631)	82,892,763	31,281,649	37.7%	36.0%
<i>Transfers</i>	14,917,440	14,645	14,932,085	7,458,718	50.0%	50.2%
<i>Reserves</i>	6,369,922	492,077	6,861,999	N/A	N/A	N/A
<i>Ending Fund Balance – Reserved Per Master Trust Agreement</i>	12,858,422	810,372	13,668,794	N/A	N/A	N/A
TOTAL USES	119,724,178	(1,368,537)	118,355,641	38,740,367		

Fund Status

Revenues – Revenue for this fund consists of transfers from the Airport Revenue Fund. The 2009-2010 transfers into the Airport Maintenance and Operation Fund continue to occur as budgeted. An adjustment to the transfer amount is recommended at this time to reflect the elimination of a vacant Public Works position. The impact of the change is a \$109,000 reduction to the transfer from the Airport Revenue Fund.

Expenditures – Expenditures in this fund represent operating costs for the Airport, direct charges from various City departments that provide support services to the Airport, and transfers to the General Fund for Police and Fire

services. Through December, Airport Non-Personal/Equipment expenditures are tracking below budgeted levels and Personal Services are tracking at budgeted levels.

The Airport Department has eliminated 95.0 positions, a 23.8% reduction, since Mid-Year 2008-2009. Forty-three positions were eliminated in 2009-2010, eight of which were eliminated at the end of December 2009. In contrast to previous years, the Airport now operates with minimal vacancies. For the first six months of 2009-2010, there were an average of five vacancies while for the same period last year, there were an average of 52 vacant positions. The consequence of the lower vacancies is that Personal Services expenditures

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Airport Maintenance and Operation Fund
(Cont'd.)**

Fund Status (Cont'd.)

Expenditures (Cont'd.)

are tracking at estimated levels, with minimal or no savings expected.

The Airport has expended \$177,965 or 38.7% of the budgeted overtime through December. Historically, overtime is primarily used for providing coverage for vacant positions and the need to maintain constant staffing levels. With minimal vacancies, overtime is currently being used to provide coverage for employees on leave and holiday coverage. Overtime expenditures will be closely monitored for the balance of the fiscal year.

Savings in Non-Personal/Equipment expenditures for Airport operations and services are widespread across most categories. The Airport has developed an internal Cost Management Plan and anticipates generating approximately \$5.9 million in Non-Personal/Equipment and salary reserve savings in the current year. Savings are available due to reduced passenger levels that result in lower parking operator costs, reduced shuttle bus hours and operational costs, efficiencies of new buildings with respect to utility costs and adhering to tight budget control measures. By addressing these issues now, the Airport will be better prepared to meet the upcoming challenges associated with an uncertain economic environment and its impact on Airport operations.

Interdepartmental expenditures (charges for staff and services located in other City departments including Police and Fire) total \$8.4 million through December and are tracking at anticipated levels.

It is recommended in this report to increase the transfer to the General Fund for Police Services by \$1,023,000 to fund police overtime expenses related to higher levels of checkpoint staffing required due to the Level Orange Alert originally instituted in August 2006. Current levels required by the Transportation Security Administration are being reviewed, and if it is determined that these higher staffing levels at security checkpoints are no longer required, a budget action to return the unspent portion will be brought forward at year-end. Also recommended is the reduction of funding for Police staffing at the Airport, by one Police Captain, one Police Sergeant and three Police Officer positions, effective late March 2010. This action will maintain required Transportation Security Administration Police staffing levels at the Airport without compromising passenger and Police and Airport staff safety. The elimination of a vacant Contract Compliance Specialist position from the Airport Living Wage Program is recommended; this position can be deleted without impacting the program.

Fund Balance – No adjustment to the ending fund balance in the Airport Maintenance and Operation Fund is recommended at this time.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Airport Revenue Fund

	2009-2010 Adopted Budget	Change	2009-2010 Current Modified	2009-2010 YTD Actual	2009-2010 % of Budget	2008-2009 % of Budget
<i>Beginning Fund Balance</i>	20,098,694	9,441,062	29,539,756	N/A	N/A	N/A
<i>Revenues</i>	114,341,851	(4,500,000)	109,841,851	51,095,463	46.5%	50.9%
<i>Transfers</i>	17,255,777	0	17,255,777	(1)	0.0%	3.9%
TOTAL SOURCES	151,696,322	4,941,062	156,637,384	51,095,462		
<i>Transfers</i>	137,065,984	0	137,065,984	64,312,254	46.9%	48.7%
<i>Reserves</i>	173,864	11,853,969	12,027,833	N/A	N/A	N/A
<i>Ending Fund Balance- Reserved per Master Trust Agreement</i>	14,456,474	(6,912,907)	7,543,567	N/A	N/A	N/A
TOTAL USES	151,696,322	4,941,062	156,637,384	64,312,254		

Fund Status

Revenues – As indicated in the overview, despite decreased activity at the Airport, overall revenue collections in the Airport Revenue Fund are tracking in-line with the estimated budget.

Through December, performance of airline rates and charges is 4.0% above the budgeted estimate. Higher terminal rentals can be partially attributed to usage of more exclusive square footage and a greater number of ticket counter and common gate turns than was anticipated in development of the budgeted revenue estimate. General and non-aviation revenues tracked higher than budget primarily due to other land rental derived from the Airport West/FMC property. The Airport did not

include any land rental revenues in its projections in anticipation of the sale of the property which did not materialize. Higher interest income also contributed to the increase in this category.

Declines in passenger traffic continue to impact projected collections in food and beverage and parking which pulled down the performance of terminal concessions, miscellaneous rents and parking and roadway revenues. Lower revenues in the terminal concessions and miscellaneous rents category can also be attributed to the termination of operations of Verified Identity Pass Inc., which previously administered the Airport's registered traveler program.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Airport Revenue Fund
(Cont'd.)**

Fund Status (Cont'd.)

Expenditures – Expenditures in this fund consist entirely of transfers to other funds. Transfers are made on a monthly basis in accordance with the Master Trust Agreement.

An adjustment to reduce the transfer to the Airport Maintenance and Operation Fund is recommended in this document. This adjustment reflects the elimination of a Public Works Airport-funded Living Wage Program Contract Compliance Specialist position, and the elimination of five police positions (one Police Captain, one Police Sergeant and three

Police Officers) from the Airport Police staffing model. This reduction to staffing continues to maintain Transportation Security Administration service requirements. Pending City Council approval of this recommended reduction, a total Police staffing complement of 43 positions will remain to support Police security services at the Airport.

Fund Balance – An adjustment to the Ending Fund Balance is recommended, which reflects savings that result from the reduction of the Public Works position and the savings from the reduction in police staffing levels at the Airport.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Community Facilities Revenue Fund

	2009-2010 Adopted Budget	Change	2009-2010 Current Modified	2009-2010 YTD Actual	2009-2010 % of Budget	2008-2009 % of Budget
<i>Beginning Fund Balance</i>	853,934	(354,544)	499,390	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	2,655	(1,762)	893	N/A	N/A	N/A
<i>Revenues</i>	2,903,155	172,552	3,075,707	1,368,491	44.5%	24.7%
<i>Transfers</i>	2,700,000	0	2,700,000	2,700,000	100.0%	99.4%
TOTAL SOURCES	6,459,744	(183,754)	6,275,990	4,068,491		
<i>Expenditures</i>	3,485,601	2,080,462	5,566,063	1,827,385	32.8%	37.9%
<i>Transfers</i>	2,220,724	(2,082,224)	138,500	138,500	100.0%	51.6%
<i>Unrestricted Ending Fund Balance</i>	753,419	(181,992)	571,427	N/A	N/A	N/A
TOTAL USES	6,459,744	(183,754)	6,275,990	1,965,885		

Fund Status

Revenues – Revenues in the Community Facilities Revenue Fund are from two primary sources: 1) net revenues from the operation of the Hayes Mansion paid to the City by the operator of the facility (Dolce), and 2) transfers from the General Fund to cover operating shortfalls. Currently, the recession continues to negatively affect tourism and the hotel industry. The current bookings for hotel room nights are reflective of the economic reality, and preliminary projections find revenue falling below levels seen in 2008-2009. Through the first half of 2009-2010, Hayes Mansion gross operating revenues are tracking below budgeted levels and are projected to end the year \$3.8 million short. The projected decline in Hayes Mansion operating revenues for 2009-2010

represents an 18.9% decrease from 2008-2009. In addition to this drop, in 2008-2009, the Hayes Mansion realized a 15.8% decline in operating revenues from the previous year. Because the operator has put in place operational cost controls, the majority of the \$3.8 million revenue shortfall projected for 2009-2010 can be offset by expenditure savings, and the net impact to the Community Facilities Revenue Fund will be \$1.6 million. Given this downward trend in Hayes Mansion operating revenues, the net revenues available for debt service and capital improvement reserves from the Hayes Mansion continue to decline in 2009-2010. Therefore, it is recommended in this report that the debt-related expenses revenue and capital improvement revenues be reduced by \$1.2 million and \$378,000, respectively.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Community Facilities Revenue Fund
(Cont'd.)**

Fund Status (Cont'd.)

Expenditures – The continued downturn in Hayes Mansion operating revenues (as discussed above) has resulted in a larger than expected operating deficit. To minimize the impact of the deficit to the City, the expenditures in the Community Facilities Revenue Fund need to be reduced. In addition to operational cost controls, a reduction in the level of expenditures can be accomplished due to significantly lower than budgeted interest rates applicable to debt service costs for the Hayes Mansion bonds, and the suspension of budgeted capital improvements for the remainder of 2009-2010. A decrease in debt-

related expenditures (\$1.2 million) and a decrease to the Hayes Repair and Improvements appropriation (\$155,000) are recommended to address the current operating deficit while minimally affecting the Ending Fund Balance, which may be needed to address higher than projected debt service payments or unanticipated capital needs that may arise during the year.

Fund Balance – The actions recommended in this report are intended to rebalance the fund. It is therefore recommended as part of this report to decrease the Ending Fund Balance by \$223,000 to offset a portion of the reduction in anticipated revenues.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Convention and Cultural Affairs Fund

	2009-2010 Adopted Budget	Change	2009-2010 Current Modified	2009-2010 YTD Actual	2009-2010 % of Budget	2008-2009 % of Budget
<i>Beginning Fund Balance</i>	8,754,518	1,136,312	9,890,830	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	689,485	(343,844)	345,641	N/A	N/A	N/A
<i>Revenues</i>	17,025,831	0	17,025,831	5,988,110	35.2%	30.7%
<i>Transfers</i>	4,762,900	(172,978)	4,589,922	2,333,472	50.8%	21.9%
TOTAL SOURCES	31,232,734	619,490	31,852,224	8,321,582		
<i>Expenditures</i>	23,866,817	898,734	24,765,551	12,949,242	52.3%	53.8%
<i>Transfers</i>	287,023	0	287,023	287,023	100%	100%
<i>Reserves</i>	1,245,818	107,422	1,353,240	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	5,833,076	(386,666)	5,446,410	N/A	N/A	N/A
TOTAL USES	31,232,734	619,490	31,852,224	13,236,265		

Fund Status

Revenues – Revenues booked in the Convention and Cultural Affairs Fund through December only represent activity through October. However, according to reports not yet reviewed by the City from the operator of the City’s Convention Facilities, Team San Jose (TSJ), revenue is tracking within anticipated levels and is expected to finish at or above the budgeted estimate of \$17.0 million. TSJ continues to actively identify potential business opportunities to boost revenue. The better than anticipated revenue performance is primarily due to food and beverage, contract labor, utility services, and rental (net of rebates) revenues. Food and beverage revenue has exceeded estimates in the

first year that this service has been provided directly by TSJ. Previously food and beverage had been provided by a vendor. Additional revenue has been realized in the contract labor category due to a higher than anticipated need for variable labor, mainly due to the Broadway series (new to TSJ for 2009-2010), while utility revenue is on track to exceed budgeted revenue estimates as a result of delays to the Convention Center expansion/renovation project. When the budget was developed, it was assumed that the old Dr. Martin Luther King, Jr. Library would be vacated in mid- 2009-2010 for an expansion project. As a result of the delay, the City is still paying utility costs for the facility, which are booked as utility services revenue in this fund. While the labor and food and beverage revenue

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Convention and Cultural Affairs Fund
(Cont'd.)**

Fund Status (Cont'd.)

Revenues (Cont'd.)

also have associated expenses, the amount of revenue generated exceeds the expenditure level, therefore these categories are positive contributors to TSJ's Gross Operating Profit.

Finally, rental revenue (net of rebates) is performing at better than anticipated levels. While the number of events has decreased, the amount of revenue generated per event has increased by approximately \$10,000 in 2009-2010. The better than anticipated performance in the above mentioned categories are partially offset by lower than anticipated revenue collection in several other categories including ticket income and networking services. TSJ still anticipates; however, that revenue will meet the budgeted revenue estimate.

Approximately \$1.9 million of the fund's revenues came from a transfer from the Transient Occupancy Tax (TOT) Fund. A more detailed discussion of TOT performance can be found elsewhere in this section.

Expenditures – With the exception of the Non-Personal/Equipment appropriation, all appropriations are tracking within anticipated levels. An overage in the Non-Personal/Equipment appropriation is primarily a result of higher than anticipated food and beverage and contract labor costs, as well as expenditures at the San José Civic Auditorium.

As described above, the food and beverage and contract labor overages are fully supported by additional revenue. The overages at the San José Civic Auditorium are largely due to the launching of a concert series and renovations at the facility. While the concert series has increased visitors in the Downtown, the cost of producing the concerts was greater than expected. Specifically, ticket sales are lower than anticipated due to the economy and the fact that the renovations of the facility are not yet complete, which has made selling the venue more difficult.

Through December, the Non-Personal/Equipment appropriation is on pace to exceed budget by approximately \$950,000. As a result, TSJ has taken steps to reduce expenditures including eliminating incentives for TSJ staff in the second half of the fiscal year; instituting a one week furlough for TSJ staff (to be implemented on a rolling basis to limit the impact on customers); the elimination of one TSJ position; and a decrease to the management fee paid to Nederlander Concerts for management of the San José Civic Auditorium, since the venue will likely be closed for the remainder of the fiscal year. These actions would save approximately \$300,000 bringing the projected over-expenditure to \$650,000. Included in this document is a recommendation to reduce the Contingency Reserve (\$280,000) and Insurance Expenses appropriation (\$75,000), to augment the Non-Personal/Equipment appropriation by \$355,000.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Convention and Cultural Affairs Fund
(Cont'd.)**

Fund Status (Cont'd.)

Expenditures (Cont'd.)

The remaining projected overage of \$295,000, as proposed by TSJ, may be solved through the elimination of City positions managed by TSJ. City staff is currently analyzing TSJ's proposal to reduce the complement of City positions due to lower than anticipated workload and to reduce the Gross Operating Profit shortfall. If appropriate, the City will bring forward a

recommendation in the weeks following the release of the Mid-Year Budget Review Report for City Council approval.

Fund Balance – No adjustments to the Ending Fund Balance in the Convention and Cultural Affairs Fund are recommended at this time. It is anticipated that the projected overage in the Non-Personal/Equipment appropriation will be corrected through reductions to existing appropriations or recognition of additional revenue.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

General Purpose Parking Fund

	2009-2010 Adopted Budget	Change	2009-2010 Current Modified	2009-2010 YTD Actual	2009-2010 % of Budget	2008-2009 % of Budget
<i>Beginning Fund Balance</i>	8,216,543	103,955	8,320,498	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	1,266,552	240,702	1,507,254	N/A	N/A	N/A
<i>Revenues</i>	11,718,000	0	11,718,000	4,830,726	41.2%	43.6%
TOTAL SOURCES	21,201,095	344,657	21,545,752	4,830,726		
<i>Expenditures</i>	13,398,629	(62,116)	13,336,513	4,341,863	32.6%	31.9%
<i>Transfers</i>	2,274,761	0	2,274,761	1,996,015	87.7%	59.6%
<i>Reserves</i>	3,060,674	0	3,060,674	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	2,467,031	406,773	2,873,804	N/A	N/A	N/A
TOTAL USES	21,201,095	344,657	21,545,752	6,337,878		

Fund Status

Revenues – Revenues in the General Purpose Parking Fund are derived from two primary sources: 1) revenues generated from off-street parking facilities (lots and garages) and 2) revenues generated from on-street parking meters. Through the first half of 2009-2010, operating revenues are tracking below estimated levels in every revenue category (parking lots and garages, parking meters, and interest earnings) and are expected to end the year short of the budgeted level by approximately \$1.5 million. This shortfall is due to the economic downturn which has primarily impacted the revenues generated from both monthly parking permits and visitors. A recommendation to reduce the revenue estimate by \$1.5 million is therefore included in this report.

Expenditures – Expenditures through December in the General Purpose Parking Fund are tracking within budgeted levels. However, to offset the lower than anticipated revenue collections, there are a number of expenditure adjustments recommended in this report to rebalance this fund. Several capital projects are recommended to be adjusted downward. In order to capture project savings, funding recommendations to decrease the following projects are included in this report: a decrease of \$150,000 to the Parking Guidance System Phase II project as a result of savings from the infrastructure set up being wired instead of wireless and a decrease of \$30,000 to the HP Pavilion/Diridon Area Multi-Space Meters project as a result of savings from the materials used. As an offset to the downward adjustment to revenues, scope of work for two projects are

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**General Purpose Parking Fund
(Cont'd.)**

Fund Status (Cont'd.)

Expenditures (Cont'd.)

also recommended to be reduced. A decrease to the Minor Parking Facility Improvements project by \$230,000 (from \$491,000 to \$261,000) is recommended. This ongoing allocation provides funding for minor repair work that is not part of the annual cleaning and maintenance of downtown facilities. This project will no longer fund water proofing and lobby area improvements to parking garages. A decrease to the Security Improvements project by \$200,000 (from \$469,000 to \$269,000) is also recommended. This project funds various security upgrades, however with this proposed reduction, additional lighting and cameras in all parking garages will not be funded. These improvements in both projects will be deferred until additional funding is available.

In addition, a recommendation to eliminate the Parking Technology Improvements project (\$300,000) is included. This project provides funding to install Light Emitting Diode (LED) signs that can change based on the direction of the reversible lanes, the installation of a dynamic floor count system, and the replacement of incandescent light bulbs with LED bulbs in the parking identification sign. As a result of higher priority projects in the program and a lesser need to upgrade the garages based on lower occupancy activity, this

project will be deferred until full project funding can be secured.

Also recommended, as part of rebalancing actions to the General Purpose Parking Fund, is a reduction in the Department of Transportation's Non-Personal/Equipment appropriation by \$286,000. With the recent seismic retrofit of parking garages, earthquake insurance expenditure savings can be realized. There are also savings resulting from efficiencies in contractual services such as in the parking operator's contract.

As part of the San Jose Redevelopment Agency's (SJRA) Proposed Budget, the debt service payment for the 4th and San Fernando Streets Parking Garage is proposed to be shifted to the City for two and a half years (a total of \$8.5 million). The anticipated impact for 2009-2010 to the General Purpose Parking Fund is \$1.7 million. Recommendations to appropriate the anticipated payment to the SJRA and offsetting actions for 2009-2010 will be brought forward after the approval of the SJRA's budget.

Fund Balance – The actions recommended in this report are intended to align the revenues with expenditures. In addition, to partially offset the decline in revenue collections, a decrease of \$292,000 to the Ending Fund Balance is recommended.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Transient Occupancy Tax Fund

	2009-2010 Adopted Budget	Change	2009-2010 Current Modified	2009-2010 YTD Actual	2009-2010 % of Budget	2008-2009 % of Budget
<i>Beginning Fund Balance</i>	1,299,992	117,262	1,417,254	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	401,378	(87,828)	313,550	N/A	N/A	N/A
<i>Revenues</i>	9,844,000	0	9,844,000	3,700,959	37.6%	35.1%
TOTAL SOURCES	11,545,370	29,434	11,574,804	3,700,959		
<i>Expenditures</i>	6,074,175	120,155	6,194,330	3,674,714	59.3%	52.4%
<i>Transfers</i>	4,062,900	(172,978)	3,889,922	1,858,472	47.8%	23.4%
<i>Reserves</i>	0	0	0	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,408,295	82,257	1,490,552	N/A	N/A	N/A
TOTAL USES	11,545,370	29,434	11,574,804	5,533,186		

Fund Status

Revenues – Currently revenues in the Transient Occupancy Tax (TOT) Fund are tracking below budgeted levels, however, are anticipated to end the year at the budgeted level. The 2009-2010 Adopted Budget assumed a 14% decline from 2008-2009 receipts, with a larger decline anticipated during the first half of the year. Through December 2009, actual collections are down 29% from 2008-2009 levels. TOT collections in 2008-2009 did not follow a traditional trend line due to the dramatic slowdown in the economy that occurred after December 2008. In a typical year, approximately 37% of the annual TOT receipts are collected July-December. In 2008-2009; however, 45% of the TOT receipts were collected through the first six months of the

fiscal year, as the severe economic downturn led to a significant drop-off in collections.

Through the first half of 2008-2009, TOT collections were down approximately 5% as compared to the prior year; however, by the end of the year collections were down 20%. As was the case in 2008-2009, an independent consultant, Horwath HTL, is reviewing TOT collections. The findings from Horwath HTL are scheduled to be shared with the City after the release of this document, and will be considered in the development of the 2011-2015 General Fund Forecast.

Following the anticipated trend, the rate of decline in occupancy rates at the 14 major hotels has steadily decreased as the year has progressed. At the beginning of the year, the

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

**Transient Occupancy Tax Fund
(Cont'd.)**

Fund Status (Cont'd.)

Revenues (Cont'd.)

year-over-year decline in the occupancy rate was approximately 20%. In the October-December months, the year-over-year decline has been less than 3%, with the December rate declining slightly from 42.7% to 41.8%. The average occupancy rate for 2008-2009 in total was 53.8%. Through December 2009, the average occupancy rate is only slightly lower at 52.1%.

The December 2009 average daily room rate at the 14 major hotels was \$115.95, down from \$129.27 in December 2008. While the decline in average daily room rates on a month to month comparison has ranged between 8% and 18%, the year to date average through December 2009 is down 9.4% (from \$129.50 to \$117.29).

Therefore, based on recent tracking of occupancy rates and average daily room rates, it appears that TOT revenues may be stabilizing.

Regardless, revenues will continue to be closely monitored. Should collections appear to be falling behind anticipated levels as the year progresses, recommendations to adjust the allocations to the three recipient organizations (Convention and Visitor's Bureau, Cultural Development, and Convention Facilities O&M) may be brought forward for City Council consideration.

Expenditures – through December are generally tracking within budgeted levels. The allocations to the three recipient organizations receive a fixed percentage of TOT receipts. When collections fall short of anticipated levels, as was the case in 2008-2009, the allocations to the recipients are adjusted. At this time, no adjustments are proposed.

Fund Balance – No adjustment to the Ending Fund Balance in the Transient Occupancy Tax Fund is required at this time.