CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Larry D. Lisenbee

SUBJECT: **MONTHLY FINANCIAL REPORT FOR APRIL 2004**

DATE: June 8, 2004

Approved /s/ Date

INFORMATION ONLY

The Monthly Financial Report (MFR) for April was jointly prepared by the City Manager's Budget Office and the Finance Department and is presented here for the City Council's review.

OVERVIEW

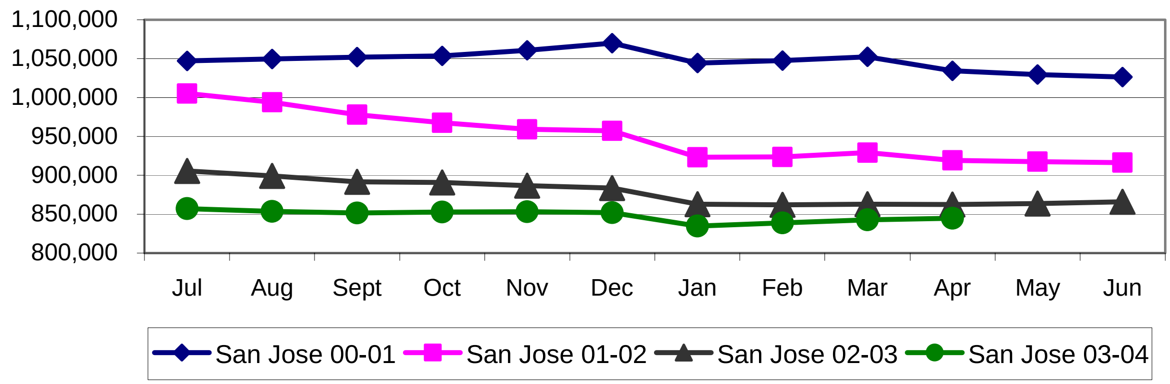
On an overall basis, our review of the financial activity for the City through April indicates that the fiscal environment was relatively unchanged from that that has been reported for a number of months. San Jose revenue collections as a whole are stuck in a low or no growth pattern reflecting a local economy still characterized by a slowdown which is now well into a third straight year. Although the regions's economic situation appears to have stabilized, the signs of emerging economic growth being seen both nationally and elsewhere in the State are not yet being evidenced locally in any tangible way.

As noted in our last report, the most recent Sales Tax information received (for the second quarter -- October through December sales activity) indicated that for the first time in the last eleven quarters, receipts were actually up slightly, rising 2.7% from the prior year level. As discussed previously, however, a significant portion of that increase actually represented a delayed payment from a single source that was more appropriately attributed to last fiscal year. With this taken into account, quarterly collections actually grew by just under 1%, and brought year-to-date Sales Tax collections this fiscal year to approximately even to collections at the same point last year. Although hardly evidence of a strong economic rebound, these results seem to indicate that we have finally hit bottom of what had been a long and steady drop in the City's largest revenue source.

It has been our belief for some time that the most crucial indicator of economic health is the employment situation in the County, and although there are tentative signs of improvement, a very sluggish employment situation continues to characterize our economy (see below).

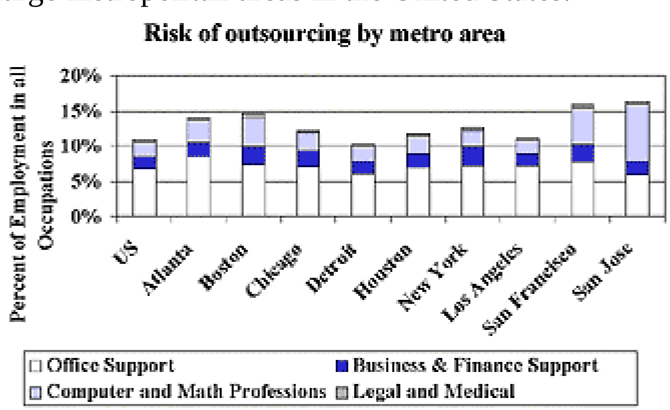
OVERVIEW (CONT'D.)

San José Metropolitan Statistical Area
(Santa Clara County)
Employment: Total Jobs Comparison



Although April employment numbers represented a glimmer of hope, it is still too soon to predict if the small increase in jobs which occurred in that month represents a larger trend. Although the jobs picture has improved at the national level, with a national jobs report where non-farm payroll increased by 248,000 jobs in May, the local improvement was much more subdued. The employment numbers for Santa Clara County indicate that only 2,100 jobs were created in April and the unemployment rate stands at 6.2%, down slightly after two straight months at 6.9%. After years of falling jobs numbers, this slight increase comes as good news. However, we must remain cautious until we see a sustainable growth pattern develop. Compared with April 2003, Santa Clara County employment is still down 2.0% (17,500 jobs). A significant increase in jobs is needed before a real turnaround in the local eceonomy can take hold. Although we are starting to see signs of potential improvements, we await evidence of the level of increases in employment that will be needed to pull us out of the current economic situation.

We remain concerned that the trend of offshore migration of jobs prevalent in the area seems to be accelerating. Many economists believe that the Bay Area is particularly susceptible to outsourcing of jobs which is often cited as one of the major reasons that job growth remains low nationwide. As noted below, a recent research report published by University of California, Berkeley researchers indicated that San Jose is at a particularly high risk for outsourcing compared with other large metropolitan areas in the United States.

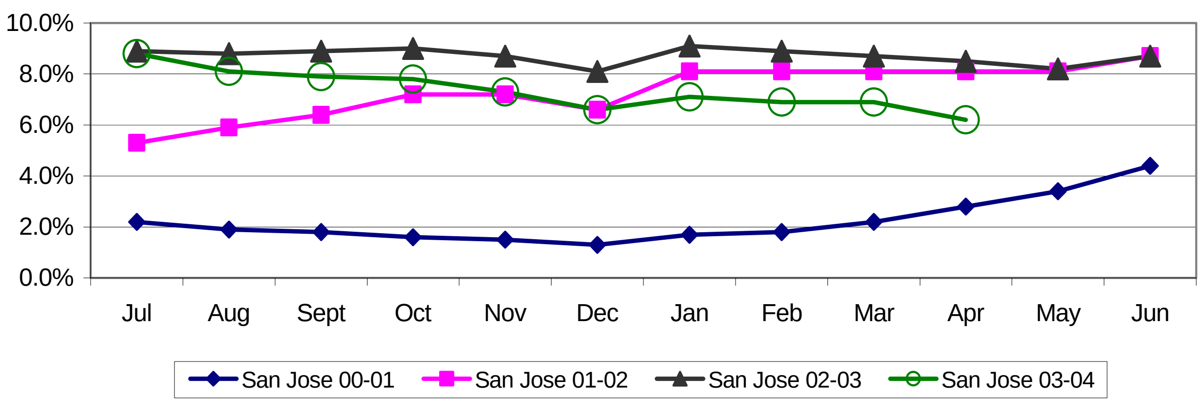


OVERVIEW (CONT'D.)

The graph above, based on Bureau of Labor Statistics data, projects how outsourcing of jobs is likely to vary by geographic area, and by job classification within those areas. *(Source: Research Report-Bardhan and Kroll, Fisher Center for Real Estate and Urban Economics-UC Berkeley)* The graph indicates a belief that the San Jose area has the most risk of outsourcing, followed closely by San Francisco.

In our view, a mixed picture continues to characterize the local employment situation. As noted above, April's unemployment rate was down slightly from March's adjusted rate (see below). Although, the one seemingly bright sign in the report (the number of jobs in the County ticked up slightly, increasing by 2,100, from 842,800 to 844,900) appears to primarily represent normal seasonal hiring patterns, it is still good news that April indicates the long trend of job losses in the Bay Area may well have bottomed out. Even so, we remain concerned by the fact that San José has experienced an overall 2.0% decrease in jobs for the year, and the County unemployment rate through April remained above both the State and national rates, which were 6.1% and 5.4%, respectively. The MBIA MuniServices October economic report summarized our situation quite well by pointing out that "the Bay Area in the past year has actually lost more jobs than the entire state, meaning that the rest of the state has added jobs even as this region continues to lose them." And even though the durable goods manufacturing sector gained 400 jobs in the most recent month, this key manufacturing sector is still down 5.3% for the year. We remain convinced, therefore, that the most prudent assumption upon which to plan our short term fiscal environment is that any recovery in the local economy has and will lag behind the national situation.

San José Metropolitan Statistical Area
(Santa Clara County)
Unemployment Rate Comparison



In summary, we are beginning to see the first faint signs of economic improvement, and believe that the long term free fall of the regional economy has bottomed out. Nonetheless, the first ten months of the year were characterized, as have the last two years, by continuing weakness in all of our key economically sensitive revenues. Fortunately, however, the 2003-2004 General Fund Adopted Budget revenue estimates were based on an assumption of continued economic problems. As a result, even taking into account the specific one-time unanticipated problems in

OVERVIEW (CONT'D.)

two key revenue sources, Motor Vehicle License Fees and Electricity Utility Taxes, which will result in collections falling short of budgeted expectations in those two categories by approximately $2.4 million, overall collections in the General Fund are performing at or just slightly below budgeted levels. We have taken this status into account for projections for year-end fund balance included in the 2004-2005 General Fund Forecast, and continue to believe that savings in expenditures and liquidation of encumbrances will more than offset the under collection in revenues, leaving us with the slight positive balance ($13.0 million, excluding rebudgets and reserves) in the General Fund at the end of the year presumed in the Proposed Budget.

It should be noted however, that the final year-end revenue collection status will depend heavily on the final outcome of our largest revenue source -- Sales Tax collections for the remainder of the year. Two full quarters of collections remain to be received, and as noted above, although the March quarterly recipts were a positive sign, it is still too early to know whether we have hit a temporary plateau or are really seeing signs of the bottom of the Sales Tax slide. Collections for the third quarter of the year will be received in late June, and reported to the Council as soon as available.

It is also worth noting that in response to the continued weak economic performance, and in compliance with recommendations included in the Mayor's 2003-2004 Mid-Year Budget Actions Memorandum approved by the City Council on February 17, 2004, the City has continued, and in fact strengthened, the aggressive strategies that have been in place for well over two years. The hiring freeze which has been in place for two and one-half years continues, and stringent controls remain in place for descretionary expenditures in every category in the City. Most recently, at mid-year, the savings from the 2003-2004 General Fund Departmental Cost/Position Management Plans for the 2003-2004 fiscal year, which cumulatively totaled approximately $8.6 million, were transfered to the 2004-2005 Future Deficit Reserve which now totals over $16 million, and on March 23, the City Council approved the deletion of 100 General Fund positions.

GENERAL FUND

Revenue Collections

General Fund revenues through April 2004 totaled $509.5 million. This was an increase of $1.1 million (0.2%) from the April 2003 level of $508.5 million. This comparativly flat performance was primarily driven by one-time transfers in the Transfers and Reimbursements category in the current year along with increases in the following revenue categories: Sales Tax, Utility Tax, Licenses and Permits, Fines, Forfeits, and Penalties, Revenue from Local Agencies, Departmental Charges, and Other Revenue. Growth in those categories was partially offset by decreases in the following revenue categories: Property Tax, Franchise Fees, Use of Money and Property, and Revenue from the State of California.

GENERAL FUND (CONT'D.)

The following discussion highlights General Fund revenue activities through April:

KEY GENERAL FUND REVENUES
($000's)

Revenue	2003-2004 Estimate	YTD Actual
Property Tax	**$ 96,444**	**$ 80,808**

Year-to-date Property Tax revenues reflect collections in Secured Property Tax, Unsecured Property Tax and the smallest property tax category, SB 813 Property Taxes (supplemental taxes).

Secured Property Tax revenues through April of $66.1 million were 1.3% higher than the prior year. Not withstanding the press release from the County Assessor concerning recent actions downgrading assessed valuations citywide, information from the County continues to indicate that the City should expect to meet the current budget estimate ($79.3 million). It should be noted, however, that tax roll adjustments are still occurring and, as a result, final conclusions concerning the status of Secured Property Taxes cannot be made until total receipts are received in July.

Current and Prior Unsecured Property Taxes are driven by the value of personal property, typically equipment and machinery used by business and industry for manufacturing and production. Through April, Unsecured Property Tax receipts of $12.1 million are 13.9% below last year's level of $14.1 million. A falloff had been anticipated, and this performance is within budgeted levels. Performance in this category over the past decade has been extremely volatile and subject to sharp changes as the economy shifts. Staff will continue to monitor this revenue source closely and work with the County to obtain additional information to determine whether adjustments might be needed before year-end.

With the adjustments for accrual reversals and timing differences, SB 813 payments through April of $2.5 million are down 26.8% from last year's comparable collections of $3.4 million. Reduced collections in this category, representing payments for taxes owed on recent housing resales, can indicate a reduction in the resale of older homes or a slowdown in the turnover of recently resold homes. The Adopted Budget anticipated a significant decline in this category, presuming a drop of 10.0% from the prior year level.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
Sales Tax	**$ 128,818**	**$ 86,474**

General Sales Tax receipts for April represent only State formula advance payments. Collections of $67.2 million tracked 3.6% lower than the $69.7 million collection in the prior year. Because these are advance payments, however, the decline through April is not necessarily indicative of an actual drop in receipts.

As discussed in the overview, the most recent quarterly Sales Tax report from the State representing sales activity for October through December reported an increase over the prior quarter after ten straight down quarters. Although the City's collections levels continue to be weak, for the first time in more than two and a half years, Sales tax collections were actually up, increasing 2.7% from the prior quarter. Although this is good news in that the long string of quarter-to-quarter declines has been broken, this information should be tempered with the knowledge that included in this quarterly increase were one-time dollars more appropriately attributed to last fiscal year. With this fact taken into account, collections represented only slight growth from last year's level through the first two quarters of this year.

San Jose's increase was slightly less than that experienced by the San Francisco Bay Area (up 2.9%) while the State as a whole had significantly greater growth (4.3%). The South Bay regional economy clearly continues to be the hardest hit area in the State, if not the nation.

In addition, preliminary information from MBIA MuniServices, the City's Sales Tax consultants, indicates that the performance in the City's Sales Tax receipts for the most recent quarter, although up just slightly from last year, actually represents a relatively mixed performance in most economic sectors. Although the Business-to-Business category increased slightly (up 1.7%), the activity within the sector was mixed. Increases in electronic equipment (up 32.4%) and energy and chemical sales (up 21.3%) were offset by decreases in leasing (down 28.1%) and office equipment (down 13.8%). The increase in General Retail (up 4.4%) was mainly the result of an increase in apparel stores (up 24.8%), offset by decreases in florist/nursery (down 11.3%) and recreation products (down 5.7%). After accounting for timing issues, the Transportation sector declined (down 8.2%) led mainly by decreases in used car sales (down 24.5%) and auto parts/repairs (down 13.7%). One bright spot was the solid increase in construction (up 11.9%), led by increases in wholesale building materials (up 15.8%) and retail building materials (up 8.5%). The following lists the largest General Sales Tax economic sectors and their percentage of the total for the 2003-2004 second quarter: Business-to-Business at 27.1%; General Retail at 25.9%; Transportation at 22.4%; Food Products at 13.5%; and Construction at 10.4%.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
Transient Occupancy Tax	**$ 6,118**	**$ 4,174**

Transient Occupancy Tax collections through April of $4.2 million continued to be very disappointing, with collections relatively flat when compared to last year's level of $4.1 million for the same period and 7.3% lower than the year-to-date estimate of $4.4 million. This performance relative to the year-to-date estimate was particularly disappointing as this takes into account a $601,000 downward adjustment in this revenue category, which was approved as part of the Mid-Year Budget Review.

As an additional sign of continued weakness in the local hospitality market, the April 2004 occupancy rate in the largest hotels was a dismal 45.4%, significantly down from both the April 2003 rate of 57.16%, and the March rate of 58.3%. An additional sign of continued weakness in the local hospitality market is the fact that while the number of rentable rooms remained relatively stable, the average room rate continued to drop, from $113.53 in April 2003 to $97.72 in April 2004. We will continue to monitor this situation, but believe that yet another downward adjustment to the estimate for this revenue source may be required by the end of the year.

Revenue	2003-2004 Estimate	YTD Actual
Franchise Fees	**$ 32,406**	**$ 23,524**

Collections of $23.5 million from Franchise Fees were below the April 2003 collection level of $24.3 million. This negative variance reflects net lower collections in Electricity and Gas Franchise Fees. The receipts related to Electricity and Gas Franchises Fees were the result of formula-driven estimated payments from Pacific Gas & Electric (PG&E), based on actual collections in calendar year 2002, and are not necessarily indicative of actual expected receipts. In addition, as reported to the City Council in June 2003, net receipts also reflect the repayment of $183,236 per quarter to PG&E for overpayments made to the City in 2002-2003. In April 2004, PG&E calculated the actual Franchise Fees due in 2003-2004 based on calendar year 2003 activity. After adjusting for the repayment mentioned above, year-end Electricity and Gas Franchises Fees collections are expected to be essentially flat in 2003-2004.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
Franchise Fees (Cont'd.)	**$ 32,406**	**$ 23,524**

It should be noted that the California Public Utilities Commission (CPUC) recently approved a settlement agreement between Pacific Gas & Electric Company, its parent PG&E Corporation, and the CPUC, which paved the way for the utility to emerge from bankruptcy. This settlement agreement provides for significant rate reductions to the utility's customers. Although there are still not enough details currently available for an exact analysis of the impact of the rate reductions, an initial review indicates the possibility of significant ongoing reductions of both Electricity Franchise Fees and Utility Taxes in the combined range of $3.0 million to $3.5 million. In addition, we have received slightly lower than anticipated collections from City Generated Tow Franchise Fees and it is possible that collections in this category will come in slightly under current budgeted expectations.

Commercial Solid Waste Franchise Fees of $6.7 million are approximately 11.0% above the prior year level of $6.0 million. Preliminary discussions indicate, however, that this performance is actually due to timing differences in receipts and variances in accruals compared to the previous year. In fact, preliminary estimates indicate that this revenue category may actually fall below budgeted expectations due to the continued weak economic climate as well as to commercial waste diversion programs. The Budget Office will continue to work with the Environmental Services Department to analyze current year performance and assess whether a downward revenue adjustment should be recommended.

Revenue	2003-2004 Estimate	YTD Actual
Utility Tax	**$ 64,979**	**$ 53,205**

Utility Tax collections of $53.2 million are 3.9% above last year's level of $51.2 million. This performance reflects slightly higher collections in Gas, Water, and Telephone Utility Taxes, offset by lower collections in the Electricity Utility Tax. As discussed in prior MFRs, the projection for a shortfall in the Electricity Utility Tax is the result of a September announcement by the California Public Utilities Commission that it has ordered an unanticipated one-time rebate to PG&E customers. The negative impact of that rebate on the City is projected at approximately $1.1 million.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
Utility Tax (Cont'd.)	**$ 64,979**	**$ 53,205**

In addition, as noted above, the CPUC has approved a settlement agreement between Pacific Gas & Electric Company, its parent PG&E Corporation, and the CPUC that provides for significant rate reductions to the utility's customers. Although there are still not enough details currently available for an exact analysis of the impact of the rate reductions, an initial review indicates the possibility of significant ongoing reductions of both Electricity Franchise Fees and Utility Taxes for this fiscal year in the combined range of $3.0 million to $3.5 million.

In light of the $2.0 million downward adjustment approved in the Mid-Year Budget Review, combined with the increases in natural gas prices and slight increases in overall usage for Gas, Water, and Telephone, it is, however, anticipated that this revenue category will meet modified budget expectations.

Revenue	2003-2004 Estimate	YTD Actual
Licenses and Permits	**$ 66,157**	**$ 58,207**

On an overall basis Licenses and Permits revenue of $58.2 million through April was 13.7% above the prior year level of $51.2 million.

Cardroom Business Tax collections of $6.4 million are well above the prior year level of $5.6 million. This performance actually reflects comparison with the period of last year affected by the Bay 101 bankruptcy filed in July 2002 where revenue was not received during that period. This revenue category is expected to meet budgeted expectations of $7.5 million.

Disposal Facility Tax revenue of $10.9 million is 11.4% lower than the prior year level of $12.3 million. This reflects the fact that BFI and Waste Management have taken issue with the removal of the Alternate Daily Cover exemption approved by the City Council last year. Pending a resolution of this $1.8 million dispute, by agreement with the City Attorney's Office, BFI and Waste Management are paying amounts related to alternative daily cover into an escrow account, rather than the General Fund. The Attorney's Office is attempting to negotiate an outcome that will hold the General Fund harmless for any loss of revenue, but we will need to work with the Environmental Services Department and the City Attorney's Office to monitor the status of this issue and its impact on City revenue collections.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
Licenses and Permits (Cont'd.)	**$ 66,157**	**$ 58,207**

Fire Permit revenues of $5.3 million are flat when compared to the prior year's revenues. This performance is below the amount anticipated in the budget, and as a result a $0.4 million downward adjustment was approved as part of the Mid-Year Budget Review. Even with the revised revenue estimate and expectations of higher activity levels before year-end, current projections indicate that these revenues may still end the year below the revised budgeted amount. At the present time, this reduction in revenues can be only partially offset by salary savings in fee program costs. The status of the Fire Fee Program will continue to be closely monitored, however, a further downward adjustment to the estimate for this revenue source may well be required by the end of the year.

Building Permit revenues of $18.1 million, in contrast, are tracking well above both the budgeted level (13.0%) and last year's collection level (38.9%). Revenues through April collected in all categories performed at or above anticipated levels. A change in the building code that was to be effective on November 1 apparently resulted in a significant increase in October activity. Although revenue collections have smoothed out during the year, it is currently anticipated that Building Permits could end the year above estimates by as much as $1.3 million.

Revenue	2003-2004 Estimate	YTD Actual
Use of Money and Property	**$ 8,492**	**$ 6,244**

The Use of Money and Property revenue of $6.2 million in April was significantly below the prior year level of $9.2 million, reflecting lower cash balances and interest earnings. The General Fund cash balance for April was down to $153.6 million, as compared to the prior year's balance of $182.3 million, a decline of 15.7% or $28.7 million. Although a significant decline in cash balances had been anticipated, this level was below that assumed in the Adopted Budget, and a downward adjustment of $1.0 million was approved through the Mid-Year Budget Review. As a result, this revenue category is now expected to meet budgeted expectations.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
Revenue from the State of California	**$ 48,584**	**$ 32,043**

Revenue from the State of California through April totaled only $32.0 million, which represented a significant decline from the prior year collection level of $43.3 million. This drop, of course, reflects the impact of the reduction in Motor Vehicle In-Lieu Fee (VLF) payments included as part of the State budget balancing actions. (As a reminder, what was represented as a "one-time" impact from the ramp-up time necessary to fully implement the increase in the VLF fees resulted in the postponement of the July through September VLF offset until 2005-2006. Therefore, a subsequent reduction in VLF was approved by Council as part of the State budget balancing package approved in August).

Actions that were approved by the City Council revised the budget estimate accordingly, resulting in a $10.5 million decrease to the VLF category. As discussed in prior MFRs, subsequent to the September rebalancing actions, it was determined that a key assumption, based on State assurances, used to estimate prior year revenues in this category has proven to be incorrect. Based on statements from the State Controller, the Finance Department presumed that a VLF payment in the amount of $1.3 million due to the City in June, which was delayed, would eventually be paid. An accrual in that amount was, as a result, included in the final 2002-2003 closing statements. We since learned that, those assurances notwithstanding, this payment will not be forthcoming. The result is an additional shortfall of $1.3 million in current year collection totals over and above any shortfalls resulting from the actions that raised and then lowered VLF fees.

Revenue	2003-2004 Estimate	YTD Actual
Departmental Charges		
- Public Works	**$ 6,405**	**$ 6,161**

Public Works revenues through April of $6.2 million are 37.0% above the prior year level of $4.5 million. While the best performing categories are residential engineering and non-residential engineering, nearly every category is performing better than it was through the same period last year. Current information indicates that this revenue source could exceed budgeted levels by as much as $700,000. This increased revenue is partially offset by lower than anticipated collections in the floodplain management and water quality runoff categories. The related expenditures in this fee program have also exceeded anticipated levels as a result of increased activities. In order to maintain the fee program's cost recovery status, upward adjustments to revenues and expenditures may be necessary by year-end.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
- Transportation	**$ 792**	**$ 936**

Transportation Revenues of $0.9 million tracked 79.2% above the prior year level of $0.5 million. The strong performance has been driven by unanticipated one-time receipts for Signal Review in the North Coyote Valley, by higher than anticipated collections in the Miscellaneous Traffic Charges and Street Tree Planting categories, and by Residential Permit Parking collections which have tracked strongly at the beginning of this year due to permit renewals in the summer. As a result, current year-to-date collections have already exceeded the budgeted estimate. The Budget Office will continue to work with the Department to project the year-end collection level, bringing forward appropriate adjustments, if necessary, as more information becomes available.

Revenue	2003-2004 Estimate	YTD Actual
- Planning, Building, & Code Enforcement	**$ 5,257**	**$ 4,616**

Planning Permit revenues of $4.6 million are well above last year's collection level at this point in time, and tracking slightly ahead of anticipated levels. Revenue levels for 2003-2004 assumed the same level of activity as 2002-2003, with fee increases of 15.0% as approved by the Council. Year-end savings generated in this fee program will be returned to the development fee reserves.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2003-2004 Estimate	YTD Actual
Other Revenue	**$ 19,293**	**$ 12,847**

Other Revenue collections of $12.8 million are $2.8 million above the prior year level of $10.0 million. This increase from the prior year primarily reflects a planned increase in reimbursement from the Arena Authority. Overall collections appear to be within budgeted expectations.

Revenue	2003-2004 Estimate	YTD Actual
Transfers and Reimbursements	**$ 86,381**	**$ 81,752**

Transfers and Reimbursement collections of $81.8 million were significantly above the prior year level of $80.9 million. This performance through April, however, was primarily driven by various budgeted transfers to the General Fund, including transfers from the Healthy Neighborhood Venture Fund ($10.0 million) and the Vehicle Maintenance and Operations Fund ($2.9 million). Overall collections appear to be within budgeted expectations.

EXPENDITURES

Through April, General Fund expenditures of $538.7 million were 3.3% below (down $18.2 million) the prior year level of $556.9 million. Encumbrances of $30.6 million were 27.8% below (down $11.8 million) the prior year level of $42.4 million. Expenditures and encumbrances ($569.3 million) through April constitute 77.8% of the total 2003-2004 revised budgeted uses of funds ($731.7 million, excluding reserves).

After incorporating the adjustments approved as part of the Mid-Year Budget Review, cumulative departmental and non-departmental expenditures appear to be within or below approved budgeted levels through April. At this time, only one department, the Fire Department, is spending at a level that would lead to exceeding its appropriation by year-end.

GENERAL FUND (CONT'D.)

EXPENDITURES (CONT'D.)

The following discussion highlights significant General Fund expenditure activities through April:

KEY GENERAL FUND EXPENDITURES
($000's)

Department	2003-2004 Budget	YTD Actual
Police	**$ 224,643**	**$ 178,594**

Overall, Police Department expenditures are tracking at slightly lower than estimated levels through April. Overtime expenditures through April were below expected levels at $4.7 million or 62.3% of the budgeted level (compared to the estimated level of 82.0%). In April 2003, the Department implemented guidelines on overtime usage and the Department continues to be proactive in managing overtime. In the Sworn Recruitment and Training Program, 33 Officers that were part of the January 2003 Academy were street-ready in October 2003.

The compensatory time balance at the end of April was 6,821 hours for sworn personnel. This level represents a drop of 22,574 hours (down 10.3%) from the June 2003 balance of 219,395 hours, and a slight increase from the April 2003 balance of 210,636 hours.

Department	2003-2004 Budget	YTD Actual
Fire	**$ 111,884**	**$ 92,552**

As discussed in previous MFRs, expenditures for the Fire Department continue to track well above budgeted levels. This is entirely the result of higher than anticipated Personal Services expenditures, primarily overtime overages.

Present projections indicate that at current continued expenditure levels, year-end costs would exceed budgeted levels by as much as $2.0 million. A portion of that overage, however, is expected to be reimbursed. In support of efforts to fight Southern California wildfires, the Fire Department dispatched four companies and support staff. The Department is currently obtaining further information on the total amount and timing for the reimbursement of these costs. At current spending levels, therefore, assuming full reimbursement for the Mutual Aid efforts, the department's unreimbursed year-end costs would be over the budget amount by approximately $1.6 million.

GENERAL FUND (CONT'D.)

EXPENDITURES (CONT'D.)

KEY GENERAL FUND EXPENDITURES
($000's) (Cont'd.)

Department	2003-2004 Budget	YTD Actual
Fire (Cont'd.)	**$ 111,884**	**$ 92,552**

Efforts do continue to address the inadequate paramedic staffing levels in the department. As of the end of April, the Department had a total of 213 filled front-line (128) and support (85) paramedics. As discussed during last year's budget process, the front-line total of 128 was short of the 147 that are necessary to fully staff all apparatus. During last fiscal year, the Department implemented several strategies to attempt to close the gap in front-line paramedics. In March 2003, the accelerated accreditation program for 13 Firefighter Paramedics resulted in an increase in the number of front-line Paramedics. In addition, 16 individuals have completed a Paramedic Academy and are in the internship phase of their training. A significant portion of the projected overexpenditure will, however, result from an unanticipated delay in the length of time necessary for these medics to complete the certification process. For reasons that are still unclear, the training program, through April is approximately four months behind the original schedule.

That delay alone will result in unbudgeted overtime costs of just under $400,000, nearly a quarter of the projected overexpenditure. When the front-line Paramedics are accredited, the number of front-line Paramedics is anticipated to increase to a projected level of 135, still slightly short of the full need. The Budget Office is continuing to work with the Department to develop mitigation strategies to bring expenditures within budgeted levels by year-end.

Department	2003-2004 Budget	YTD Actual
City-Wide	**$ 116,780**	**$ 66,818**

Recent information indicates that City-Wide expenditures may be exceeded in two areas. The $5.1 million Sick Leave Payments Upon Retirement budget is currently expected to be exceed by as much as $450,000. In addition, the budget for the Property Tax Admin Fee is now expected to exceed the budgeted amount by approximately $198,000. It is expected that these items will need to be adjusted before year-end.

GENERAL FUND (CONT'D.)

CONTINGENCY RESERVE

Through April, the General Fund Contingency Reserve was $22,566,675, down by $2.5 million from the 2003-2004 Adopted Budget level of $25,086,675. The following revisions to the Contingency Reserve were approved through April:

- A decrease of $600,000 to provide an increase to the Hayes Mansion Conference Center Line of Credit in order to allow the Conference Center to remain open and operational while the City selects and completes negotiations with a new property manager.

- A decrease of $1.5 million to provide or guarantee a letter of credit on behalf of the Silicon Valley Football Classic. At this point, it is anticipated that none of this funding will actually be required to be expended.

- A decrease of $100,000 to provide funding for an environmental impact report for the Almaden Youth Sports Complex.

- A decrease of $300,000 to provide funding for consultant services related to the cable television franchise renewal project.

- A decrease of $20,000 to provide additional funding for an evaluator that reviews and investigates complaints that are filed with the San José Elections Commission.

OTHER FUNDS

Construction and Conveyance Tax Funds

Continuing the positive trend experienced at the end of last fiscal year, Construction and Conveyance Tax collections through ten months of the year had significantly exceeded both prior year actuals and budgeted estimates. This represented stronger than anticipated durability of the local residential real estate market, which to our surprise continues to remain virtually unfazed by the local economic slowdown. The number of property transfers for all types of residences in April increased over 59% from April 2003, and these homes also took less time to sell with the average days-on-market decreasing from 60 days in April 2003 to 29 days in April 2004. Year-to-date property transfers have also increased by approximately 40% when compared to prior year activity.

Through April, $25.4 million in actual tax revenues had been received (105.7% of the 2003-2004 revised estimate of $24.0 million). This collection level was 68.4% higher than revenues received through April 2003. In addition to these revenues, the City has since received May Conveyance Tax receipts which totaled $4.5 million. This result was 113.5% higher than the May 2003 amount of $2.1 million. Due to the stronger than anticipated performance of this revenue, a $4.0 million upward adjustment was approved as part of the Mid-Year Budget Review.

OTHER FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

While the news remains positive and we will likely still end the year above budgeted levels, we continue to urge caution when projecting future receipts. The prolonged economic downturn, and the end of the recent decline in mortgage rates could still begin to negatively impact housing sales, which are the primary drivers of this revenue.

Other Construction-Related Revenues

In April, residential and commercial activity was modest while no new industrial construction permits were issued. Since February, year-to-date actual receipts have continued to drop when compared to levels achieved in the prior year. As a result, the year-to-date total of the seven revenue sources monitored for this report was $21.5 million, a decrease of 8.9% from the $23.6 million collected through the same period last year. However, comparisons with the prior year need to be put in the context of the atypically strong final quarter experienced in 2002-2003. When performance through April is compared instead with current year estimates, the picture improves.

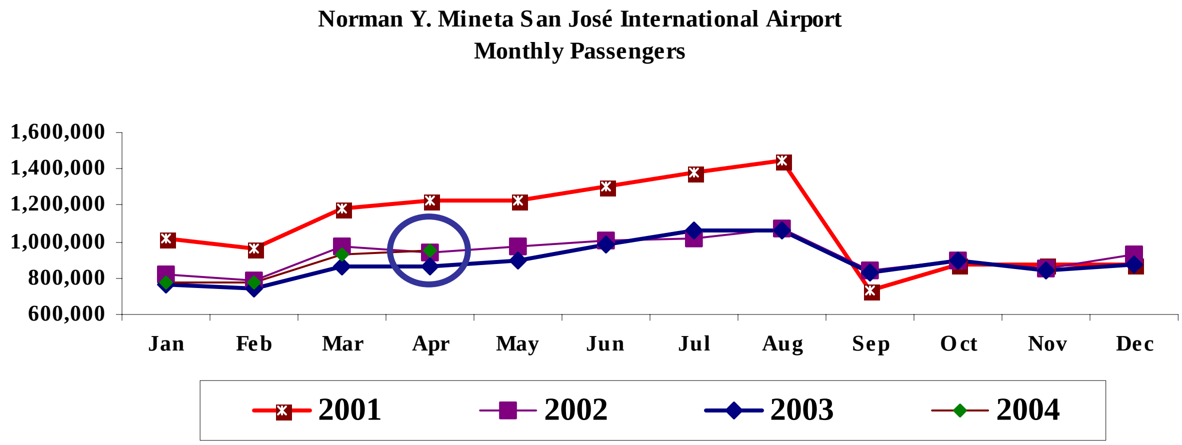
In fact, year-to-date collections of $21.5 million have already exceeded 2003-2004 estimates of $19.9 million, due to a handful of robust months during 2003-2004, as well as the fact that the current year budget – built without assuming the strong end to 2002-2003 – allowed for a 33.6% drop from the prior year's actual collections. Consistent with the overall pattern, the major revenue sources – Building and Structure Construction Taxes and Construction Excise Taxes – have now exceeded year-end estimates but are tracking somewhat below prior year actuals. Building and Structure Tax receipts through April totaled $7.5 million (103.5% of the current 2003-2004 estimate of $7.3 million), which represents a decrease of 10.8% from the revenues collected through the same period last year ($8.4 million). The budgeted estimate for this category allows for a 32.4% drop in 2003-2004. Construction Excise Tax revenues through April totaled $11.6 million (105.2% of the current 2003-2004 estimate of $11.0 million), which represents a 14.2% decrease from last year's $13.5 million received over the same period. The budgeted estimate for this category allows for a 35.1% drop in 2003-2004.

Other construction-related revenues are generated by Municipal Water Service Connection Fees, Sanitary Sewer Fees, Storm Drain Fees, Residential Construction Taxes, and Municipal Water Major Facilities Fees. All of these categories are tracking above prior year levels and are expected to end the year at or above estimates with the exception of Municipal Water Major Facilities Fees and Municipal Water Service Connection Fees. Through April, Municipal Water Major Facilities Fees receipts totaled $57,775 (57.8% of the current 2003-2004 estimate of $100,000), which represents a 59.5% decrease through the same period last year ($114,370). Municipal Water Service Connection Fee collections totaled $239,358 (73.6% of the current 2003-2004 estimate of $325,000). These collections, however, represent a 978.6% increase from the fees received through the same period last year ($22,192). Staff will continue to monitor these revenues closely.

OTHER FUNDS (CONT'D.)

Airport Funds

On a year–to-date basis, through April, the Norman Y. Mineta San José International Airport (SJC) had enplaned and deplaned 9 million passengers, an increase of 1.6% from the figures reported through April 2003. Monthly passenger activity for April increased by 10.4% from 2003 levels and represented the fourth consecutive month of growth.



Terminal C passenger activity for April 2004 increased 2.7%, and year-to-date activity was 3.7% greater than that recorded through April 2003. Terminal A activity increased 4.0% in April-to-April comparisons, but was 2.6% lower than 2002-2003. Annual mail, freight and cargo totaled just over 155.9 million pounds, a 19.5% decrease from 2002-2003. This decrease was largely attributable to the termination of operations of Emery Worldwide Airlines and Kitty Hawk Air Cargo in San José. April 2004 taxicab operations increased by 2.2% from those in April 2003, but were 1.5% lower than those recorded year-to-date. Short-term parking exits were down by 3.5% for the year and daily exits were down by 11.6%.

Revenue performance in various categories showed mixed results but on an overall basis, year-to-date operating revenues of $71.29 million through April 2004, were very slightly 1% higher (less than 1%) than the estimated budget. Revenues posting higher results than the forecast were terminal rentals, airfield, parking and roadway, and general and non-aviation revenues. Terminal rentals were 4.0% higher than the estimated budget due to additional space occupied by Southwest Airlines. Airfield revenues continued to outpace the estimated budget mainly because of the rise in the activities of the commuter airlines. Prior year adjustments of in-flight kitchen revenues that were reflected during the current year also contributed to the increase in airfield revenues. Parking and roadway revenues performed slightly higher than the estimates, propelled by higher-than-anticipated activities in the short-term parking. Higher interest income and transfers from the Fiscal Agent Fund, as well as increases in land and building rentals, contributed to an 18.0% increase in general and non-aviation revenues.

OTHER FUNDS (CONT'D.)

Airport Funds (Cont'd.)

Revenues performing below the estimated levels were landing fees, terminal concessions and miscellaneous rents, and petroleum programs. Airlines decreased their operations to cope with lingering weak travel demand and the shift of passenger traffic from larger to regional aircraft that correlated to lower landing fees.

Terminal concessions and miscellaneous rents were 5.0% lower than the estimated budget due to "true-up" refunds of concession fees (pertaining to the prior year) paid to the rental companies (approximately $822,000). Excluding the "true-up" refunds, terminal concessions and miscellaneous rents actually posted a slight increase over the estimated budget. Petroleum program revenues were 10% below the estimates because of the termination of operations by Kitty Hawk and Charter America, which accounted for 13.0% of the prior year's petroleum revenues.

Expenditures in the Airport Maintenance and Operations Fund through April 2004 were tracking well below budgeted levels in both personal services and non-personal/equipment categories as a result of internal savings targets established by the Airport to bring costs into balance with anticipated revenues. Airport personal service expenditures totaled 76.4% of budget. Overtime to date totaled $180,047 (or just 44.3% of budget), as compared to $216,104 spent year-to-date in 2002-2003. Airport savings to date of $1.6 million were attributed to departmental vacancies and reduced overtime expenses. Through the end of April, the department carried 43.2 FTE vacancies and anticipated meeting a personal services savings target of $1.4 million by year's end.

Non-personal/equipment expenditures through April 2004 are $22.5 million, or 55.9% of budget. Current encumbrances amounted to $9.5 million, which brought total commitments to $32.0 million, or 79.6% of budget.

Airport Customer Facilities and Transportation Fee Fund revenues through April 2004 totaled $3.1 million; expenses to date were $3.5 million. An operating deficit in the fund exists even though shuttle bus hours have been reduced. However, it is anticipated that the fund will end the year in balance, as a result of using the prior year carryover surplus and unrestricted reserves.

Transient Occupancy Tax Fund

As described above, Transient Occupancy Tax (TOT) collections of $6.2 million through April remained disappointing, with current collections relatively flat compared to the same month in the prior year and down 3.1% from the year-end estimate of $6.4 million. The April 2004 occupancy rate in the largest hotels of 45.4% was significantly down from the April 2003 rate of 57.2% and below the March 2004 rate of 58.3%. In addition, reflecting the soft market, while the number of rentable rooms remained stable over the prior year, the average room rate continued to slip, dropping to $97.72 in April 2004 from $118.80 in April 2003.

OTHER FUNDS (CONT'D.)

Transient Occupancy Tax Fund (Cont'd.)

Based on trends as they appeared in January, a downward adjustment of $900,000 was approved as part of the Mid-Year Budget Review. However, even with this reduction, the fund will still require a modest recovery in occupancy rates and room rates for the rest of the year to achieve the revised level of projected revenue. There are significant risks that this improvement will not occur. Staff will continue to monitor this fund closely, but if the recovery fails to materialize, additional reductions will be required later in the year.

Integrated Waste Management Fund

Integrated Waste Management Fund revenues are tracking to end the year below the original estimate, primarily due to customers downsizing their carts in both Single-Family and Multi-Family Dwelling sectors further than anticipated. As a result, an $860,015 downward adjustment to revenues and expenditures was recommended and approved as part of the Mid-Year Budget Review. It is now expected that this fund will end the year within the revised budget estimates.

Vehicle Maintenance and Operations Fund

Vehicle Maintenance and Operations Fund revenues are tracking to end the year well below the modified budget ($24.0 million). This collection rate, however, primarily reflects delayed billing for actual expenses. It is anticipated that by the end of the fiscal year, collections will match expenditure levels in this cost-recovery fund.

Expenditure levels in this fund are expected to exceed budgeted levels, primarily in the Personal Services category. Vacancies experienced in this program have not equaled the budgeted vacancy factor. This will likely require an increase in the Personal Services appropriation in the fund as part of the end of the year clean-up actions. As a cost recovery fund, however, all costs are to be billed to the appropriate departments and a balance between revenues and expenditures achieved in the fund by year-end. The Budget Office will work with the General Services Department to assure that this result is achieved before the close of the fiscal year.

CONCLUSION

It appears that the City may well be finally seeing the end of a nearly four year steep downward momentum in City revenues. We do not believe, however, that this portends any significant rebound in revenues in the near term. Although we may have reached bottom, economic indicators and City revenue collections indicate we continue to be impacted by lingering impacts of the economic slowdown, and are unlikely to experience any substantial growth in the near term. Fortunately, since the revenue estimates in the 20003-2004 Budget assumed this situation, we believe that our revenue performance to date is generally consistent with budgeted estimates.

CONCLUSION (CONT'D.)

Although the breadth and depth of the weak local economy has clearly been greater and longer than any of us anticipated, to date we have been able to weather the situation without dire consequences, largely due to the aggressive management measures implemented as soon as it became apparent that the economy had peaked.

We remain committed to the strict implementation of these measures, and the development of additional options for further cost cutting for Council consideration should the situation deteriorate further.

As always, staff will continue to closely monitor our current year financial status and report to the City Council any and all significant developments through this reporting process.

/s/

LARRY D. LISENBEE
Budget Director

CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
EXPENDITURES
FOR THE 10 MONTHS ENDED APRIL 30, 2004
(UNAUDITED)
($000's)

	ADOPTED FY 2003-04 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2003-04 BUDGET	YEAR-TO-DATE ACTUAL	YEAR-TO-DATE ENCUMBR	CUR YTD ACTUAL % OF BUDGET	PRIOR YTD ACTUAL(1)	PRIOR YTD % OF PRIOR YEAR-END ACTUAL	PRIOR YEAR-END BUDGETARY BASIS ACTUAL	CUR YTD LESS PRIOR YTD ACTUAL(1)	% CHANGE CUR YTD ACTUAL LESS PRIOR YTD ACTUAL
General Government												
Mayor and Council	$ 7,419	(379)	9	7,049	4,790	16	67.95%	4,959	80.73%	6,159	(169)	-3.42%
City Attorney	10,878	(179)	1,278	11,977	8,423	1,176	70.32%	8,142	78.28%	11,893	281	3.45%
City Auditor	2,366	(77)	12	2,302	1,947	4	84.60%	1,763	79.20%	2,238	184	10.44%
City Clerk	1,682	262	1	1,946	1,034	19	53.13%	1,304	80.69%	1,617	(270)	-20.72%
City Manager (2)	6,848	(356)	176	6,668	5,045	283	75.67%	5,186	80.78%	6,659	(141)	-2.72%
Finance (3)	8,755	(504)	154	8,406	6,342	276	75.45%	6,171	78.26%	8,058	171	2.77%
Information Technology	14,355	(885)	399	13,869	10,133	886	73.06%	12,135	77.82%	15,993	(2,002)	-16.50%
Employee Services (3)	6,256	(293)	265	6,229	4,771	508	76.61%	5,572	79.74%	7,253	(801)	-14.37%
Redevelopment Agency	1,657	-	-	1,657	1,132	-	68.33%	1,469	81.93%	1,793	(337)	-22.94%
Planning Commission	-	-	-	-	-	-	0.00%	29	80.56%	36	(29)	-100.00%
Civil Service Commission	-	-	-	-	-	-	0.00%	14	63.64%	22	(14)	-100.00%
Independent Police Auditor	651	5	5	662	526	11	79.44%	477	75.96%	633	49	10.20%
Office of Economic Development	2,052	(75)	154	2,131	1,311	275	61.53%	1,382	75.60%	1,998	(71)	-5.12%
Office of Emergency Services	351	(82)	1	270	214	1	79.18%	269	76.42%	354	(55)	-20.57%
Total General Government	63,271	(2,562)	2,455	63,164	45,668	3,456	72.30%	48,872	78.91%	64,706	(3,204)	-6.56%
Public Safety												
Fire	109,767	1,827	289	111,884	92,552	796	82.72%	87,797	79.47%	110,792	4,755	5.42%
Police	217,777	4,982	1,884	224,643	178,594	2,409	79.50%	168,971	79.23%	215,194	9,623	5.69%
Total Public Safety	327,544	6,810	2,174	336,527	271,145	3,206	80.57%	256,768	79.31%	325,986	14,377	5.60%
Capital Maintenance												
General Services	20,900	(414)	247	20,733	17,000	2,022	81.99%	17,827	51.96%	34,610	(827)	-4.64%
Transportation	33,795	(2,283)	1,293	32,805	24,952	1,859	76.06%	26,346	77.33%	35,429	(1,394)	-5.29%
Public Works (2)	6,901	(326)	283	6,857	6,554	352	95.57%	6,558	82.66%	8,230	(4)	-0.07%
Total Capital Maintenance	61,596	(3,023)	1,823	60,395	48,505	4,233	80.31%	50,731	66.48%	78,269	(2,226)	-4.39%

(1) Does not include encumbrance balance.

(2) Prior YTD and Year-End actual amounts reflect the realignment of Contract Compliance from Office of Equality Assurance to Public Works and Civil Services from Office of Equality Assurance to City Manage

(3) Prior YTD and Year-End actual amounts reflect the realignment of Worker's Compensation from Finance to Employee Services.

CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
EXPENDITURES
FOR THE 10 MONTHS ENDED APRIL 30, 2004
(UNAUDITED)
($000's)

	ADOPTED FY 2003-04 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2003-04 BUDGET	YEAR-TO-DATE ACTUAL	YEAR-TO-DATE ENCUMBR	CUR YTD ACTUAL % OF BUDGET	PRIOR YTD ACTUAL(1)	PRIOR YTD % OF PRIOR YEAR-END ACTUAL	PRIOR YEAR-END BUDGETARY BASIS ACTUAL	CUR YTD LESS PRIOR YTD ACTUAL(1)	% CHANGE CUR YTD ACTUAL LESS PRIOR YTD ACTUAL
Community Service												
Library	24,274	(289)	269	24,254	19,607	275	80.84%	17,174	76.61%	22,689	2,433	14.16%
Planning, Bldg & Code Enf.	32,030	(293)	397	32,134	23,839	458	74.19%	23,255	79.87%	29,570	584	2.51%
Park, Rec & Neigh Svcs	60,011	(1,583)	1,852	60,279	45,237	3,776	75.05%	47,432	101.01%	48,923	(2,195)	-4.63%
Environmental Services	1,558	34	98	1,690	908	548	53.73%	1,014	71.41%	1,791	(106)	-10.43%
Total Community Services	117,873	(2,131)	2,615	118,357	89,590	5,056	75.70%	88,875	88.95%	102,973	715	0.81%
Total Dept. Expenditures	$ 570,284	(907)	9,067	578,444	454,909	15,951	78.64%	445,246	79.24%	571,934	9,663	2.17%
Non-Dept Expenditures												
City-wide Expenditures:												
Econ & Neighborhood Develop.	$ 16,499	5,025	1,053	22,577	16,489	588	73.03%	16,820	97.15%	18,458	(331)	-1.97%
Environmental & Utility Services	1,247	(750)	163	660	464	100	70.29%	342	78.80%	1,057	122	35.73%
Public Safety	5,189	6,875	970	13,034	2,860	1,778	21.95%	2,817	82.30%	4,399	43	1.54%
Recreation & Cultural Services	20,892	3,934	3,538	28,364	16,789	3,759	59.19%	21,768	83.20%	29,714	(4,979)	-22.87%
Transportation Services	2,579	(100)	101	2,579	1,376	769	53.34%	1,689	71.69%	2,457	(313)	-18.54%
Strategic Support	40,286	7,779	1,500	49,566	28,841	1,946	58.19%	34,102	84.66%	41,847	(5,261)	-15.43%
Total City-wide Expenditures	86,692	22,763	7,325	116,780	66,818	8,940	57.22%	77,538	86.18%	97,932	(10,720)	-13.82%
Capital Contributions	20,052	2,395	8,020	30,467	10,942	5,704	35.91%	28,044	79.60%	43,439	(17,102)	-60.98%
Transfers to Other Funds	5,207	803	-	6,010	6,010	-	100.00%	6,095	91.02%	6,696	(85)	-1.39%
Total Non-Dept Expenditures	111,951	25,961	15,345	153,258	83,771	14,644	54.66%	111,677	84.67%	148,067	(27,906)	-24.99%
Reserves												
Contingency Reserves	25,087	(2,520)	-	22,567	22,567	-	100.00%	24,347	0.00%	-	(1,780)	-7.31%
Earmarked Reserves	71,545	4,317	-	75,862	75,862	-	100.00%	71,738	0.00%	-	4,124	5.75%
Total Reserves	96,632	1,797	-	98,428	98,428	-	100.00%	96,085	0.00%	-	2,343	2.44%
Total Uses	$ 778,866	26,851	24,412	830,130	637,108	30,595	76.75%	653,008	94.12%	720,001	(15,900)	-2.43%

(1) Does not include encumbrance balance.