

June 24, 2011

Robert Sapien
President
San Jose Fire Fighters, IAFF, Local 230
425 E. Santa Clara Street, Suite 300
San Jose, CA 95113

RE: Retirement Reform Negotiations Preparation

Dear Robert:

We are in receipt of your letter dated June 6, 2011, in which you request information for the negotiations between the City and the San Jose Firefighters, IAFF, Local 230.

In your letter you request any legal opinions regarding vested benefits. As you know the City Council made public the Advice Letter issued by Jones Day regarding Retiree Health Benefits and Vested Rights. There are currently no other documents that are available regarding vested benefits.

Additionally, you request a copy of projected Fiscal Year 2010-2011, year-end revenues and expenditures inclusive of transfers, and a present cash flow accounting for the city's general fund. Please find enclosed two bi-monthly financial reports recently released by the City. These reports may also be located at the following:

http://www.sanjoseca.gov/clerk/CommitteeAgenda/PSFSS/20110421/PS20110421_c2.pdf
<http://www.sanjoseca.gov/clerk/CommitteeAgenda/PSFSS/20110616/PS20110616c2.pdf>

Lastly, you are requesting a response regarding Local 230's retirement reform proposal provided on February 28, 2011, and request any actuarial costing analysis on your proposal. Please find enclosed the City Council memorandum dated June 23, 2011, which includes an analysis of Local 230's proposal. This memorandum may also be found at the following:

http://www.sanjoseca.gov/clerk/Agenda/20110624/20110624_0301att3.pdf

IAFF, Local 230
RE: Retirement Reform Negotiations Preparation
June 24, 2011
Page 2 of 2

As we continue our negotiations regarding retirement reform and related ballot measure(s), we will have an opportunity to further discuss Local 230's proposal.

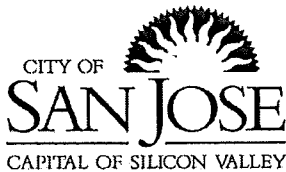
Sincerely,

A handwritten signature in black ink, appearing to read "Gina Donnelly". The signature is fluid and cursive, with a large initial "G" and "D".

Gina Donnelly
Deputy Director of Employee Relations

c: Jeff Welch, Vice President, San Jose Fire Fighters, IAFF, Local 230

Enclosures



Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE
FROM: Jennifer A. Maguire
SUBJECT: BI-MONTHLY FINANCIAL REPORT FOR JANUARY/FEBRUARY 2011
DATE: April 11, 2011

Approved Dana Silva Date 4/11/11

The Bi-Monthly Financial Report for January/February 2011 was jointly prepared by the City Manager's Budget Office and the Finance Department and is presented for the Public Safety, Finance and Strategic Support Committee's review.

OVERVIEW

Through February, the City's overall financial position remains relatively stable, although on careful watch. The Administration will continue to closely monitor economic conditions and the performance in the City's funds and will bring forward any required budget adjustments to the City Council for the remainder of the year as part of the 2010-2011 Year-End Clean-Ups Memorandum that will be agendized for June 21, 2011. Following are key highlights in this report:

- A number of the General Fund revenues had been tracking below Modified Budget levels through the first half of the year. Consequently, the City Council approved actions as part of the Mid-Year Budget Review to address an estimated \$10.0 million General Fund net revenue shortfall, including use of the City's Economic Uncertainty Reserve (\$4.0 million), transfers from other funds and increased revenues (\$3.6 million), and expenditure shifts and transfers (\$2.4 million). The use of the Economic Uncertainty Reserve provided a significant portion of the balancing strategy, leaving that Reserve with a balance of \$5.0 million. In addition, as part of Mid-Year, the City Council approved actions to set aside expenditure savings to establish a 2010-2011 Ending Fund Balance Reserve of \$8.5 million to better position the City for the 2011-2012 budget process.
- Property Tax receipts in the General Fund are currently anticipated to meet the 2010-2011 budgeted estimates based on the most recent projections provided by the County of Santa Clara.
- As part of the Mid-Year Budget Review actions, the City Council approved an increase of \$3.2 million to the 2010-2011 Sales Tax revenue estimate to reflect better than anticipated first quarter performance. Additionally, in March 2011, preliminary second quarter results were received that also exceeded expectations. With one-time accounting adjustments to

OVERVIEW (Cont'd.)

reflect prior-year collections and the "Triple Flip" true-up payment from the State for 2009-2010, year-over-year General Sales Tax growth is estimated to be approximately 8.8% by year end. This compares to an actual decline in collections of 3.5% in 2009-2010.

- Many departments are currently experiencing or are expected to experience higher than budgeted personal services expenditures due to unbudgeted vacation sell-back expenses and/or vacation and compensatory time payouts associated with employee separations from retirements or layoffs (June 26, 2011) that are anticipated to occur by year-end. Departments will absorb these additional costs to the extent possible through savings from the employee turnover, overtime controls, and/or identifying potential offsets through non-personal/equipment appropriation savings. However, additional funding may need to be distributed to some departments by the end of the fiscal year to prevent appropriation overruns.
- The City's challenging economic environment has resulted in weak or volatile performance in the Construction and Conveyance Tax Funds and the Municipal Golf Course Fund. Several of the other Special Revenue funds, however, are seeing improved performance: the Airport funds, funds that account for development-related taxes and fees (Construction Excise Tax Fund and Building and Structure Tax Fund) and the Transient Occupancy Tax Fund. The financial performance of these funds will be carefully monitored during the year to determine if any adjustments are necessary.
- The Administration will continue to report to the City Council any and all significant developments through this reporting process.

Economic Environment

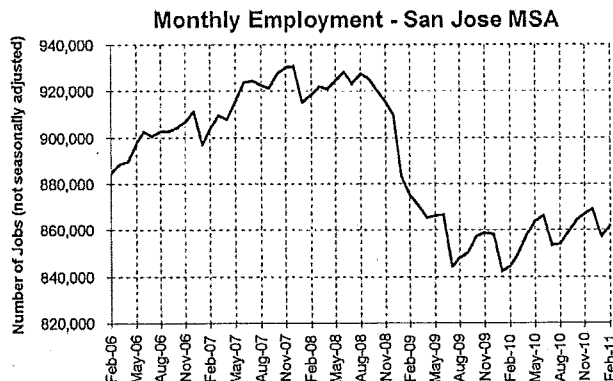
U.S. Gross Domestic Product (GDP) appears to be increasing at a moderate pace, with growth of 3.1% for the quarter ending December 31, 2010. This is an improvement over the low growth rates in the previous two quarters (1.7% and 2.6%), and has contributed to some improvement in the unemployment rate: the seasonally-adjusted February 2011 U.S. unemployment rate of 8.9% has dropped to its lowest level since April 2009. The most recent Federal Reserve statement noted that "...the economic recovery is on a firmer footing, and overall conditions in the labor market appear to be improving gradually."

Despite the encouraging economic news, The Conference Board Consumer Confidence Index, which had improved in February, decreased in March. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "Consumers' inflation expectations rose significantly in March and their income expectations soured, a combination that will likely impact spending decisions. On the other hand, consumers' assessment of current conditions improved, indicating that while the short-term future may be uncertain, the economy continues to expand."

OVERVIEW (Cont'd.)

Although still well below the recent peak of 930,500 jobs experienced in December 2007, employment in the San Jose Metropolitan Statistical Area (MSA) has somewhat recovered over the past 13 months from the January 2010 low of 842,300. The February 2011 employment level of 861,800 was (2.1%) above the February 2010 employment level of 844,400.

The San José metropolitan area continues to experience double-digit unemployment, although the February 2011 unemployment rate of 10.6% represents a slight decline from the January 2011 rate of 10.8%. The February 2011 figure is also lower than the 11.9% rate experienced a year ago. The February 2011 unemployment rate in this region is less than the unadjusted unemployment



Unemployment Rate (Unadjusted)

	Feb. 2010	Jan. 2011	Feb. 2011
San Jose Metropolitan Statistical Area*	11.9%	10.8%	10.6%
State of California	12.8%	12.7%	12.3%
United States	10.4%	9.8%	9.5%

* San Benito and Santa Clara Counties
 Source: California Employment Development Department.

rate for the State, but remains above the nation, which has a current unadjusted unemployment rate of 9.5%.

Through February, the level of construction permit activity compared with the prior year at this time varies significantly across the three types of construction. Industrial construction remained significantly below prior year levels, with the \$50.6 million of

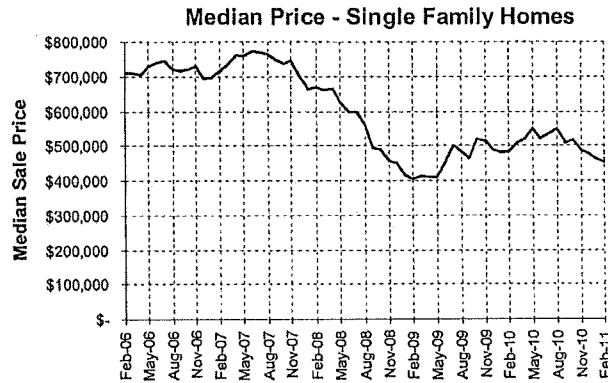
industrial permits issued this year showing a 35.6% drop from the prior year valuation of \$78.6 million. Conversely, the total valuation of commercial permits issued so far this year is \$147.2 million, 23.4% above the prior year valuation of \$119.2 million. Although the 2,177 residential permits issued through February were over seven times higher than the 292 permits issued at this time last year, this dramatic spike was almost entirely attributable to two very large development projects in late 2010 in North San Jose.

This permit activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees. Additionally, over the last ten years, the construction industry has provided approximately 5% of the region's jobs; so any reduction in permit activity is expected to contribute to a slow recovery in local employment.

OVERVIEW (Cont'd.)

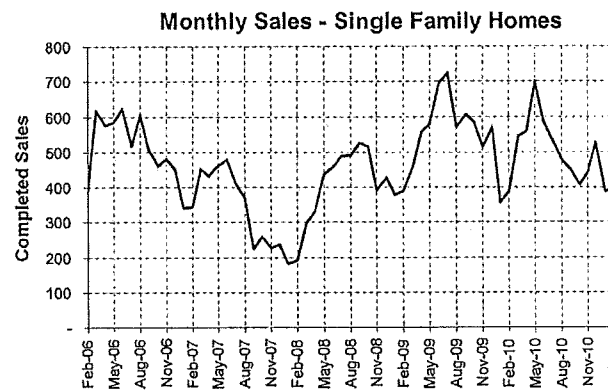
Discouragingly, the February 2011 median home price of \$455,000 for single family homes within the City fell 6.2% below the February 2010 median of \$485,000. February marked the fifth month in a row that the median home price decreased from the same month in the prior year.

Another indicator of the continuing challenges in the local real estate market is the increase in the amount of time to complete a transaction. The average days-on-market totaled 88 in February 2011, close to the peak of 90 days-on-market in June 2009. Additionally, the 3,614 total property transfers (completed sales) for single family homes for July 2010 through February 2011 fell 16.2% below the 4,315 completed sales for July 2009 through February 2010.



Beyond weak consumer confidence and continuing high unemployment, an important factor that could also be acting as a drag on the housing market is uncertainty related to when the “shadow inventory” of foreclosed properties will be put on the market by lenders.

The slow pace of recovery from the economic recession continues to dampen growth in the City’s economically sensitive revenue categories. As a result, collections in many of these areas, such as Sales Tax and Property Tax, are expected to remain well below levels experienced in recent years. Economic conditions will continue to be closely monitored, and any necessary budget re-balancing actions that may result from any negative impacts on overall City revenues will be brought forward before the end of the year.



GENERAL FUND

REVENUES

General Fund revenues through February 2011 totaled \$539.8 million. Although this represents an increase of \$113.4 million from the February 2010 level of \$426.4 million, the 2011 total includes \$75.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANS) issued for cash flow purposes in July (\$40.0 million) and October (\$35.0 million) 2010. Adjusting for the TRANS issuance, General Fund revenues through February 2011 totaled \$464.8 million – an increase of \$38.4 million (9.0%) from the February 2010 level.

Collections were higher than the prior year in most of the revenue categories, including Sales Tax, Transient Occupancy Tax, Telephone Line Tax, Franchise Fees, Utility Tax, Licenses and Permits, Fines, Forfeits and Penalties, Revenue from Local Agencies, Revenue from the Federal Government, Departmental Charges, Transfers, and Reimbursements for Services. The revenue categories tracking below the prior year level include Property Tax, Use of Money and Property, Revenue from the State, Other Revenue (excluding the TRANS), and Overhead.

In the development of the 2010-2011 Adopted Budget, it was assumed that collections in some of the economically sensitive categories, such as Sales Tax, would show slight improvement in 2010-2011, while other revenue categories, such as Property Tax, were expected to decline. Through December 2010, General Fund revenues were tracking below expected levels due to lower collections in several categories, with the largest variances in Utility Taxes, Franchise Fees, Cardroom Tax, Use of Money and Property (interest earnings), and Airplane In-Lieu Tax. Accordingly, as part of the Mid-Year Budget Review actions, net downward adjustments of \$10.0 million to revenue estimates were approved, offset by the use of the Economic Uncertainty Reserve (\$4.0 million), transfers from other funds and increased revenues (\$3.6 million), and expenditure shifts and transfers (\$2.4 million).

Based on collections through February, it is anticipated that General Fund revenues will meet the overall modified budget estimate by year-end. However, continued close monitoring of 2010-2011 performance will be necessary to determine if additional adjustments to these revenue estimates will be necessary during the remainder of the year.

The following discussion highlights General Fund revenue activities through February:

KEY GENERAL FUND REVENUES

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 194,909,000	\$ 101,941,895	\$ 108,673,440

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. Through February, \$101.9 million was

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

received. The 6.2% decrease from the prior year collection level of \$108.7 million was the result of lower collections in all Property Tax categories.

Secured Property Tax accounts for \$91.5 million of the \$101.9 million in Property Tax revenue received through February 2011. For 2010-2011, the Adopted Budget estimate for Secured Property Taxes of \$183.4 million allowed for a 1.3% decline from the 2009-2010 actual collections. In August 2010, the County of Santa Clara provided a preliminary Secured Property Tax estimate of \$182.1 million for 2010-2011 that indicated a drop of 2.0% from the actual 2009-2010 collection level. Based on that updated estimate, a \$1.3 million reduction to the Secured Property Tax revenue estimate was approved by the City Council as part of the 2009-2010 Annual Report actions, bringing the budget estimate to \$182.1 million. That adjustment allows for a 2.0% decline in 2010-2011 from actual 2009-2010 receipts. Because tax roll adjustments are still occurring and will continue to take place until the end of May 2011, the Budget Office will continue to work with the County to revise the revenue estimate for the Secured Property Tax category as necessary.

The largest payment in the Unsecured Property Tax category is received in October of each year. Receipts of \$9.9 million are tracking to end the year at \$11.0 million, which would exceed the budgeted estimate of \$10.2 million by approximately \$800,000. This collection level represents a decline of 10.5% from the actual 2009-2010 receipts of \$12.3 million. The 2010-2011 Unsecured Property Tax revenue estimate of \$10.2 million allows for a 16.7% decline from the prior year.

For the SB 813 Property Tax category, no payments have been received for 2010-2011 because, according to the County, the net collections through February 2011 are less than the unprocessed negative supplemental taxes accumulated from 2009-2010 and 2010-2011. The 2010-2011 Adopted Budget estimate of \$3.3 million anticipated an increase of 10.2% from the \$3.0 million collected in 2009-2010. In August 2010, the County of Santa Clara provided a preliminary SB 813 Property Tax estimate of \$1.5 million for 2010-2011 that indicated a drop of 50% from the actual 2009-2010 collection level. Based on that updated estimate, a \$1.8 million reduction to the SB 813 Property Tax revenue estimate was approved by the City Council as part of the 2009-2010 Annual Report actions, bringing the budget estimate to \$1.5 million. That adjustment allows for a 50.7% decline in 2010-2011 from actual 2009-2010 receipts. Depending on the impact of the negative supplemental tax adjustments through the remainder of the year, an additional downward adjustment may be necessary.

It is anticipated that Homeowners Property Tax Relief revenue will be received at approximately the budgeted level of \$1.1 million.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 134,679,000	\$ 68,654,636	\$ 63,440,262

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax.

General Sales Tax receipts through February of \$66.4 million are tracking 8.5% above the prior year collection level of \$61.2 million. This reflects actual performance for the first quarter along with a “triple flip” payment and advances from the State. This also reflects the effect of a Sales Tax recording error that understated the fourth quarter General Sales Tax for 2008-2009 and correspondingly overstated the first quarter General Sales Tax for 2009-2010. As part of the Mid-Year Budget Review actions, the City Council approved an increase of \$3.2 million to the revenue estimate to reflect the improved first quarter General Sales Tax performance.

While not reflected in the figures through February, the City has received preliminary information on the City’s Sales Tax performance in the second quarter that shows an increase of 10.4% from the same quarter in 2009-2010 (last fiscal year, this quarter was down 5.3%). This represents sales activity from October through December 2010. While cash receipts were up 10.4%, Sales Tax collections on an economic basis were up somewhat less, by 9.2%. The City’s Sales Tax consultant, MuniServices, LLC, provided economic performance data, which is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period than the cash receipts. This 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 increase in the most recent quarter was the result of increases in all sectors except Miscellaneous.

**Sales Tax Revenue Economic Performance
 2nd Quarter 2010-2011**

Economic Sector	% of Total Revenue	% Change from 2nd Quarter 2009-2010
General Retail	30.8%	+ 6.3%
Business to Business	26.4%	+19.3%
Transportation	19.3%	+ 7.6%
Food Products	14.7%	+ 3.0%
Construction	8.1%	+ 8.4%
Miscellaneous	0.7%	-14.9%
Total	100.0%	+ 9.2%

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

The modified budget estimate of \$130.9 million, reflecting actual results from the first quarter of 2010-2011, allowed for a 6.1% increase in 2010-2011 from actual 2009-2010 cash receipts and anticipated that the remaining three quarters of the fiscal year would experience approximately 1% growth from the prior year. With one-time accounting adjustments to reflect prior-year collections and the "Triple Flip" true-up payment from the State for 2009-2010, year-over-year growth is estimated to be approximately 8.8% by year end.

It is important to note that the Sales Tax growth in the first two quarters of 2010-2011 was built on the prior-year quarters in which Sales Tax declined by 18.2% (down 12.8% on an adjusted basis) and 5.3%. Because the Sales Tax receipts for the remaining two quarters of 2010-2011 will be compared with prior-year quarters in which collections increased (13.0% for the third and fourth quarters), it would be premature to suggest adjustments to the growth assumptions for the remaining two quarters of 2010-2011. Economic data and other indicators of the City's Sales Tax performance will continue to be closely monitored to determine if any adjustments are necessary to the budgeted estimate by year-end.

Through February, the Proposition 172 Sales Tax receipts of \$2.2 million were tracking at the prior year collection level. The 2010-2011 budget estimate, however, allows for a drop of 3.2%. Based on year-to-date collection trends, it is likely receipts in this category will end the year above the budgeted estimate.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 6,684,000	\$ 3,907,775	\$ 3,542,348

Through February, Transient Occupancy Tax (TOT) collections of \$3.9 million were tracking 10.3% above the prior year collection level of \$3.5 million for the same period. The 2010-2011 Adopted Budget assumed an increase of 2.0% from the 2009-2010 estimated level; however, the budget now allows for a decline of 3.1% based on higher than anticipated 2009-2010 collections. It is anticipated that TOT receipts will achieve or exceed the budgeted revenue estimate of \$6.7 million by year-end.

Through February, the average hotel occupancy rate at the 14 major hotels was 57.6%, a significant improvement from the 53.2% occupancy rate for the same period in 2009-2010. For the same 14 hotels, the average daily room rate through February was \$118.72, up slightly from the \$117.00 room rate for the same period in 2009-2010. The year-to-date average revenue-per-available-room (RevPAR) metric of \$68.34 represents an increase of 9.7% from the prior year level. TOT receipts will be closely monitored as the year progresses, and budget adjustments will be brought forward for City Council consideration, if necessary.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 87,432,000	\$ 51,321,228	\$ 47,098,781

Through February 2011, Utility Tax receipts of \$51.3 million reported in the City's financial management system were up 9.0% from last year's collection level of \$47.1 million. In several Utility Tax categories, however, large payments for last February 2010 were received too late to be included in the February 2010 month-end accounting close. Adjusting for those payments, Utility Tax receipts through February of \$51.3 million were just equal to the prior year collection level. To meet the 2010-2011 budgeted estimate, receipts can decline 0.2% from the prior year. If current collection trends continue, overall collections for this category could fall below the budgeted estimate.

In the Electric Utility Tax category, collections of \$23.9 million were tracking 3.0% above the prior year level of \$23.2 million (adjusting for a large February 2010 payment that was posted after the month-end accounting close); however, growth of 3.6% is needed to meet the Electric Utility Tax budget estimate of \$39.2 million. The 2010-2011 Adopted Budget incorporated rate increases that were scheduled to become effective in January 2011. However, in October 2010, Pacific Gas and Electric Company (PG&E) filed a settlement agreement with the California Public Utilities Commission (CPUC) that would significantly reduce those rate increases and consequently reduce the City's 2010-2011 Electric Utility Tax revenue. Although no final decision from the CPUC has been made, it is clear that electric rates will not experience the level of growth built into the revenue estimate. Based on current trends, collections could fall below the budgeted estimate.

In the Gas Utility Tax category, receipts of \$4.7 million were tracking 2.2% above the prior year level of \$4.6 million (adjusting for a large February 2010 payment that was posted after the month-end accounting close). In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$2.0 million decrease to the budget estimate for this category. The budgeted estimate of \$8.6 million requires growth of 0.6% from the actual 2009-2010 collection level. Collections in the next several months will provide a much better indicator of receipts in this category since approximately two-thirds of the revenue in this category is typically collected in the second half of the year.

In the Water Utility Tax category, receipts of \$4.9 million were tracking 10.9% below the prior year level of \$5.5 million (adjusting for a large February 2010 payment that was posted after the month-end accounting close). In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$600,000 decrease to the budget estimate for this category. The budgeted estimate of \$9.0 million requires growth of 3.6% from the actual 2009-2010 collection level. A rate increase of 3.1% was implemented in January 2011, and this

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

category is always subject to fluctuations related to the amount of precipitation received, particularly in the spring. This category may also be impacted by conservation efforts. At this point, collections could fall below the budgeted estimate.

Collections in the Telephone Utility Tax category of \$17.8 million were tracking 1.2% below the prior year collection level of \$18.0 million. According to the City's Utility Tax consultant, the lower level of collections reflects a combination of the following factors: (1) continuing migration from land-line service to less-expensive wireless service; (2) intense price competition among wireless service providers; and (3) increased use of service plans that bundle voice service with data service, which qualifies for a federal exemption from the Telephone Utility Tax. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$2.9 million decrease to the budget estimate for this category. The budgeted estimate of \$30.6 million allows for a 5.9% decline from the actual 2009-2010 collection level. Based on current collection trends, this category is anticipated to achieve the budgeted revenue estimate by year end.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Licenses and Permits	\$ 68,198,220	\$ 52,685,592	\$ 43,630,670

Through February, Licenses and Permits revenue of \$52.7 million tracked 20.8% above the prior year level of \$43.6 million. The 2010-2011 budget estimate anticipates growth over the 2009-2010 collection level of 3.4%. Categories that exceeded the prior year included Business Tax, Cardroom Tax, Building Permits, Fire Permits, and Miscellaneous Licenses and Permits. These positive variances were partially offset by lower collections in the Disposal Facility Tax category. Following is a discussion of the major components of this category.

In the Business Tax category, revenues of \$8.9 million through February were tracking 4.3% above the prior year level of \$8.6 million. Growth of 1.1% from the 2009-2010 actual collection level is necessary to meet the budgeted Business Tax estimate of \$11.0 million.

Cardroom Tax receipts of \$8.3 million through February were 12.6% above the prior year level of \$7.3 million. Receipts were expected to increase from \$12.5 million in 2009-2010 to \$17.7 million in 2010-2011 based on the Cardroom Tax ballot measure, approved by the voters in June 2010, that increased the Cardroom Tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98. However, current year activity levels are lower than anticipated when the 2010-2011 Adopted Budget was developed. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$3.9 million decrease to the budget estimate for this category. The budgeted estimate of \$13.8 million allows for a 10.5% increase from the actual 2009-2010 collection level. Collections are currently projected to meet the revised budget estimate.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Disposal Facility Tax revenue of \$6.6 million through February is tracking 2.3% below the prior year level of \$6.7 million. In the development of the 2010-2011 Adopted Budget, it was assumed that collections would remain flat at the 2009-2010 estimated collection level based on the assumption that reductions associated with waste diversion would offset any increase in economic activity. However, receipts are continuing to experience declines reflecting the combination of the slow economic recovery and diversion efforts. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$300,000 decrease to the budget estimate for this category. The budgeted estimate of \$11.3 million allows for a 2.7% decrease from the actual 2009-2010 collection level. Collections are currently projected to meet the revised budget estimate.

Building Permit receipts of \$15.6 million through February were tracking well above both the 2010-2011 year-to-date estimate of \$9.9 million, and the prior year-to-date collection level of \$10.0 million. Revenues in all plan check and permit categories are tracking above estimated levels. Strong revenue receipts are entirely driven by a spike in residential permits in December. The December housing unit permit count of 1,641 was only the third time in the last decade that the count exceeded 1,000 units. Following this spike, a return to slower residential activity occurred through January and February. February also saw a continuation of moderate commercial and slow industrial permit activity. Despite this slow activity projected for the remainder of 2010-2011, given the strong residential performance in the first half of the year, Building Permit receipts are on track to exceed the budgeted revenue estimate of \$16.2 million. Due to higher than anticipated Building activity, the revenue estimate was increased by \$477,000 in the Mid-Year Review. This allocation was approved to support temporary staff resources and assisted with General Fund rebalancing by offsetting General Fund resources previously allocated to support Development Services in 2010-2011.

Through February, Fire Permit collections of \$5.9 million were tracking above estimated levels and 31.9% above the prior year receipts of \$4.4 million. Development-related collections of \$2.9 million are 54.5% above levels received through February 2010, and almost 35% above current year estimates due to higher than projected collections in architectural and engineering systems (fire sprinkler and alarm systems) plan review and inspections. Development Fee Program revenue is currently projected to exceed the budgeted estimate by \$1.1 million. The estimate for Development Fee revenue was increased by \$208,000 in the 2010-2011 Mid-Year Budget Review to reflect higher than anticipated activity and to assist with General Fund rebalancing by offsetting General Fund resources that were allocated to support Development Services in the 2010-2011 Adopted Budget. The Fire Non-Development Fee Program is currently tracking above estimated levels with higher than estimated collections in the Annual Renewable Permits. At this time, collections are projected to meet the budgeted revenue estimate of \$4.5 million in the Non-Development Fee Program. The City Manager's Budget Office and Fire Department will continue to monitor both development and non-development revenues closely.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Revenue from Local Agencies	\$ 45,682,351	\$ 30,104,422	\$ 26,224,772

This category includes reimbursement from the Redevelopment Agency for City services, grants from various agencies, reimbursement for fire suppression services in unincorporated County pockets, and reimbursement for emergency medical services. Revenues through February of \$30.1 million were above the prior year level of \$26.2 million primarily due to differences in the timing of payments and budgeted reimbursements.

The budgeted reimbursements from the San Jose Redevelopment Agency total \$15.0 million for City services and an additional \$15.0 million for the Convention Center debt service payments. It is currently anticipated that the City will be reimbursed for all eligible expenses. Through February, the City has received \$21.6 million from the Redevelopment Agency to reimburse the City for eligible expenditures, somewhat above the prior year level of \$19.9 million due to the receipt of the Agency's reimbursement for San José BEST one month earlier than last year. The 2010-2011 budget for the Redevelopment Agency was approved by the Agency Board in November 2010.

Through February, payments totaling \$2.5 million have been received from the Central Fire District for fire services provided by the City. The current-year collections are tracking 15.3% below the prior-year level of \$3.0 million. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$540,000 decrease to the budget estimate for this category. The budgeted estimate of \$5.1 million allows for a decline of 15.3% from the actual 2009-2010 collection level. The reduction to the revenue estimate, based on information from the Central Fire District staff, is due to the drop in Property Tax receipts and the impact of annexations by the City.

Overall, the other reimbursements from various agencies are tracking within estimated levels through February. Revenues in this category are projected to end the year close to the budgeted estimates, and the City Manager's Budget Office will bring forward any necessary adjustments.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Departmental Charges	\$ 29,610,267	\$ 20,430,040	\$ 14,198,022

Through February, Departmental Charges revenues of \$20.4 million were tracking 43.9% above the 2009-2010 collection level of \$14.2 million. This level of growth exceeds the 8.5% increase over the prior year required to meet the 2010-2011 budget estimate. This increase from the prior year is due primarily to the increase in collections in the Parks, Recreation and Neighborhood

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Services Department (PRNS) associated with the timing of the re-opening of the Happy Hollow Park and Zoo.

The Miscellaneous Departmental Charges category, which is budgeted at \$5.2 million, includes the Solid Waste Enforcement Fee with a budgeted estimate of \$3.5 million, various Animal Control Fees budgeted at \$708,000, and other miscellaneous fees budgeted at \$992,000. Solid Waste Enforcement Fee revenues of \$1.5 million were tracking as anticipated, reaching 62.0% of the budgeted estimate of \$3.5 million. It is projected that this fee will end the year within the budgeted estimate. Animal Care and Services Departmental Charges are budgeted at \$708,000 and include Animal Control Fees for a variety of services. Collections through February of \$426,000 are within anticipated levels and are expected to reach the budgeted level at year-end.

Through February, Police revenues of \$1.2 million were tracking 6.6% below the expected level and 1.7% below the prior year level. The lower than anticipated revenue collections can be attributed to lower collections for Impounded Vehicle Releases, Photostats (Police Records/Reports), and miscellaneous revenue. These lower than anticipated collections are partially offset by higher collections in Police Officer Standards and Training (POST), Special Events Permits, and Police Officers Attending Civil Court. The Police Department and City Manager's Budget Office will continue to closely monitor performance, and at this time, revenue is tracking to end the year approximately \$125,000 below estimated levels.

Public Works revenues through February of \$3.4 million are 65.4% above the prior year level of \$2.0 million, but the volatile nature of development activity should temper any inclination to consider this large increase as indicative of a trend. To meet the 2010-2011 budget estimate of \$4.3 million, collections levels must increase 2.4% above the prior year levels. At this point in time, it is anticipated that the Public Works Fee Program will end the year above the estimated level.

Transportation fee collections through February totaled \$795,000, up 56.9% from the prior year amount of \$507,000. This collection level exceeds the budgeted estimate of \$779,000. The year-over-year increase primarily results from recognizing Department of Transportation reimbursements for special event costs as Departmental Charges revenue rather than including those reimbursements in an aggregated special events item reported in the Other Revenue category as was done in prior years.

Library departmental revenue of \$535,000 is tracking well below expected levels through February due to lower than projected fine revenue. Based on prior year performance and current collection trends, Library revenues may fall below the revenue estimate of \$1.9 million by year-end. If necessary, a year-end adjustment will be brought forward.

Through February, Planning fee revenue of \$1.7 million was 3.9% above prior year-to-date collections, and 18% above estimated year-to-date revenue levels. Should this trend continue,

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

the Planning fee program is on track to reach the \$2.4 million revenue estimate. This estimate represents a 12% reduction from the prior year actuals, given projections of very slow activity for 2010-2011. While receipts through February are tracking to meet the budgeted revenue estimate, continued slow activity remains a concern, and a balance of \$368,000 will be available in the Planning Fee Program Reserve should a revenue shortfall occur. The City Manager's Budget Office and the Department will continue to monitor Development Fee Program revenues closely, and bring forward additional adjustments if necessary.

Through February, PRNS Departmental Charges revenue of \$9.1 million is well ahead of the 2009-2010 level of \$5.3 million, primarily due to Happy Hollow Park and Zoo (HHPZ), which was not yet open in February 2010. With an overall revenue target of \$13.1 million, year to date collections have achieved approximately 69% of the budgeted estimate. Categories with higher than anticipated collections include Fee Activity, Parking, and After-School Recreation. It is anticipated at this time that overall year end collections will meet or exceed the budgeted revenue estimate.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Transfers and Reimbursements	\$ 93,339,330	\$ 69,688,704	\$ 58,117,635

This category includes overhead reimbursements from operating and capital funds, transfers, and other reimbursements. Transfers and Reimbursement collections of \$69.7 million through February were tracking above the prior year level of \$58.1 million due primarily to one-time transfers from the Healthy Neighborhoods Venture Fund, the Construction Excise Tax Fund, the Integrated Waste Management Fund, and the Construction and Conveyance Tax Fund. Those additional transfer revenues have been partially offset by lower levels of overhead reimbursements.

Overhead associated with operating funds and special funds is currently budgeted at \$23.7 million. In addition, overhead associated with capital funds is budgeted at \$10.6 million for a total revenue estimate of \$34.3 million. Through February, overhead collections of \$29.6 million were tracking within estimated levels.

Transfers from other funds collections of \$34.8 million are currently tracking slightly below the budget estimate of \$41.7 million, primarily due to lower than anticipated interest earnings transfers from other funds to the General Fund that have already been adjusted downwards once this year. As part of the Mid-Year Budget Review actions, the City Council approved adjustments in this category which increased one-time transfers from other funds to offset revenue estimate reductions in other categories and which reduced the estimates for interest earnings transfers from other funds. It is anticipated that collections in this category could fall slightly below the budgeted estimate by year-end.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

The budget estimate for the Reimbursements for Services category is \$17.4 million, of which \$16.6 million is expected to be generated from the three Gas Tax Funds. Gas Tax revenues through February were tracking approximately \$1.0 million below the budgeted estimate, and the City Manager's Budget Office will continue to monitor Gas Tax revenues closely and bring forward adjustments if necessary.

Overall, collections in the Transfers and Reimbursements category are expected to fall below the budgeted estimate by as much as \$1.0 million by year-end. The City Manager's Budget Office will continue to monitor the collections in this category closely and bring forward any necessary adjustment.

EXPENDITURES

Through February, General Fund expenditures of \$595.3 million were 13.4% above the prior year level of \$525.1 million. Encumbrances of \$28.9 million were 17.4% below the prior year level of \$35.0 million. Expenditures and encumbrances (\$624.2 million) through February constitute 65.4% of the total 2010-2011 revised budgeted uses of funds (\$954.1 million, excluding reserves). Overall, cumulative departmental and non-departmental expenditures are tracking within budgeted levels.

It should be noted that the City Council approved actions as part of the Mid-Year Budget Review to capture \$8.5 million of current year savings in the 2010-2011 Ending Fund Balance reserve. These savings have been factored into the General Fund Forecast for 2011-2012.

Many departments are currently experiencing or are expected to experience higher than budgeted personal services expenditures due to unbudgeted vacation sell-back expenses and/or vacation and compensatory time payouts associated with employee separations from retirements or layoffs (June 26, 2011) that are anticipated to occur by year-end. Implementation of Internal Revenue Service rules related to taxation of vacation days sold back to the City by eligible employees has impacted vacation sellback expenses in several departments. Departments will absorb these additional costs to the extent possible through savings from the employee turnover, overtime controls, and/or identifying potential offsets through non-personal/equipment appropriation savings.

Net-zero budget adjustments were approved as part of the Mid-Year Budget Review to reflect transfers between appropriations to address projected Personal Services expenditure overages for the following departments: City Attorney's Office, City Manager's Office, Fire Department, General Services Department, and the Information Technology Department. However, additional funding may need to be distributed to some departments by the end of the fiscal year to prevent appropriation over-runs.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND EXPENDITURES

Department	2010-2011 Budget	YTD Actual	Prior YTD Actual
Police	\$ 298,287,587	\$ 182,883,305	\$ 185,573,270

On an overall basis, Police Department expenditures are tracking slightly below estimated levels. Personal Services expenditures of \$173.7 million are tracking under anticipated levels (62.7% compared to the par of 64.0%). Through the end of February, the Department had 32 sworn vacancies, offset by two temporary sworn personnel, one Police Lieutenant position and one Police Officer position, funded by Urban Area Security Initiative (UASI) grants. Overtime expenditures of \$5.9 million through February tracked below anticipated levels with 47.8% expended. The compensatory time balance at the end of February 2011 was 187,874 hours for sworn personnel. This represents a decrease of 5,475 hours (2.8%) from the December 2010 balance of 193,349, and a 36,094 hour decrease (16.1%) compared to the February 2010 balance of 223,968. The overall reduction in compensatory time balance can be attributed to a number of factors including higher than normal attrition in 2009-2010 (leading to compensatory time balances being paid out at the time of separation as demonstrated by higher expenditures in full-time salaries), and additional overtime controls implemented during 2009-2010, which have continued through 2010-2011.

The overtime management process requires preapproval by a supervisor and additional timesheet coding is required to determine the type of usage in order to readily identify mandatory versus discretionary usage. This process has been useful in reducing discretionary overtime expenditures. Continued active management of the overtime budget and earned compensatory time is necessary to ensure overall personal services expenditures remain within budgeted levels. The Budget Office and Police Department will continue to closely monitor Personal Services to ensure expenditures are within appropriated levels by year-end.

A total of \$12.8 million (60.1%) of the Department's Non-Personal/Equipment budget was expended or encumbered through February. Excluding the remaining balances for centrally-determined details, including electricity, gas, and vehicle operation and replacement, the Department has approximately \$4.5 million, or 39.6% of the non-centrally-determined appropriation, available for the remainder of the fiscal year. The Budget Office and the Department will monitor expenditures closely to ensure expenditures are within appropriated levels by year-end.

Department	2010-2011 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 154,206,091	\$ 98,851,942	\$ 97,517,514

GENERAL FUND (Cont'd.)

KEY GENERAL FUND EXPENDITURES (Cont'd.)

Overall, expenditures for the Fire Department were tracking slightly above budgeted estimates through February, with 64.1% expended. Although Personal Services expenditures through February of \$94.7 million were tracking at 64.4% of budget (slightly above the par level of 64.0%), cost saving measures implemented by the Department are anticipated to bring expenditures within the current appropriation level by year-end. The Fire Department's Non-Personal/Equipment budget of \$7.1 million was 71.9% expended or encumbered through February. These expenditures are also expected to end the year within the budgeted allocation.

Personal Services expenditures are tracking above estimated levels because there are insufficient overtime savings to offset the higher salary and benefit costs. Expenditures for salaries and benefits tracked higher than estimates largely due to higher than budgeted expenditures related to leave balance payouts for 49 Firefighters laid off at the end of July (\$134,000) and leave balance payouts for retirees through February (\$741,000).

Overtime expenditures of \$6.2 million tracked below par levels (53.9% compared to the par of 64.0%) through February. Although overtime expenditures tracked below par levels, the level of overtime savings currently being generated is not as high as anticipated due to a higher sworn absence rate in 2010-2011 through February of 17.0% compared to the 2009-2010 absence rate for the same period of 13.7%. Through the end of February, the Department had 38 sworn vacancies. When relief staffing can not meet vacancies in duty positions, absences are filled by overtime. Higher absences in 2010-2011 are primarily the result of more sworn positions being absent from line duty due to illness, modified duty, or disability than previously experienced in 2009-2010. To address higher expenditures, the Department will continue implementing overtime control measures for activities not related to minimum staffing. These cost control measures are expected to bring expenditures within the budgeted appropriation. The Fire Department will continue to closely monitor and control expenditures to minimize any potential overage and the Budget Office will bring forward a year-end clean-up, if necessary.

Through February, the Fire Department was staffed with 174 filled Firefighter Paramedic positions (160 front-line Firefighter Paramedics, 5 Supervisors, and 9 support) compared to the 139 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. The Department projects it will have no issues maintaining the target staffing level of 139 front-line Firefighter Paramedics. As part of the City Council's approval of Department Absence and Vacancy Rates (March 2010), it should be noted that the number of sworn administrative staff in the Department through February was 30, which is within the authorized number of 34.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND EXPENDITURES (Cont'd.)

Department	2010-2011 Budget	YTD Actual	Prior YTD Actual
City Attorney's Office	\$ 11,415,510	\$ 7,305,179	\$ 8,416,401

Personal services expenditures of \$7.1 million are tracking above estimated levels, while non-personal/equipment expenditures and encumbrances of \$498,000 are tracking below estimated levels. Additional actions to clean-up personal service expenditures in the City Attorney's Office are anticipated before year end.

Through February, the personal services appropriation is tracking at 66.4% expended, which is 2.4% (or \$257,000) above the par level of 64.0%. This is due to a number of factors, including insufficient vacancies to meet a budgeted vacancy factor of 0.5% and vacation sellback of \$125,000 (all funds) through February. In addition, salaries reallocated to alternative funding sources as part of the 2010-2011 balancing strategies of the Attorney's Office have not been implemented as originally planned (\$275,000). The 2010-2011 Adopted Operating Budget included the reallocation of staff from the General Fund and the Workforce Investment Act (WIA) Fund to the False Claims Act appropriation and the Municipal Solar Grant Program. The current workload associated with these projects has not occurred at the levels approved as part of the 2010-2011 Adopted Budget; therefore the City Attorney has assigned staff to unbudgeted General Fund legal work. In addition, the personal services expenditures continue to track high in special funding sources such as the WIA Fund. Should a solution for the higher than budgeted expenditures in these other funding sources not be identified, the General Fund could be negatively impacted further. An overage is anticipated by year end and expenditures continue to be monitored closely.

Non-personal/equipment expenditures are below par through February despite the reallocation of \$150,000 in funding to personal services in the 2010-2011 Mid-Year Review. Additional savings in this appropriation will most likely be necessary to offset the higher than anticipated expenditures in personal services.

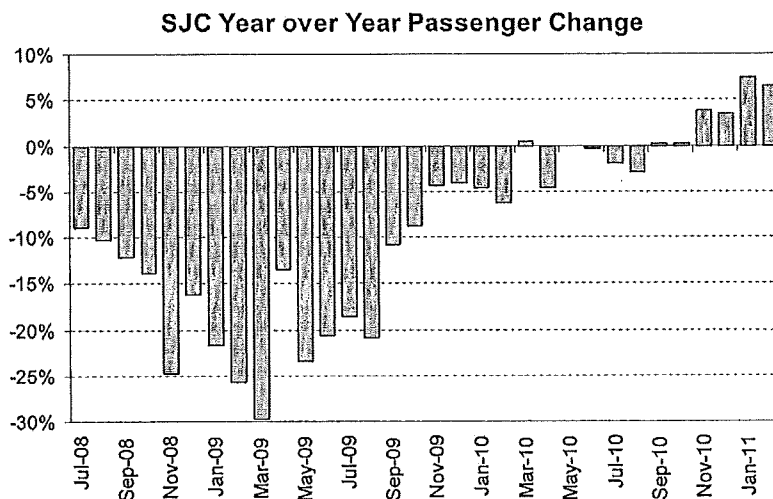
CONTINGENCY RESERVE

The General Fund Contingency Reserve remains at \$29.3 million through February, with no revisions through the first eight months of the fiscal year.

OTHER FUNDS

Airport Funds

On a fiscal year-to-date basis, the Norman Y. Mineta San José International Airport has enplaned and deplaned 5.5 million passengers, an increase of 1.9% from the figures reported through February of the prior year. This is the sixth consecutive month passenger activity has increased compared to the same period a year ago (passenger activity in February 2011 was 7% above activity in February 2010) as shown in the chart below. However, the number of passenger operations (landings and takeoffs) fell in February, and the fiscal year-to-date total trailed the prior year by 8.8%.



Fiscal year-to-date mail, freight and cargo totaled 63.4 million pounds, which represents a 14.9% decrease from 2009-2010. Landed Weights were below estimates by 4.9%, and Taxicab Operations exceeded last fiscal year by 2.1%. Passenger Facility Charge revenues exceeded last fiscal year by less than 1% (0.4%).

Overall revenue performance at the Airport for the eight months ending February 2011 tracked above the budget estimate by 2.6%. Airline rates and charges, primarily landing fees and terminal rentals, tracked at 3.1% above the budget estimate. Airfield revenues exceeded projections by 12.3% primarily due to increased in-flight kitchen and ground concession revenues. The terminal concessions and miscellaneous rents category also performed above expected levels by 2.9%, and the parking and roadway category was 4.5% higher than the estimated budget principally due to higher public parking and rental car concession activity. Other general and non-aviation revenues were slightly below the budget estimate by 2.4% because of lower than expected interest income. The Airport anticipates ending the year with overall revenue levels above estimates.

Year-to-date Personal Services expenditures through February were 63.5% of budget, which were in line with the budget benchmark of 64.0%. Staff retirements are expected to result in additional savings. Non-Personal/Equipment expenditures through February were 48.0% of

OTHER FUNDS (Cont'd.)

budget compared to the benchmark of 58.8%. Current encumbrances of \$8.4 million bring total Personal Services and Non-Personal/Equipment commitments to \$44.8 million or 65.8% of the budget.

In the Airport Customer Facility and Transportation Fee Fund, Personal Services and Non-Personal/Equipment expenditures combined are tracking below the budget estimate (at 41.9% of budget).

Construction and Conveyance Tax Funds

Construction and Conveyance (C&C) Tax revenues are currently expected to meet budgeted estimates by year-end. Collections through February 2011 totaled \$12.4 million (62% of the 2010-2011 estimate of \$20.0 million), which represents a decline of almost 5.1% from the \$13.0 million collected last year through February 2010. The City has since received March Conveyance Tax receipts totaling \$1.17 million, which represents a 13.3% decrease from the \$1.35 million received in March 2010. Although tax revenues are tracking lower than last year, the adopted C&C Tax estimate allowed for an 11.1% drop from the 2009-2010 collection level. Overall, tax revenues can decline by an additional 6% and still meet the adopted C&C tax estimate by year-end. Due to the volatile nature of this tax revenue, staff will continue to monitor receipts closely.

Nearly 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. Although the housing market appeared to be recovering during the first several months of the fiscal year, that trend has now reversed itself. From October 2010 through February 2011, the median home price has been decreasing compared to the same month in the prior year, and the median single-family home price in February 2011 of \$455,000 decreased by 6.2% from the February 2010 median single-family home price of \$485,000. Another indication of the slow housing market is that the average days-on-market for single-family and multi-family dwellings increased from 65 days in February 2010 to 192 days in February 2011. The average days-on-market for last year was 70 days compared to 105 days for this year. This average is trending upward as the number of days increased dramatically from 87 days in December to 204 days in January and 192 days in February. One bright spot in the real estate data is the number of property transfers (sales) for all types of residences which totaled 574 in February, representing an increase of approximately 13% from the 510 sales that occurred in the same month in the prior year.

Other Construction-Related Revenues

Through February, permit valuation for residential and commercial construction activity is above prior year levels; however, permit valuation for industrial construction activity is below prior year levels. Residential permit activity in the month of December spiked to its highest level in over a decade (1,641 units), and year-to-date permit valuation for residential activity totals \$351.3 million, which is higher than prior year-to date collections of \$77.2 million. This surge in

OTHER FUNDS (Cont'd.)

activity was primarily due to two very large development projects in the North San José area and should not be interpreted as a sustainable trend. Commercial activity was slow in February, with permit valuation at \$13.8 million; however, permit valuation year-to-date totaled \$147.2 million which is tracking higher than at this point last year (\$119.2 million). Industrial permit activity for new construction was slow with valuation at \$6.4 million through February, compared to \$54.4 million collected through the same period last year, and the permit activity for alterations was high with valuation at \$44.2 million through February, compared to \$24.2 million collected through the same period last year. Overall, industrial permit activity remains lower than prior year-to-date collections. These permit activities drive the revenue collections in several categories, including the Construction Excise Tax, the Building and Structure Construction Tax, and the Residential Construction Tax, and are an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

Through February, actual receipts for the ten revenue sources monitored for this report totaled \$23.0 million, which represents a significant increase from the \$8.0 million collected through the same period last year. Six of the ten revenue categories are currently exceeding budgeted levels as a result of the high revenue collections in December. Following is a discussion of the performance for the individual revenue categories:

- *Building and Structure Construction Tax* – Receipts through February totaled \$7.4 million, which exceeds the 2010-2011 revenue estimate of \$4.5 million. This collection level is over double prior year collections (\$3.3 million) through February. This significant increase is due to a high collection level in December as a result of residential permits pulled prior to new building code implementation as well as two new housing developments in the North San José area. It should be noted that this higher revenue collection is not at a sustainable level. The 2011-2012 Proposed Budget will factor in the higher actual collections in 2010-2011 and a sustainable revenue estimate for 2011-2012.
- *Construction Excise Tax* – Receipts of \$11.1 million are significantly higher than the \$4.1 million collected during the same period last year. This collection level exceeds the 2010-2011 revenue estimate of \$6.0 million. This large increase is due to a high collection level in December as a result of residential permits pulled prior to new building code implementation as well as two new housing developments in the North San José area. It should be noted that this higher revenue collection is not at a sustainable level. The 2011-2012 Proposed Budget will factor in the higher actual collections in 2010-2011 and a sustainable revenue estimate for 2011-2012.
- *Residential Construction Taxes* – Receipts totaled \$181,000, which exceeds the current 2010-2011 estimate of \$60,000, and is significantly higher than the receipts received through the same period last year (\$13,000).
- *Municipal Water Service Connection Fees* – Receipts totaled \$20,000, representing a decrease of 55.8% compared to the \$46,000 collected through the same period last year. Because Municipal Water Service Connection Fees recover actual costs to install new

OTHER FUNDS (Cont'd.)

services, this lower collection level is offset by lower costs. This collection level is 11.4% of the current 2010-2011 revenue estimate of \$175,000.

- *Municipal Water Major Facilities Fees* – Receipts totaled \$416,000 through February, which was unanticipated. No estimated revenue collection for 2010-2011 was assumed in the development of the 2010-2011 Adopted Budget. These revenues will be programmed in the 2011-2012 Proposed Budget.
- *Municipal Water Advance System Design Fees* – Receipts totaled \$42,000 through February, which represents a significant increase compared to the revenues collected through the same period last year (\$8,000). This collection level is 83.1% of the current 2010-2011 revenue estimate of \$50,000.
- *Municipal Water Meter Installation Fees* – Receipts totaled \$39,000, representing a significant increase compared to the \$7,000 collected through the same period last year. This collection level is 78.8% of the current 2010-2011 revenue estimate of \$50,000.
- *Sanitary Sewer Fees* – Fees totaled \$442,000, which exceeds the current 2010-2011 estimate of \$350,000. This collection level is significantly higher than the fees collected through the same period last year (\$151,000).
- *Storm Drain Fees* – Storm Drain Fees totaled \$64,000, which represents 64.2% of the current 2010-2011 estimate of \$100,000. This collection level is 6.3% higher than the fees received through the same period last year (\$60,000).
- *North San José Traffic Impact Fee Fund* – Receipts totaled \$3.3 million through February, which was unanticipated. No estimated revenue collection for 2010-2011 was assumed in the development of the 2010-2011 Adopted Budget as a result of the volatility of development activity in this area; however, as part of the 2010-2011 Mid-Year Budget Review, recommendations were approved to recognize \$2.3 million of actual revenues received.

Convention and Cultural Affairs Fund

The Convention and Cultural Affairs Fund accounts for Team San José's (TSJ) operation of the City's Convention and Cultural Facilities. Extensive expenditure reductions were approved as part of the 2010-2011 Adopted Operating Budget to ensure the long-term health of the fund.

Revenues through February are tracking ahead of anticipated levels. While operating revenues of \$8.7 million have been recognized, additional revenues of \$1.2 million have been reported by TSJ but not yet recognized in the fund. With a budgeted year-end revenue estimate of \$13.9 million, it is now anticipated that revenues will reach \$16.1 million. A portion of this additional revenue will be used to cover the associated operating expenses.

OTHER FUNDS (Cont'd.)

Expenditures in the Non-Personal/Equipment category, which support food and beverage expenses, parking, the Broadway series, all variable labor costs, administration, and various other costs, are tracking within anticipated levels. While the appropriation is currently within expected levels, TSJ projects that year-end expenditures will exceed the budgeted level of \$16.9 million due to additional activity at the Convention Center and other cultural facilities, which TSJ projects will be more than offset by additional revenue. At this time, an increase of \$300,000 at year-end is anticipated to bring the appropriation in line with anticipated expenditures.

Expenditures in the personal services and Workers' Compensation categories are tracking well above anticipated levels and it is anticipated that year-end increases will be required. The projected overage of \$250,000 in the personal services category is due primarily to unbudgeted compensation time payouts and overtime expenses and is expected to result in year-end expenses of \$2.0 million in this appropriation. The projected overage of \$150,000 in the Workers' Compensation category is due to a higher level of claims than experienced in prior years and is expected to result in year-end expenses of \$300,000 in this appropriation. It is anticipated that the increases for both of these appropriations will be offset by the recognition of additional revenue at year-end.

Municipal Golf Course Fund

Revenues booked into the Municipal Golf Course Fund represent collections at the courses. In the case of the San Jose Municipal Golf Course the City receives a fixed percentage of the operator's gross revenues regardless of the operator's costs. For the Los Lagos and Rancho del Pueblo courses, the City receives the net of any expenses incurred by the operators. In months where revenues are not sufficient to cover the operator's expenses, the Municipal Golf Course Fund covers the difference.

Through February, revenues generated at the golf courses are far behind 2009-2010 collections through the same period. Revenues from San Jose Municipal Golf Course of \$337,000 are \$46,000 below the 2009-2010 level of \$383,000. Net revenues from the Los Lagos course of \$40,000 are \$199,000 below the 2009-2010 level of \$239,000. Revenue shortfalls are primarily due to decreased activity levels at the courses. The Rancho Del Pueblo course is not a revenue contributor to the fund, and year to date net costs at the course are \$56,000 greater than last year through February 2011. The prolonged economic downturn is generally assumed to be responsible for decreased rounds of play. As revenues decrease, expenditures related to revenue shortfalls have increased since the courses experience greater or more frequent months when expenses outstrip revenues. Through February, expenditures are \$209,000 higher than the 2009-2010 year to date level. In response to lower activity levels at the golf courses, decreases to the revenue estimates and increases to the expenditure appropriations were approved by the City Council as part of the 2010-2011 Mid-Year Budget Review. These changes were intended to bring the budget in line with anticipated activity. It is anticipated at this time that these actions

OTHER FUNDS (Cont'd.)

will be sufficient and the fund will end the year within estimated levels, however activity will continue to be closely monitored.

Transient Occupancy Tax Fund

Through February 2011, receipts recorded in the TOT Fund of \$5.9 million are 10.3% above the prior year collection level for the same period. The 2010-2011 budget assumed an increase of 2% from the 2009-2010 estimated level, however the budget now allows for a decline of 3.1% based on higher than anticipated 2009-2010 collections. It is anticipated that TOT receipts will achieve or exceed the budgeted revenue estimate of \$10.0 million by year-end.

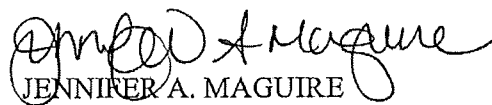
The 2010-2011 allocations to the three recipient organizations (Convention and Cultural Affairs Fund, Convention and Visitors Bureau, Cultural Grants/Programs and Services) are anticipated to be fully expended by the end of the year.

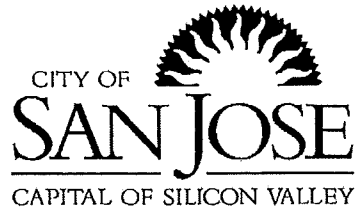
Through February, the average hotel occupancy rate at the 14 major hotels was 57.6%, a significant improvement from the 53.2% occupancy rate for the same period in 2009-2010. For the same 14 hotels, the average daily room rate through February was \$118.72, up slightly from the \$117.00 room rate for the same period in 2009-2010. The year-to-date average revenue-per-available-room (RevPAR) metric of \$68.34 represents an increase of 9.7% from the prior year level. TOT receipts will be closely monitored as the year progresses, and budget adjustments will be brought forward for City Council consideration, if necessary.

CONCLUSION

The slow pace of recovery from the economic recession continues to dampen growth in the City's economically sensitive revenue categories. For the General Fund, revenues are tracking very close to the estimated levels with no surplus anticipated at year-end. Expenditures are tracking within budget and, with adjustments in specific areas, should end the year with a minimal amount of savings. As previously discussed, the City Council approved actions as part of the Mid-Year Budget Review to capture \$8.5 million of current year savings in the 2010-2011 Ending Fund Balance reserve. These savings have been factored into the General Fund Forecast for 2011-2012.

The administration will continue to very closely monitor economic conditions, the State's budget situation, the City's economically sensitive revenues, and expenditure levels, and bring forward budget recommendations if necessary. As always, staff will continue to report to the City Council any and all significant developments through this reporting process.


JENNIFER A. MAGUIRE
Budget Director



FINANCE DEPARTMENT
Monthly Financial Report

Financial Results for the 8 Months Ended February 28, 2011
Fiscal Year 2010-11
(UNAUDITED)

Finance Department, City of San José
Monthly Financial Report
Financial Results for the 8 Months Ended February 28, 2011
Fiscal Year 2010-11
(UNAUDITED)

Table of Contents

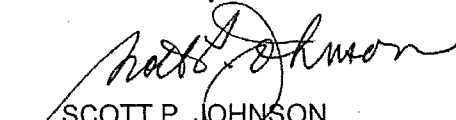
	<i>Page Reference</i>
General Fund	
Comparison of Current Year's Monthly Cash Balance vs. Prior Year's Balance.....	1
Comparison of Current Year-to-Date Revenues vs. Prior Year-to-Date Revenues.....	2
Comparison of Current Year-to-Date Expenditures vs. Prior Year-to-Date Expenditures.....	2
Comparison of Current Year-to-Date Revenues for Major Revenue Sources vs. Prior Year-to-Date Revenues.....	3
Comparison of Current Year-to-Date Expenditures by Type vs. Prior Year-to-Date Expenditures.....	3
Schedule of Sources and Uses of Funds.....	4
Supplemental Schedule of Departmental Revenues.....	7
Other Funds	
<i>Special Revenue Funds</i>	
Comparison of Construction & Conveyance Tax Funds YTD Revenues vs. Prior Year's Corresponding YTD Revenues.....	8
Comparison of Construction & Conveyance Tax Funds YTD Expenditures vs. Prior Year's Corresponding YTD Expenditures.....	8
Schedule of Sources and Uses of Funds	9
<i>Enterprise Funds</i>	
YTD Revenues and YTD Expenditures for:	
Airport Revenue Fund 521 and Airport Maintenance & Operating Fund 523.....	11
WPCP Operating Fund 513.....	12
Parking Operations Fund 533.....	13
Schedule of Sources and Uses of Funds	14

Finance Department, City of San José
Monthly Financial Report
Financial Results for the 8 Months Ended February 28, 2011
Fiscal Year 2010-11
(UNAUDITED)

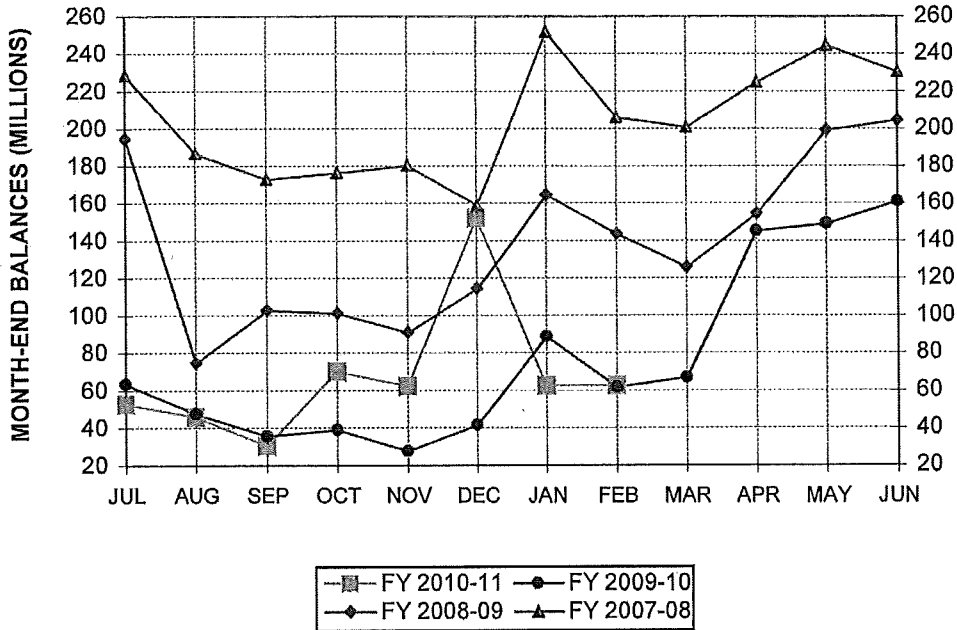
Table of Contents

	<i>Page Reference</i>
Other Funds (Cont'd)	
<i>Capital Project Funds</i>	
Schedule of Sources and Uses of Funds.....	15
<i>Other Fund Types</i>	
Schedule of Sources and Uses of Funds.....	16

Submitted by:


SCOTT P. JOHNSON
Director, Finance Department

**GENERAL FUND
Comparison of Cash Balances**



GENERAL FUND MONTHLY CASH BALANCES

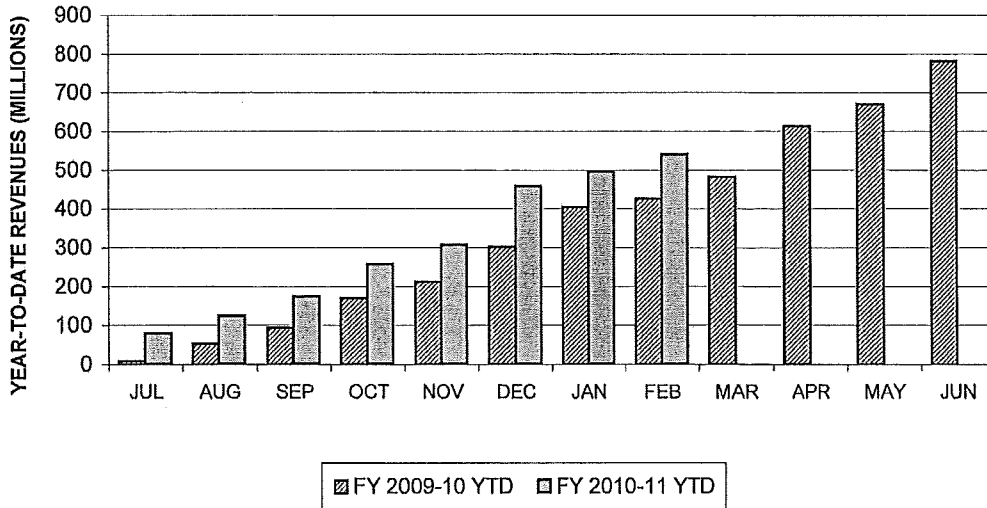
MONTH	FY 2010-11	FY 2009-10	FY 2008-09	FY 2007-08
JULY (1)	\$ 52,614,304	\$ 63,344,537	\$ 194,527,843	\$ 228,551,607
AUGUST (1)	45,992,983	47,689,216	74,677,718	186,835,010
SEPTEMBER	30,525,385	35,662,298	102,811,355	173,043,887
OCTOBER	70,246,706	38,946,966	101,433,688	176,617,539
NOVEMBER	62,333,059	27,736,074	90,892,525	180,164,388
DECEMBER (2)	152,493,162	41,491,217	114,535,815	159,164,830
JANUARY (3)	62,749,463	88,749,418	164,539,700	251,792,153
FEBRUARY	62,572,017	61,606,869	143,802,507	205,882,438
MARCH		66,979,823	125,900,953	200,763,696
APRIL		145,213,763	154,701,704	225,008,853
MAY		149,064,276	199,321,150	244,545,422
JUNE		161,013,785	204,474,123	230,556,706

Note: (1) The General Fund cash balance decrease in July 2010 (also in August 2008 and July 2009) was mainly due to the Council's direction to annually pre-fund the employer share of retirement contribution in a lump-sum to achieve budgetary savings to the City.

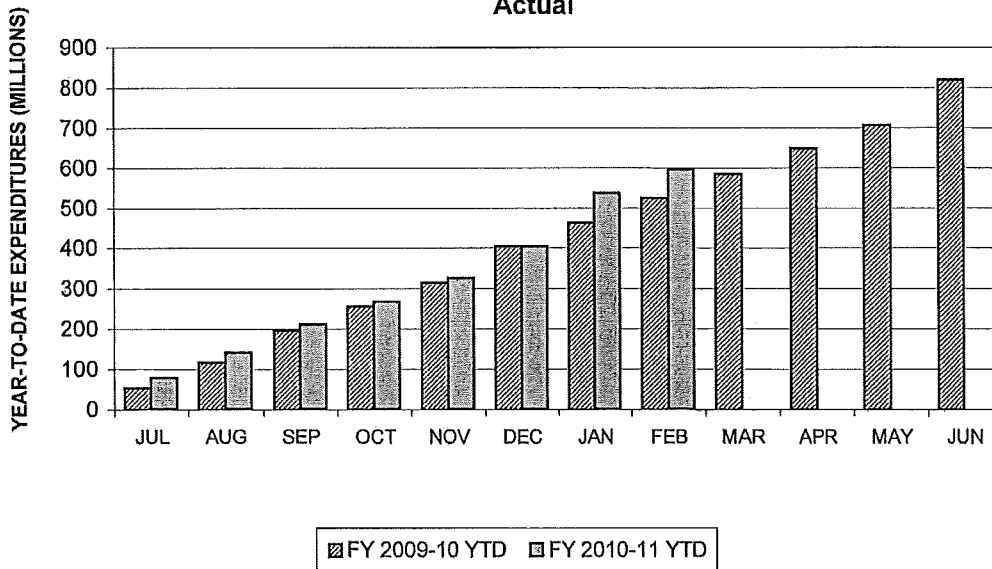
Note: (2) The General Fund cash balance increase in December 2010 was mainly due to the timing of the receipt of \$88.5 million in Property Tax revenue and \$16.7 million in Sales Tax revenue. These revenues were posted in January in the prior three fiscal years.

Note: (3) The General Fund cash balance decrease in January 2011 was mainly due to the repayment of the Tax and Revenue Anticipation Note (TRAN) in the amount of \$75 million.

**GENERAL FUND
Comparison of YTD Revenues
Actual**



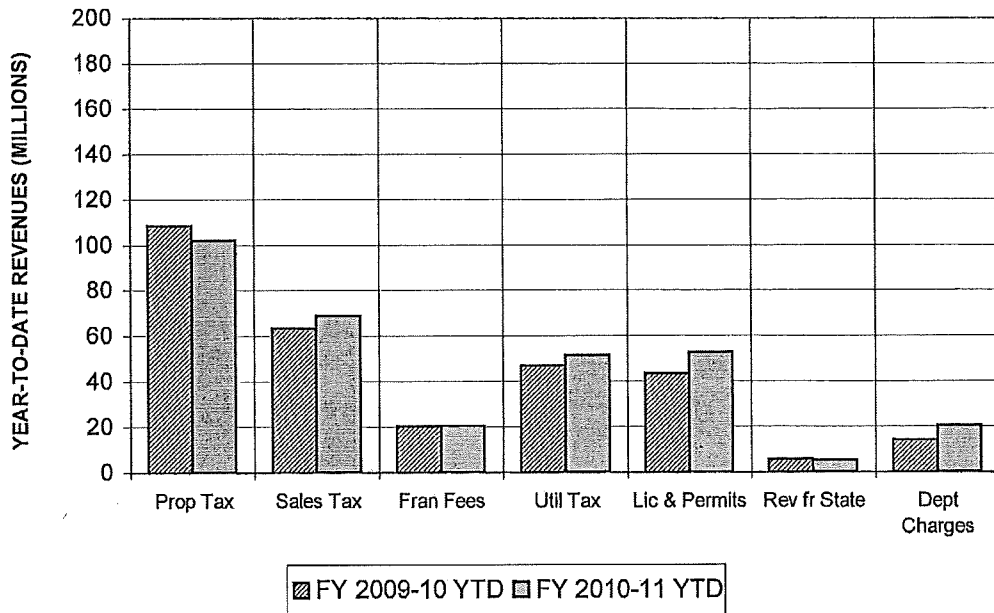
**GENERAL FUND
Comparison of YTD Expenditures
Actual**



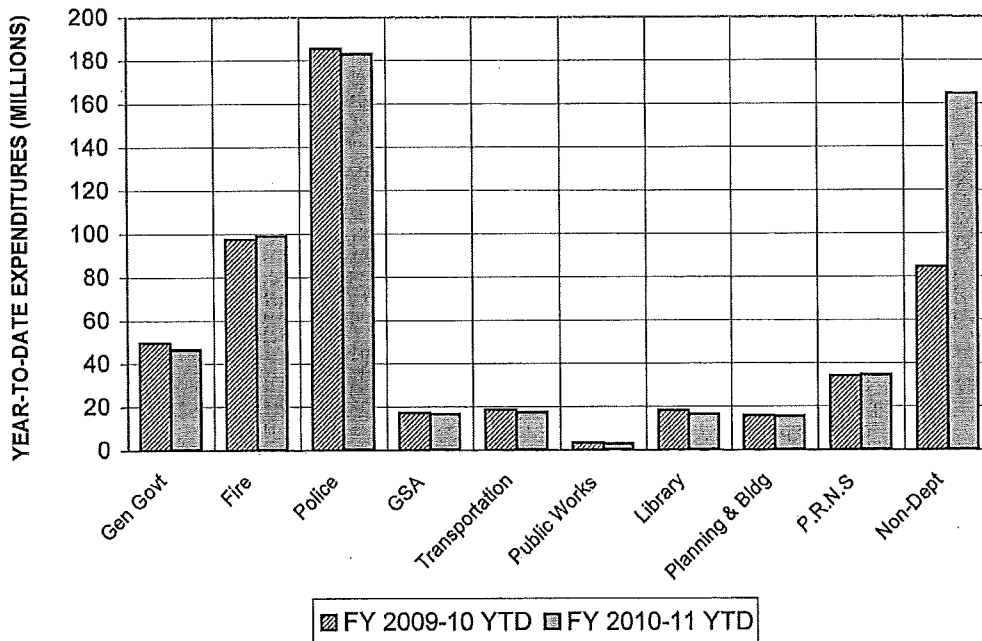
General Fund Revenue includes issuance of Tax and Revenue Anticipation Notes (TRANs) in the amount of \$75 million (\$40 million in July 2010 and \$35 million in October 2010) for cash flow borrowing.

General Fund Expenditures includes repayment of TRANs in the amount of \$75 million in January 2011.

GENERAL FUND MAJOR REVENUES
Comparison of YTD Actual vs. Prior YTD Actual
For the 8 Months Ended February 28, 2011



GENERAL FUND MAJOR EXPENDITURES
Comparison of YTD Actual vs. Prior YTD Actual
For the 8 Months Ended February 28, 2011



CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
FUND BALANCE, REVENUE, TRANSFERS & REIMBURSEMENTS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$000's)

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	CUR YTD ACTUAL	CUR YTD ACTUAL % OF BUDGET	PRIOR YTD ACTUAL	PRIOR YEAR-END		CUR YTD PRIOR YTD ACTUAL	% CHANGE CUR YTD ACTUAL LESS PRIOR YTD ACTUAL
								BUDGETARY BASIS	ACTUAL		
Fund Balance											
Prior Year Encumbrances	-	-	16,706	16,706	100.00%	24,107	107.51%	22,422	(7,401)	-	-30.70%
Liquidation of c/o Encumbrance	-	-	-	-	-	-	-	-	-	-	-
Available Balance	134,807	6,591	-	141,398	100.00%	173,213	100.00%	173,213	(31,815)	(31,815)	-18.37%
Total Fund Balance	134,807	6,591	16,706	158,104	100.00%	197,320	100.86%	195,635	(39,216)	(39,216)	-19.87%
General Revenues											
Property Tax	199,052	(4,143)	-	194,909	101,942	52.30%	108,673	53.75%	202,186	(6,731)	-6.19%
Sales Tax (Note 1)	127,232	7,447	-	134,679	68,655	50.98%	63,440	49.86%	127,238	5,215	8.22%
Telephone Line Tax	20,525	-	-	20,525	11,945	58.20%	11,007	53.69%	20,500	938	8.52%
Transient Occupancy Tax	6,684	-	-	6,684	3,908	58.47%	3,542	51.33%	6,900	366	10.33%
Franchise Fees	43,121	(850)	-	42,271	20,413	48.29%	20,247	52.71%	38,410	166	0.82%
Utility Tax	92,932	(5,500)	-	87,432	51,321	58.70%	47,099	53.73%	87,651	4,222	8.96%
Licenses and Permits	71,727	(3,529)	-	68,198	52,686	77.25%	43,631	66.12%	65,985	9,055	20.78%
Fines, Forfeits and Penalties	17,130	790	-	17,920	11,900	66.41%	9,973	62.34%	15,998	1,927	19.32%
Use of Money and Property	3,050	(363)	-	2,667	1,973	73.98%	2,023	63.40%	3,191	(50)	-2.47%
Revenue from Local Agencies	45,613	69	-	45,682	30,104	65.90%	26,225	54.56%	48,067	3,879	14.79%
Revenue from State of Cal.	19,190	(272)	-	18,918	4,975	26.30%	5,906	50.27%	11,749	(931)	-15.76%
Revenue from Federal Government	15,438	4,829	-	20,267	4,537	22.39%	1,063	19.35%	5,493	3,474	326.81%
Departmental Charges (Note 2)	29,581	29	-	29,610	20,430	69.00%	14,198	52.04%	27,282	6,232	43.89%
Other Revenues (Note 3)	13,420	76,446	-	89,866	85,347	94.97%	11,267	41.69%	27,023	74,080	657.50%
Total General Revenues	704,695	74,933	-	779,628	470,136	60.30%	368,294	53.56%	687,673	101,842	27.65%
Transfers & Reimbursements											
Overhead Reimbursements	33,868	435	-	34,303	29,627	86.37%	33,243	82.02%	40,530	(3,616)	-10.88%
Transfers from Other Funds	37,553	4,129	-	41,682	34,794	83.47%	20,371	54.32%	37,504	14,423	70.80%
Reimbursements for Services	17,348	6	-	17,354	5,268	30.36%	4,504	26.63%	16,916	764	16.96%
Total Transfers & Reimburse	88,769	4,570	-	93,339	69,689	74.66%	58,118	61.21%	94,950	11,571	19.91%
Total Sources	\$ 928,271	86,094	16,706	1,031,071	697,929	67.69%	623,732	63.76%	978,258	74,197	11.90%

Note 1 - State Budget Balancing actions resulted in the "Triple Flip", which suspended a portion of local governments' Sales and Use Tax and Motor Vehicle License Fee revenues and replaced them with local property tax revenues.
The 2010-2011 impact through February 2011 is approximately \$3.1 million.
Note 2 - See Supplemental Schedule on Page 7.
Note 3 - Includes issuance of Tax and Revenue Anticipation Notes (TRANs) in the amount of \$75 million in July 2010 and \$35 million in October 2010 for cash flow borrowing.

CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
EXPENDITURES
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$000's)

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	YEAR-TO-DATE		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
					ACTUAL	ENCUMBR						
General Government												
Mayor and Council	\$ 10,222	(74)	105	10,253	4,793	71	46.75%	5,083	65.60%	7,749	(290)	-5.71%
City Attorney	11,545	(425)	296	11,416	7,305	255	63.99%	8,416	64.33%	13,083	(1,111)	-13.20%
City Auditor	1,961	(56)	4	1,909	1,172	5	61.39%	1,537	72.64%	2,116	(965)	-23.75%
City Clerk (2)	4,750	(743)	10	4,017	3,117	42	77.60%	1,354	65.66%	2,062	1,763	130.21%
City Manager	10,391	128	510	11,029	6,500	717	58.94%	6,954	64.48%	10,785	(454)	-6.53%
Finance	11,435	(84)	304	11,655	6,957	520	59.69%	7,171	63.71%	11,255	(214)	-2.98%
Information Technology	15,301	168	681	16,150	8,869	816	54.92%	10,027	64.71%	15,496	(1,158)	-11.55%
Human Resources	7,335	(155)	56	7,236	4,517	348	62.42%	4,893	63.55%	7,699	(376)	-7.68%
Redevelopment Agency	1,707	(157)	-	1,550	900	-	58.06%	1,247	65.77%	1,896	(347)	-27.83%
Independent Police Auditor	831	40	-	871	512	1	58.78%	419	60.37%	694	93	22.20%
Office of Economic Development	2,968	(47)	144	3,065	1,730	95	56.44%	2,512	68.92%	3,645	(782)	-31.13%
Total General Government	78,446	(1,405)	2,110	79,151	46,372	2,870	58.59%	49,613	64.87%	76,480	(3,241)	-6.53%
Public Safety												
Fire	153,332	583	291	154,206	98,852	942	64.10%	97,518	63.91%	152,579	1,334	1.37%
Police	297,499	(693)	1,482	298,288	182,883	3,548	61.31%	185,573	64.05%	289,709	(2,690)	-1.45%
Total Public Safety	450,831	(110)	1,773	452,494	281,735	4,490	62.26%	283,091	64.01%	442,288	(1,356)	-0.48%
Capital Maintenance												
General Services	25,596	(4)	399	25,991	16,463	1,583	63.34%	17,203	64.69%	26,593	(740)	-4.30%
Transportation	28,227	53	649	28,929	17,300	1,431	59.80%	18,549	63.05%	29,418	(1,249)	-6.73%
Public Works	5,091	(35)	-	5,056	2,819	9	55.76%	3,292	69.04%	4,768	(473)	-14.37%
Total Capital Maintenance	58,914	14	1,048	59,976	36,582	3,023	60.99%	39,044	64.24%	60,779	(2,462)	-6.31%

(1) Does not include encumbrance balance.
(2) Mainly due to a total of \$1.93 million in Elections expenditures for the cost of June 8, 2010 and November 2, 2010 elections.

**CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
EXPENDITURES
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$000's)**

ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	YEAR-TO-DATE		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
				ACTUAL	ENCUMBR						
26,258	(992)	92	25,358	16,477	295	64.98%	18,387	61.60%	29,851	(1,910)	-10.39%
25,476	95	160	25,731	15,406	355	59.87%	15,708	66.63%	23,575	(302)	-1.92%
57,735	(1,345)	348	56,738	34,326	2,856	60.50%	34,169	61.29%	55,749	157	0.46%
610	67	40	717	338	107	47.14%	328	54.30%	604	10	3.05%
110,079	(2,175)	640	108,544	66,547	3,613	61.31%	68,592	62.48%	109,779	(2,045)	-2.98%
698,270	(3,676)	5,571	700,165	431,236	13,996	61.59%	440,340	63.88%	689,326	(9,104)	-2.07%
Community Service											
Library											
Planning, Bldg & Code Ent.											
Park, Rec & Neigh Svcs											
Environmental Services											
Total Community Services											
Total Dept. Expenditures											
Non-Dept Expenditures											
City-wide Expenditures:											
Econ & Neighborhood Develop.											
Environmental & Utility Services											
Public Safety											
Recreation & Cultural Services											
Transportation Services											
Strategic Support (2)											
Total City-wide Expenditures											
Capital Contributions											
Transfers to Other Funds											
Total Non-Dept Expenditures											
Reserves											
Contingency Reserves											
Earmarked Reserves											
Total Reserves											
Total Uses											

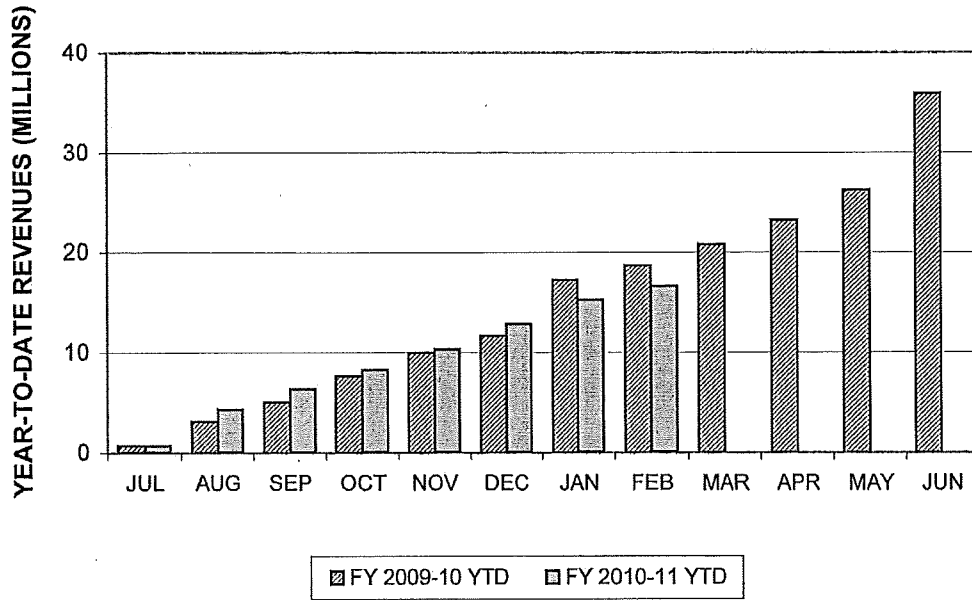
(1) Does not include encumbrance balance.

(2) Includes repayment of Tax and Revenue Anticipation Note (TRAN) in the amount of \$75 million in January 2011.

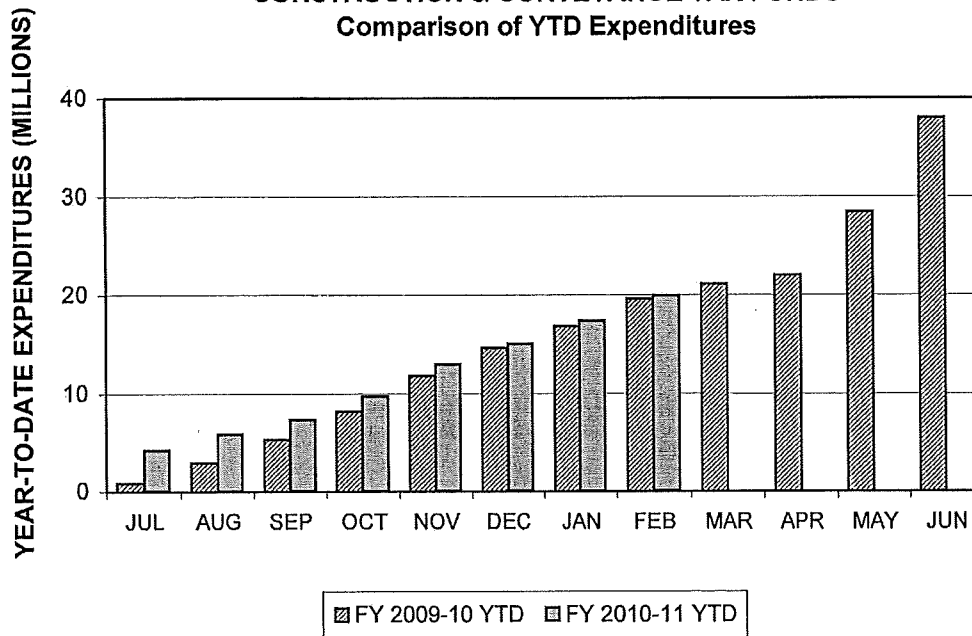
CITY OF SAN JOSE
 GENERAL FUND SOURCE AND USE OF FUNDS
 FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
 SUPPLEMENTAL SCHEDULE - DEPARTMENTAL REVENUES
 (UNAUDITED)
 (\$000's)

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	CUR YTD ACTUAL	CUR YTD OF BUDGET %	PRIOR YTD ACTUAL	PRIOR YTD % OF PRIOR YEAR-END ACTUAL	PRIOR YEAR-END BUDGETARY BASIS ACTUAL	CUR YTD LESS PRIOR YTD ACTUAL	% CHANGE CUR YTD ACTUAL LESS PRIOR YTD ACTUAL
Police	1,921	-	-	1,921	1,154	60.07%	1,174	60.42%	1,943	(20)	-1.70%
Public Works	4,325	-	-	4,325	3,381	78.17%	2,044	48.38%	4,225	1,337	65.41%
Transportation	739	40	-	779	795	102.05%	506	51.06%	991	289	57.11%
Library	1,916	-	-	1,916	535	27.92%	806	49.97%	1,613	(271)	-33.62%
Planning, Bldg & Code Enf	2,500	(112)	-	2,388	1,652	69.18%	1,590	58.50%	2,718	62	3.90%
Parks Rec & Neigh Svcs	12,685	420	-	13,105	9,053	69.08%	5,323	48.22%	11,039	3,730	70.07%
Miscellaneous Dept Charges	5,495	(319)	-	5,176	3,860	74.57%	2,755	57.96%	4,753	1,105	40.11%
Total Departmental Revenues \$	29,581	29	-	29,610	20,430	69.00%	14,198	52.04%	27,282	6,232	43.89%

**CONSTRUCTION & CONVEYANCE TAX FUNDS
Comparison of YTD Revenues**



**CONSTRUCTION & CONVEYANCE TAX FUNDS
Comparison of YTD Expenditures**



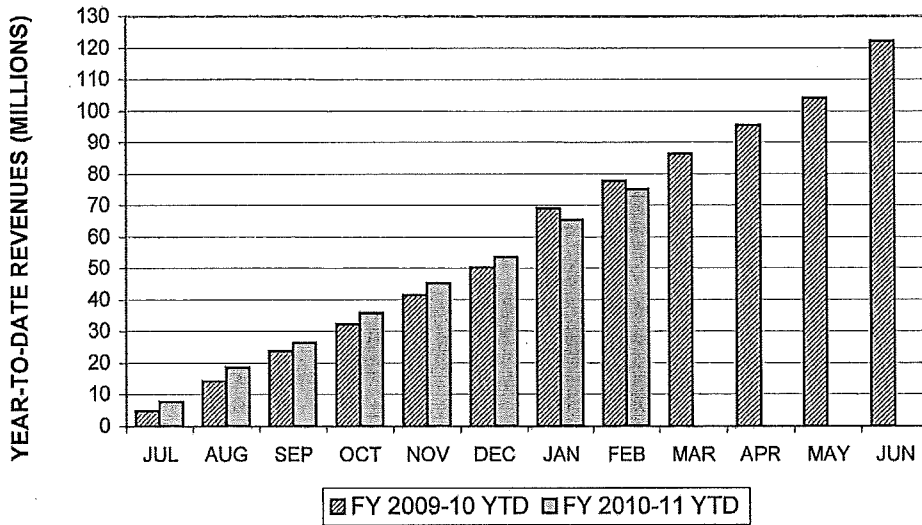
**CITY OF SAN JOSE
SPECIAL REVENUE FUNDS
SOURCE AND USE OF FUNDS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED	YTD	C/O	REVISED	YEAR-TO-DATE		PRIOR
	FY 2010-11 BUDGET	BUDGET AMENDMENTS		FY 2010-11 BUDGET	ACTUAL	ENCUMBR	Y-T-D ACTUAL
Construction/Conveyance Tax							
Prior Year Encumbrance	\$ -	-	8,295	8,295	8,295	N/A	7,799
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	62,292	14,574	-	76,866	76,866	N/A	80,147
Revenues	31,261	819	-	32,080	16,557	N/A	18,680
Total Sources	93,553	15,393	8,295	117,241	101,718	N/A	106,626
Total Uses	93,553	15,393	8,295	117,241	19,858	10,735	19,573
Gas Tax							
Prior Year Encumbrance	-	-	-	-	-	N/A	-
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	-	-	-	-	-	N/A	-
Revenues	16,626	-	-	16,626	5,036	N/A	4,260
Total Sources	16,626	-	-	16,626	5,036	N/A	4,260
Total Uses	16,626	-	-	16,626	5,036	0	4,260
Building and Structures							
Prior Year Encumbrance	-	-	5,071	5,071	5,071	N/A	3,737
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	6,385	4,125	-	10,510	10,510	N/A	15,589
Revenues	22,997	2,493	-	25,490	11,027	N/A	6,908
Total Sources	29,382	6,618	5,071	41,071	26,608	N/A	26,234
Total Uses	29,382	6,618	5,071	41,071	8,067	6,262	10,849
Residential Construction							
Prior Year Encumbrance	-	-	-	-	-	N/A	-
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	311	648	-	959	959	N/A	1,310
Revenues	65	135	-	200	184	N/A	28
Total Sources	376	783	-	1,159	1,143	N/A	1,338
Total Uses	\$ 376	783	-	1,159	32	0	55

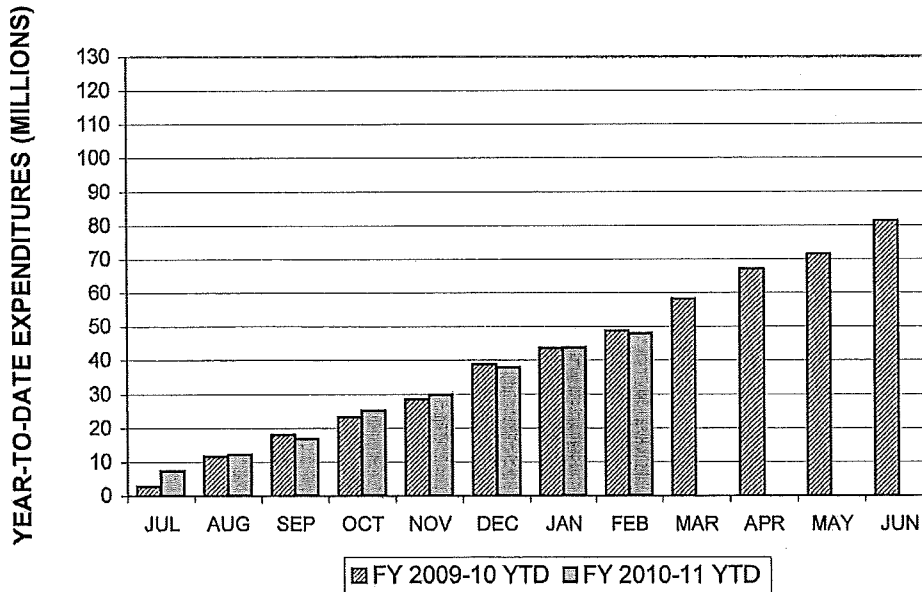
**CITY OF SAN JOSE
SPECIAL REVENUE FUNDS
SOURCE AND USE OF FUNDS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED	YTD	C/O	REVISED	YEAR-TO-DATE		PRIOR
	FY 2010-11 BUDGET	BUDGET AMENDMENTS		FY 2010-11 BUDGET	ACTUAL	ENCUMBR	Y-T-D ACTUAL
Transient Occupancy Tax							
Prior Year Encumbrance	\$ -	-	196	196	196	N/A	314
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	2,737	629	-	3,366	3,366	N/A	1,417
Revenues	10,034	(4)	-	10,030	5,939	N/A	5,384
Total Sources	12,771	625	196	13,592	9,501	N/A	7,115
Total Uses	12,771	625	196	13,592	6,386	444	5,718
Conventions, Arts & Entertainment							
Prior Year Encumbrance	-	-	510	510	510	N/A	345
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	6,130	197	-	6,327	6,327	N/A	9,891
Revenues	19,195	241	-	19,436	11,477	N/A	12,783
Total Sources	25,325	438	510	26,273	18,314	N/A	23,019
Total Uses	25,325	438	510	26,273	13,705	671	17,454
Golf							
Prior Year Encumbrance	-	-	7	7	7	N/A	7
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	817	257	-	1,074	1,074	N/A	1,188
Revenues	1,940	(302)	-	1,638	1,396	N/A	1,677
Total Sources	2,757	(45)	7	2,719	2,477	N/A	2,872
Total Uses	2,757	(45)	7	2,719	2,155	7	1,946
Other Funds							
Prior Year Encumbrance	-	-	57,824	57,824	57,824	N/A	54,760
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	187,195	25,775	-	212,970	212,970	N/A	223,045
Revenues	444,011	20,170	-	464,181	260,351	N/A	252,655
Total Sources	631,206	45,945	57,824	734,975	531,145	N/A	530,460
Total Uses	\$ 631,206	45,945	57,824	734,975	256,077	118,278	262,577

**AIRPORT REVENUE FUND 521
Comparison of YTD Revenues**

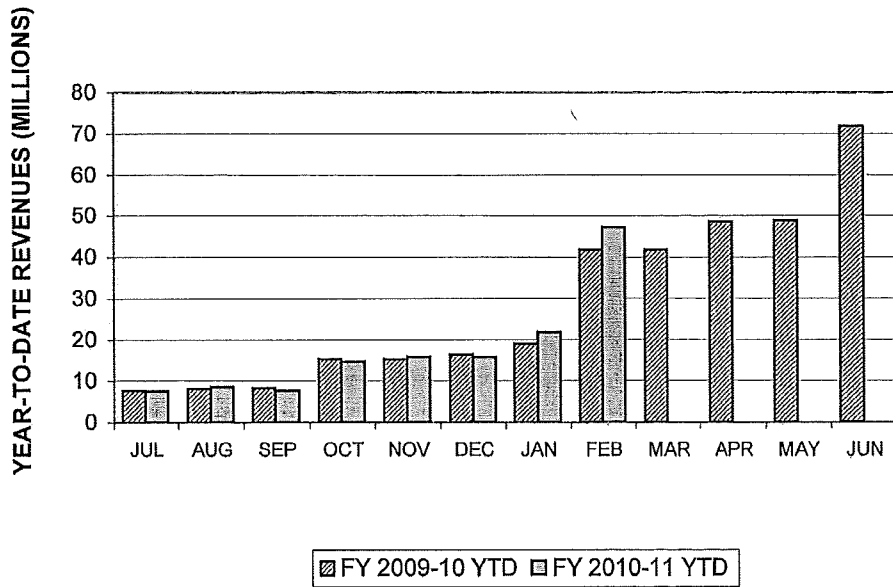


**AIRPORT MAINTENANCE & OPERATING FUND 523
Comparison of YTD Expenditures**

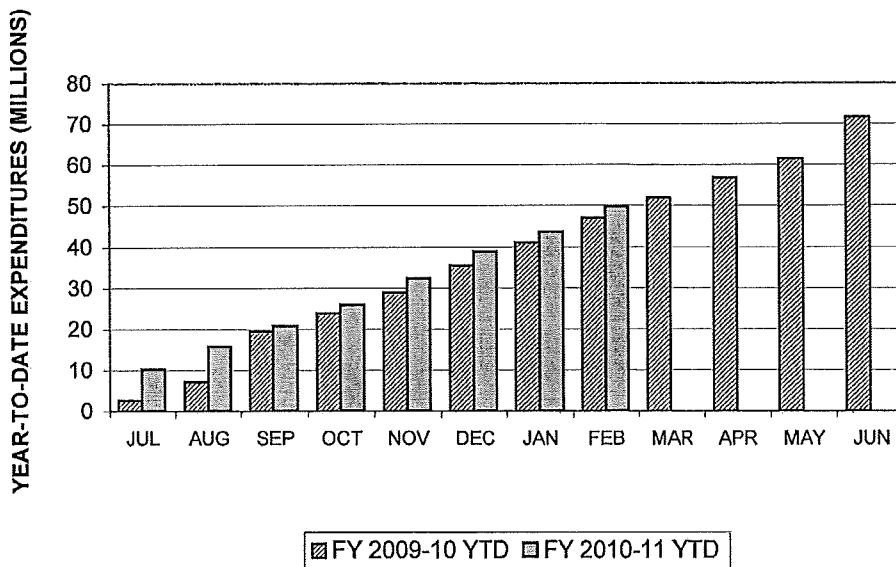


Note: The graphs above include the airport revenue fund (521) and operating fund (523) only.

**WPCP OPERATING FUND 513
Comparison of YTD Revenues**

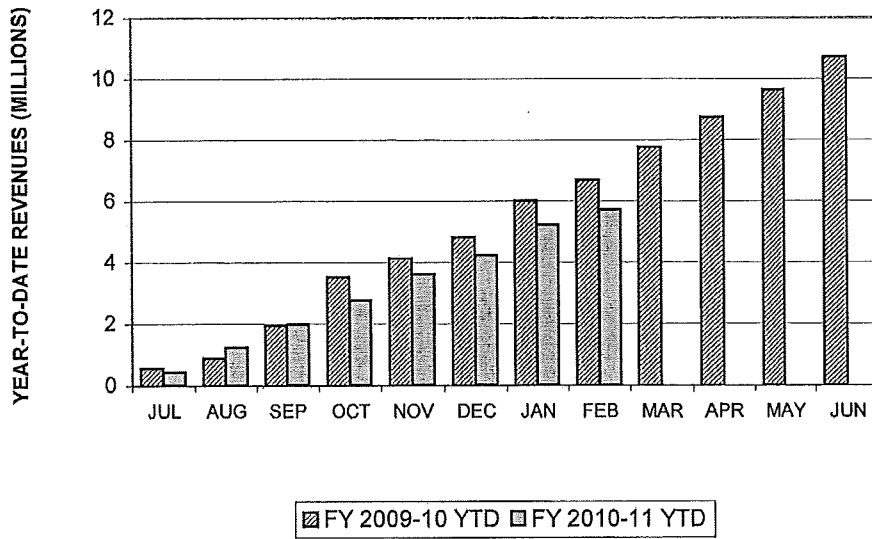


**WPCP OPERATING FUND 513
Comparison of YTD Expenditures**

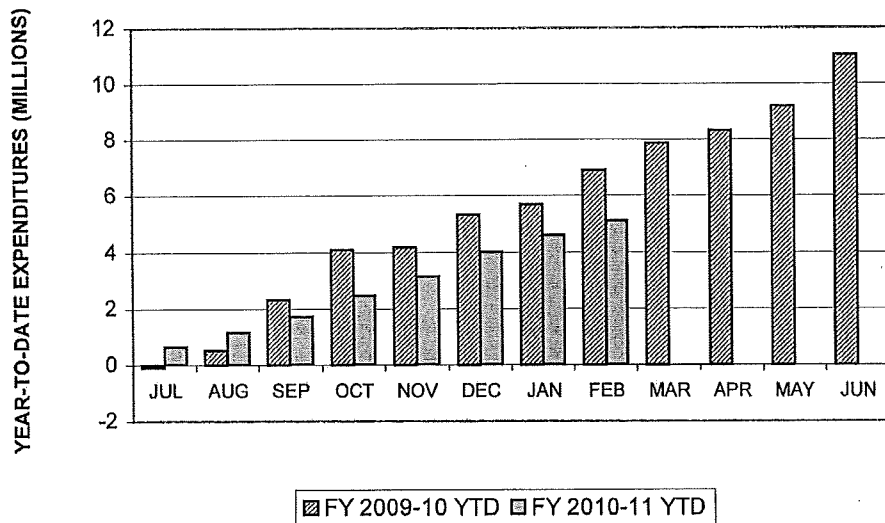


Note: Graphs above are only for WPCP operating fund (513).

**PARKING OPERATING FUND 533
Comparison of YTD Revenues**



**PARKING OPERATING FUND 533
Comparison of YTD Expenditures**



Accounting transfers that artificially increased revenues and expenditures by the same amount were included in Fund 533. An adjustment has been made to net out these transfers so that actual and operational revenues and expenditures can be compared to prior year amounts.

**CITY OF SAN JOSE
ENTERPRISE FUNDS
SOURCE AND USE OF FUNDS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	YEAR-TO-DATE		PRIOR Y-T-D ACTUAL
					ACTUAL	ENCUMBR	
Airport							
Prior Year Encumbrance	\$ -	-	86,287	86,287	86,287	N/A	331,129
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	403,901	66,778	-	470,679	470,679	N/A	485,127
Revenues	341,905	7,110	-	349,015	211,448	N/A	270,496
Total Sources	745,806	73,888	86,287	905,981	768,414	N/A	1,086,752
Total Uses	745,806	73,888	86,287	905,981	263,385	86,369	355,218
(Note 1)							
Waste Water Treatment							
Prior Year Encumbrance	-	-	45,356	45,356	45,356	N/A	42,982
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	193,589	24,070	-	217,659	217,659	N/A	206,538
Revenues	274,221	(1,783)	-	272,438	208,170	N/A	202,323
Total Sources	467,810	22,287	45,356	535,453	471,185	N/A	451,843
Total Uses	467,810	22,287	45,356	535,453	151,231	53,516	124,431
(Note 2)							
Municipal Water							
Prior Year Encumbrance	-	-	767	767	767	N/A	894
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	11,265	2,032	-	13,297	13,297	N/A	11,088
Revenues	30,793	(100)	-	30,693	21,090	N/A	21,593
Total Sources	42,058	1,932	767	44,757	35,154	N/A	33,575
Total Uses	42,058	1,932	767	44,757	15,825	1,509	17,659
Parking							
Prior Year Encumbrance	-	-	730	730	730	N/A	1,504
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	11,391	1,730	-	13,121	13,121	N/A	14,220
Revenues	8,658	(90)	-	8,568	5,704	N/A	6,685
Total Sources	20,049	1,640	730	22,419	19,555	N/A	22,409
Total Uses	\$ 20,049	1,640	730	22,419	5,110	974	6,907

Note 1 - All Airport Funds, including operating, revenue, capital and debt service.

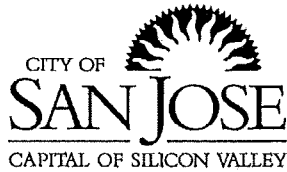
Note 2 - All Waste Water Funds, including operating, revenue, capital and debt service.

**CITY OF SAN JOSE
CAPITAL PROJECT FUNDS
SOURCE AND USE OF FUNDS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$'000's)**

	ADOPTED	YTD	C/O	REVISED	YEAR-TO-DATE		PRIOR
	FY 2010-11 BUDGET	BUDGET AMENDMENTS		FY 2010-11 BUDGET	ACTUAL	ENCUMBR	Y-T-D ACTUAL
Construction Excise							
Prior Year Encumbrance	\$ -	-	7,270	7,270	7,270	N/A	5,798
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	10,949	7,850	-	18,799	18,799	N/A	20,238
Revenues	36,754	10,028	-	46,782	32,030	N/A	6,529
Total Sources	47,703	17,878	7,270	72,851	58,099	N/A	32,565
Total Uses	47,703	17,878	7,270	72,851	31,638	4,010	19,342
Redevelopment Projects							
Prior Year Encumbrance	-	-	2,756	2,756	2,756	N/A	4,431
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	2,172	1,053	-	3,225	3,225	N/A	9,514
Revenues	88	75	-	163	422	N/A	677
Total Sources	2,260	1,128	2,756	6,144	6,403	N/A	14,622
Total Uses	2,260	1,128	2,756	6,144	3,692	1,124	3,969
Other							
Prior Year Encumbrance	-	-	21,339	21,339	21,339	N/A	60,226
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	65,312	2,549	-	67,861	67,861	N/A	106,617
Revenues	14,787	(80)	-	14,707	2,316	N/A	2,874
Total Sources	80,099	2,469	21,339	103,907	91,516	N/A	169,717
Total Uses	\$ 80,099	2,469	21,339	103,907	18,562	10,475	53,666

CITY OF SAN JOSE
OTHER FUND TYPES
SOURCE AND USE OF FUNDS
FOR THE 8 MONTHS ENDED FEBRUARY 28, 2011
(UNAUDITED)
(\$000's)

	ADOPTED	YTD	C/O	REVISED	YEAR-TO-DATE		PRIOR
	FY 2010-11	BUDGET		FY 2010-11	ACTUAL	ENCUMBR	Y-T-D
	BUDGET	AMENDMENTS	ENCUMBR	BUDGET	ACTUAL	ENCUMBR	ACTUAL
Trust and Agency							
Prior Year Encumbrance	\$ -	-	18	18	18	N/A	3
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	2,257	153	-	2,410	2,410	N/A	2,301
Revenues	114	568	-	682	572	N/A	601
Total Sources	<u>2,371</u>	<u>721</u>	<u>18</u>	<u>3,110</u>	<u>3,000</u>	<u>N/A</u>	<u>2,905</u>
Total Uses	\$ <u>2,371</u>	<u>721</u>	<u>18</u>	<u>3,110</u>	<u>361</u>	<u>22</u>	<u>259</u>



Memorandum

TO: PUBLIC SAFETY, FINANCE AND
STRATEGIC SUPPORT COMMITTEE

FROM: Jennifer A. Maguire

SUBJECT: BI-MONTHLY FINANCIAL REPORT
FOR MARCH/APRIL 2011

DATE: June 7, 2011

Approved

Date

6/9/11

The Bi-Monthly Financial Report for March/April 2011 was jointly prepared by the City Manager's Budget Office and the Finance Department and is presented for the Public Safety, Finance and Strategic Support Committee's review.

OVERVIEW

Through April, the City's overall financial position continues to remain relatively stable, although on careful watch. All of the City's 116 budgeted funds are expected to end the year at or above estimated 2010-2011 levels. The Administration will continue to closely monitor economic conditions and the performance in the City's funds and will bring forward any recommended budget adjustments to the City Council on its June 21, 2011 agenda (Approval of Various Budget Actions for Fiscal Year 2010-2011) to ensure that individual appropriations remain within budgeted levels and to bring revenue estimates in line with current projections.

Following are key highlights in this report:

- In the General Fund, revenues are tracking close to modified budget levels, with collections expected to end the year at or slightly above budgeted estimates. Budget adjustments will be brought forward at year-end to align the revenue estimates for various revenue categories with the latest projections.
- Several departments are currently experiencing or are expected to experience higher than budgeted personal services expenditures due to unbudgeted vacation sell-back expenses and/or vacation and compensatory time payouts associated with employee separations from retirements or layoffs (June 26, 2011) that are anticipated to occur by year-end, as well as an increased retirement contribution amount that resulted from the transition to the fixed-payment "retirement floor" methodology which will be implemented in 2011-2012. Departments will absorb these additional costs to the extent possible through savings from the employee turnover, overtime controls, and/or identifying potential offsets through non-personal/equipment appropriation savings. However, additional funding may need to be distributed to some departments by the end of the fiscal year to prevent appropriation over-

OVERVIEW (Cont'd.)

runs. Additionally, year-end adjustments, such as net-zero shifts between departmental appropriations, will be brought forward to reflect actual performance as needed.

- In the General Fund, it is projected that there will be sufficient 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance to meet the estimate used in the 2011-2012 Proposed Operating Budget of \$18.3 million (excluding reserves). This estimate relies on additional funding generated from expenditure savings, the liquidation of prior year carry-over encumbrances and anticipated limited amount of one-time revenues.
- Airport passenger activity has increased for eight consecutive months compared to the same period a year ago, and fiscal year-to-date passenger traffic is now 2.1% higher than the same period last year. However, the number of commercial passenger flights at SJC continues to decrease, and commercial operations are down 7.8% fiscal year-to-date, resulting in very full planes. The high cost of fuel is now a serious factor for airline route decisions, posing a challenge to bringing more flights to the Airport.
- Construction and Conveyance (C&C) Tax revenues are currently expected to exceed budgeted estimates by approximately \$1.5 million by year-end. Collections through April 2011 totaled \$15.2 million (76% of the 2010-2011 estimate of \$20.0 million), which represents a decline of 5.5% from the \$16.1 million collected last year through April 2010. The City has since received May Conveyance Tax receipts totaling \$2.2 million, which represents a 12.6% increase from the \$2.0 million received in May 2010.
- The Administration will continue to report to the City Council any and all significant developments through this reporting process. A full reconciliation of actual 2010-2011 financial performance will be provided in the 2010-2011 Annual Report that will be released on September 30, 2011.

Economic Environment

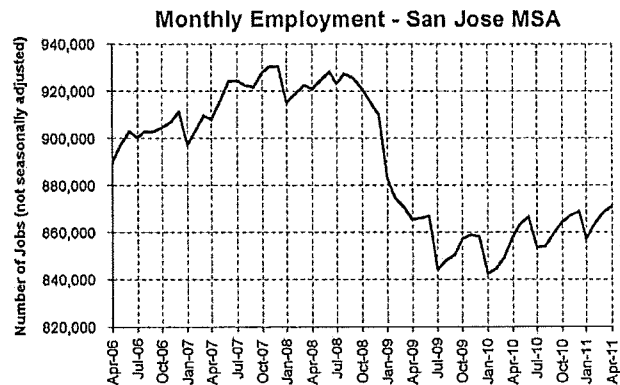
The U.S. Gross Domestic Product (GDP) appears to be increasing at a moderate pace, but a slowdown in the most recent quarter highlights the uneven rate of recovery from the recession that ended in mid-2009. Estimated low growth of 1.8% for the quarter that ended in March follows on more moderate growth of 3.1% for the quarter that ended in December. The overall increase in economic activity has contributed to some improvement in the unemployment rate: during the first four months of 2011 the seasonally-adjusted U.S. unemployment rate averaged just over 8.9%, its lowest level since the first quarter of 2009. The most recent Federal Reserve statement noted that "...the economic recovery is proceeding at a moderate pace and overall conditions in the labor market are improving gradually."

Despite the encouraging economic news, The Conference Board Consumer Confidence Index, which had improved in April, decreased in May. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "Consumers are considerably more apprehensive

OVERVIEW (Cont'd.)

about future business and labor market conditions as well as their income prospects. Inflation concerns, which had eased last month, have picked up once again. On the other hand, consumers' assessment of current conditions declined only modestly, suggesting no significant pickup or deterioration in the pace of growth."

Although still well below the recent peak of 930,500 jobs experienced in December 2007, employment in the San Jose Metropolitan Statistical Area (MSA) has somewhat recovered over the past 15 months from the January 2010 low of 842,300. The April 2011 employment level of 871,300 was 1.6% above the April 2010 employment level of 857,900.



Unemployment Rate (Unadjusted)

	Apr. 2010	Mar. 2011	Apr. 2011
San Jose Metropolitan Statistical Area*	11.4%	10.6%	10.1%
State of California	12.2%	12.3%	11.7%
United States	9.5%	9.2%	8.7%

* San Benito and Santa Clara Counties
 Source: California Employment Development Department.

The San José metropolitan area continues to experience double-digit unemployment, although the April 2011 unemployment rate of 10.1% represents a decline from the March 2011 rate of 10.6%. The April 2011 figure is also lower than the 11.4% rate experienced a year ago. The April 2011 unemployment rate in this region is less than the unadjusted

unemployment rate for the State, but remains above the nation, which has a current unadjusted unemployment rate of 8.7%.

Through April, the level of construction permit activity compared with the prior year at this time varies significantly across the three types of construction. Industrial construction remained significantly below prior year levels, with the \$64.2 million of industrial permits issued this year showing a 40.0% drop from the prior year valuation of \$107.0 million. Conversely, the total valuation of commercial permits issued so far this year is \$176.8 million, just 3.5% below the prior year valuation of \$183.3 million. Although the 2,199 residential permits issued through April were six times higher than the 366 permits issued at this time last year, this dramatic spike was almost entirely attributable to two very large development projects in late 2010 in North San Jose.

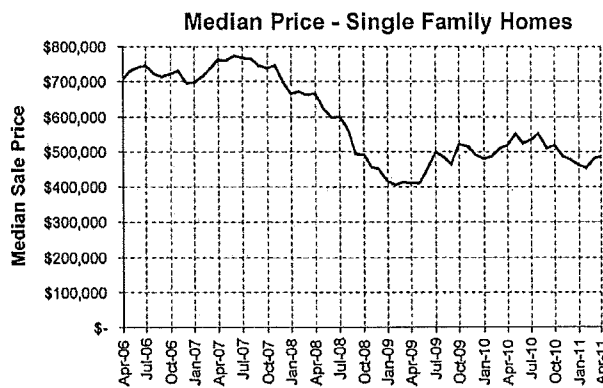
This permit activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees. Additionally, over the last ten years, the construction industry has provided

OVERVIEW (Cont'd.)

approximately 5% of the region's jobs; so any reduction in permit activity is expected to contribute to a slow recovery in local employment.

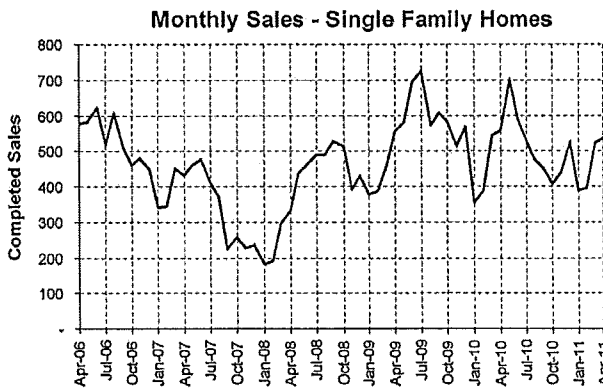
Although the April 2011 median home price of \$485,000 for single family homes within the City improved slightly from the prior month, it fell 6.5% below the April 2010 median of \$518,500. April marked the seventh month in a row that the median home price decreased from the same month in the prior year.

Another indicator of the continuing challenges in the local real estate market is the increase in the amount of time to complete a transaction. The average days-on-market totaled 90 in April 2011, equaling the peak of 90 days-on-market in June 2009. Additionally, the 4,671 total property transfers (completed sales) for single family homes for July 2010 through April 2011 fell 13.8% below the 5,418 completed sales for July 2009 through April 2010. Beyond weak consumer confidence and continuing high unemployment, an important factor that could also be acting as a drag on the housing market is uncertainty related to when the "shadow inventory" of foreclosed properties will be put on the market by lenders.



Beyond weak consumer confidence and continuing high unemployment, an important factor that could also be acting as a drag on the housing market is uncertainty related to when the "shadow inventory" of foreclosed properties will be put on the market by lenders.

The slow pace of recovery from the economic recession continues to dampen growth in the City's economically sensitive revenue categories. As a result, collections in many of these areas, such as Sales Tax and Property Tax, are expected to remain well below levels experienced in recent years. This slow growth has been built into the revenue estimates. Economic conditions will continue to be closely monitored, and any necessary budget g actions to align the revenue estimates with actual performance will be brought forward before the end of the year.



GENERAL FUND

REVENUES

General Fund revenues through April 2011 totaled \$722.2 million. Although this represents an increase of \$108.4 million from the April 2010 level of \$613.8 million, the 2011 total includes \$75.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANS) issued for cash flow purposes in July (\$40.0 million) and October (\$35.0 million) 2010. Adjusting for the TRANS issuance, General Fund revenues through April 2011 totaled \$647.2 million – an increase of \$33.4 million (5.4%) from the April 2010 level.

Collections were higher than the prior year in most of the revenue categories, including Property Tax, Sales Tax, Transient Occupancy Tax, Telephone Line Tax, Franchise Fees, Licenses and Permits, Fines, Forfeits and Penalties, Use of Money and Property, Revenue from Local Agencies, Revenue from the Federal Government, Departmental Charges, and Transfers. The revenue categories tracking below the prior year level include Utility Tax, Revenue from the State, Other Revenue (excluding the TRANS), Overhead, and Reimbursements for Services.

Based on collections through April, it is anticipated that overall General Fund revenues will meet the overall modified budget estimate by year-end. However, continued close monitoring of 2010-2011 performance will be performed during the remainder of the year and adjustments to individual revenue estimates will be recommended as part of the Approval of Various Budget Actions for Fiscal Year 2010-2011 memorandum that will be considered by the City Council on June 21, 2011.

The following discussion highlights General Fund revenue activities through April.

KEY GENERAL FUND REVENUES

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 194,909,000	\$ 179,512,458	\$ 178,710,867

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. Through April, \$179.5 million was received. The 0.4% increase from the prior year collection level of \$178.7 million was the result of higher Secured Property Tax collections due to the timing of payments in 2009-2010. After adjusting for these timing differences, Property Tax receipts are expected to end the year below 2009-2010 levels, but within only 1.0% of the 2010-2011 modified budget estimate.

Secured Property Tax accounts for \$167.8 million of the \$179.5 million in Property Tax revenue received through April 2011. Based on information from the County of Santa Clara Controller-Treasurer's Office, Secured Property Tax receipts are expected to reach \$181.8 million, which is slightly below the modified budget estimate of \$182.1 million and reflects a projected decline of

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

2.1% from the prior year. As part of the 2009-2010 Annual Report actions, the City Council approved a \$1.3 million reduction to the budget estimate for this category, bringing the estimate to \$182.1 million, based on the revenue estimate from the County of Santa Clara Controller-Treasurer's Office at that time. That adjustment allowed for a 2.0% decline in 2010-2011 from actual 2009-2010 receipts.

The 2010-2011 collections are based on the value of property assessed on January 1, 2010, with any tax roll corrections. In developing this most recent estimate, the County has made a projection on the value of downward adjustments that will be made during the remainder of the year. Because the County will continue to incorporate tax roll adjustments through the end of June, when the 2010-2011 collection figures will be finalized, the Budget Office will continue to coordinate with the County to estimate collections in this category.

Unsecured Property Tax receipts totaled \$10.9 million through April, which should reflect all of the payments that will be received this fiscal year. The actual collections have exceeded the budgeted estimate of \$10.2 million by \$700,000.

For the SB 813 Property Tax category, only one payment of \$246,000 has been received through the month of April because, according to the County, the net collections through February 2011 were less than the unprocessed negative supplemental taxes accumulated from 2009-2010 and 2010-2011. In August 2010, the County of Santa Clara provided a preliminary SB 813 Property Tax estimate of \$1.5 million for 2010-2011 that indicated a drop of 50% from the actual 2009-2010 collection level. Based on that updated estimate, a \$1.8 million reduction to the SB 813 Property Tax revenue estimate was approved by the City Council as part of the 2009-2010 Annual Report actions, bringing the budget estimate from \$3.3 million to \$1.5 million. That adjustment allowed for a 50.7% decline in 2010-2011 from actual 2009-2010 receipts. The most recent projection from the County of Santa Clara in May 2011 indicates that SB 813 Property Tax revenues could fall as low as \$1.2 million. Depending on the impact of the negative supplemental tax adjustments through the remainder of the year, an additional downward adjustment to the revenue estimate may be necessary.

It is anticipated that Homeowners Property Tax Relief revenue will be received at approximately the budgeted level of \$1.1 million.

Overall, the higher Unsecured Property Tax receipts are expected to offset lower projected Secured Property Tax and potentially lower SB 813 Property Tax receipts. Property Tax collections are currently projected to end the year very close to the budget estimate, with a variance of less than 1%.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 134,679,000	\$ 101,452,119	\$ 91,930,263

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax.

General Sales Tax receipts through April of \$98.4 million are tracking 10.6% above the prior year collection level of \$89.0 million. This reflects actual performance for the first two quarters along with “triple flip” payments and advances from the State. This also reflects the effect of a Sales Tax recording error that understated the fourth quarter General Sales Tax for 2008-2009 and correspondingly overstated the first quarter General Sales Tax for 2009-2010. During 2010-2011, two upward adjustments to the General Sales Tax revenue estimate totaling \$7.4 million have been approved based on higher actual collections in 2009-2010 as well as higher than anticipated receipts in the first quarter of 2010-2011. Because receipts also exceeded expectations in the second quarter of 2010-2011, the General Sales Tax revenues are currently projected to exceed the modified budget estimate of \$130.9 million by \$3.2 million. A recommended year-end budget adjustment will be brought forward to recognize this additional revenue and will be used to offset lower collections in other revenue categories. This higher collection level was also assumed in the development of the 2011-2012 Proposed Budget.

As discussed in the January-February Bi-Monthly Financial Report, the Sales Tax growth in the first two quarters of 2010-2011 was built on the prior-year quarters in which Sales Tax declined by 18.2% (down 12.8% on an adjusted basis) and 5.3%. Because the Sales Tax receipts for the remaining two quarters of 2010-2011 will be compared with prior-year quarters in which collections increased (13.0% for the third and fourth quarters), it would be premature to suggest adjustments to the growth assumptions for the remaining two quarters of 2010-2011. Data on the third quarter performance is scheduled to be released within the next two weeks. If collections in the third quarter exceed current projections, the Mayor’s June Budget Message for 2011-2012 directs the Administration to issue a Manager’s Budget Addendum to the 2011-2012 Proposed Budget recognizing that additional revenue and restoring as many Police patrol officers as possible. For the last quarter, Sales Tax is accrued to 2010-2011 based on estimated collections as actual data for that quarter will not be received until September 2011.

Through April, the Proposition 172 Sales Tax receipts of \$3.1 million were tracking 3.5% above the prior year collection level of \$3.0 million. The 2010-2011 budget estimate of \$3.8 million, however, allows for a drop of 3.2%. Based on year-to-date collection trends, it is likely receipts in this category will end the year above the budgeted estimate. Staff will continue to monitor these revenues closely and bring forward adjustments before the end of the year, if necessary.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 6,684,000	\$ 5,151,905	\$ 4,983,083

Through April, Transient Occupancy Tax (TOT) collections of \$5.2 million were tracking 3.4% above the prior year collection level of \$5.0 million for the same period. The 2010-2011 Adopted Budget assumed an increase of 2.0% from the 2009-2010 estimated level; however, the budget now allows for a decline of 3.1% based on higher than anticipated 2009-2010 collections. It is anticipated that TOT receipts will at minimum achieve, but likely exceed, the budgeted revenue estimate of \$6.7 million by year-end.

Through April, the average hotel occupancy rate at the 14 major hotels was 57.8%, an improvement from the 54.5% occupancy rate for the same period in 2009-2010. For the same 14 hotels, the average daily room rate through April was \$119.68, up from the \$117.06 room rate for the same period in 2009-2010. The year-to-date average revenue-per-available-room (RevPAR) metric of \$69.26 represents an increase of 8.4% from the prior year level. TOT receipts will be closely monitored as the year progresses, and budget adjustments will be brought forward for City Council consideration, if necessary.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 87,432,000	\$ 65,988,795	\$ 66,662,520

Through April 2011, Utility Tax receipts of \$66.0 million reported in the City's financial management system were down 1.0% from last year's collection level of \$66.7 million. To meet the 2010-2011 budgeted estimate, receipts can decline 0.2% from the prior year. If current collection trends continue, overall collections for this category could fall below the budgeted estimate.

In the Electric Utility Tax category, collections of \$29.7 million were tracking 3.5% above the prior year level of \$28.7 million; however, slightly higher growth of 3.6% is needed to meet the Electric Utility Tax budget estimate of \$39.2 million. The 2010-2011 Adopted Budget incorporated rate increases that were scheduled to become effective in January 2011. However, in October 2010, Pacific Gas and Electric Company (PG&E) filed a settlement agreement with the California Public Utilities Commission (CPUC) that would significantly reduce those rate increases and consequently reduce the City's 2010-2011 Electric Utility Tax revenue. Although no final decision from the CPUC has been made, it is clear that electric rates will not experience the level of growth built into the revenue estimate. Based on current trends, collections could

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

fall slightly below the budgeted estimate. Collections in this category will be closely monitored to determine if a year-end adjustment is necessary.

In the Gas Utility Tax category, receipts of \$6.7 million were tracking 0.4% above the prior year level of \$6.6 million. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$2.0 million decrease to the budget estimate for this category. The modified budgeted estimate of \$8.6 million requires growth of 0.6% from the actual 2009-2010 collection level. Based on current trends, collections could fall below the budgeted estimate. Collections in this category will be closely monitored to determine if a year-end adjustment is necessary.

In the Water Utility Tax category, receipts of \$6.5 million were tracking 1.1% below the prior year level of \$6.6 million. In February 2011, as part of the 2010-2011 Mid-Year Budget Review, the City Council approved a \$600,000 decrease to the budget estimate for this category. The modified budget estimate of \$9.0 million requires growth of 3.6% from the actual 2009-2010 collection level. While collections are currently tracking below the modified budget level, a rate increase of 3.1% that was implemented in January 2011 may improve collections by the end of the year. It is important to note, however, that this category is always subject to fluctuations related to the amount of precipitation received, particularly in the spring. This category may also be impacted by conservation efforts. At this point, collections could fall below the budgeted estimate. Collections in this category will be closely monitored to determine if a year-end adjustment is necessary.

Collections in the Telephone Utility Tax category of \$23.1 million were tracking 6.7% below the prior year collection level of \$24.7 million. According to the City's Utility Tax consultant, the lower level of collections reflects a combination of the following factors: (1) continuing migration from land-line service to less-expensive wireless service; (2) intense price competition among wireless service providers; and (3) increased use of service plans that bundle voice service with data service, which qualifies for a federal exemption from the Telephone Utility Tax. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$2.9 million decrease to the budget estimate for this category. The budgeted estimate of \$30.6 million allows for a 5.9% decline from the actual 2009-2010 collection level. Based on current collection trends and factoring in the impact of prior-year accruals, this category is anticipated to achieve the budgeted revenue estimate by year end.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Licenses and Permits	\$ 68,198,220	\$ 64,671,161	\$ 54,948,684

Through April, Licenses and Permits revenue of \$64.7 million tracked 17.7% above the prior year level of \$54.9 million. The 2010-2011 budget estimate anticipates growth over the 2009-

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

2010 collection level of 3.4%. Categories that exceeded the prior year included Business Tax, Cardroom Tax, Building Permits, Fire Permits, and Miscellaneous Licenses and Permits. These positive variances were partially offset by lower collections in the Disposal Facility Tax category. Following is a discussion of the major components of this category.

In the Business Tax category, revenues of \$10.9 million through April were tracking 4.5% above the prior year level of \$10.5 million. Growth of 1.1% from the 2009-2010 actual collection level is necessary to meet the budgeted Business Tax estimate of \$11.0 million. Collections are currently expected to meet the budgeted estimate by year-end.

Cardroom Tax receipts of \$10.8 million through April were 15.2% above the prior year level of \$9.4 million. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$3.9 million decrease to the budget estimate for this category. The budgeted estimate of \$13.8 million allows for a 10.5% increase from the actual 2009-2010 collection level. Collections are currently projected to meet or exceed the revised budget estimate.

Disposal Facility Tax revenue of \$8.4 million through April is tracking 3.3% below the prior year level of \$8.6 million. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$300,000 decrease to the budget estimate for this category. The modified budgeted estimate of \$11.3 million allows for a 2.7% decrease from the actual 2009-2010 collection level. Based on current trends, collections could fall slightly below the budgeted estimate. Collections in this category will be closely monitored to determine if a year-end adjustment is necessary.

Building Permit receipts of \$18.5 million through April were tracking well above both the 2010-2011 year-to-date estimate of \$13.0 million, and the prior year-to-date collection level of \$13.1 million. Revenues in all plan check and permit categories have exceeded or are tracking above estimated levels. Strong revenue receipts are entirely driven by a spike in residential permits in December. December housing unit permit count of 1,641 was only the third time in the last decade that the count exceeded 1,000 units. Following this spike, a return to slower residential activity occurred in January and continued through April. April also saw a continuation of moderate commercial and slow industrial permit activity. During May, Building had several North San Jose multifamily projects under Plan Review, as well as a few large alterations and additions to existing commercial/industrial projects. At least two multifamily projects are anticipated in mid-June. With this moderate activity projected for the remainder of 2010-2011, and given the strong residential performance in the first half of the year, Building Permit receipts have exceeded the revised budgeted revenue estimate of \$16.2 million. The additional revenue surplus will be reallocated to the Building Fee Reserve to ensure sufficient resources are available for works in progress in the Building Fee Program.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Through April, Fire Permit collections of \$7.8 million were tracking above estimated levels and 27.7% above the prior year receipts of \$6.1 million. Development-related collections of \$3.6 million are 47.0% above levels received through April 2010, and 34.7% above current year estimates due to higher than projected collections in architectural and engineering systems (fire sprinkler and alarm systems), plan review, and inspections. Development Fee Program revenue is currently projected to exceed the revised budgeted estimate by \$1.1 million. The additional revenue will be placed in the Fire Program Fee Reserve and carried over to 2011-2012 to support Development related activity. The Non-Development Fee Program is currently tracking slightly lower than estimated levels with lower than estimated collections for annual renewable permits, partially offset by higher than estimated revenues for non-renewable inspections and miscellaneous revenues. At this time, collections are projected to meet the budgeted revenue estimate of \$4.5 million in the Non-Development Fee Program, but could fall below estimated levels due to potential adjustments to the reserve for bad debt for this program. The City Manager's Budget Office and Fire Department will continue to monitor both development and non-development revenues closely.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Revenue from Local Agencies	\$ 45,682,351	\$ 36,084,574	\$ 34,648,458

This category includes reimbursement from the Redevelopment Agency for City services, grants from various agencies, reimbursement for fire suppression services in unincorporated County pockets, and reimbursement for emergency medical services. Revenues through April of \$36.1 million were above the prior year level of \$34.6 million.

The budgeted reimbursements from the San Jose Redevelopment Agency total \$15.0 million for City services and an additional \$15.0 million for the Convention Center debt service payments. It is currently anticipated that the City will be reimbursed for all eligible expenses. Through April, the City has received \$26.2 million from the Redevelopment Agency to reimburse the City for eligible expenditures. The 2010-2011 budget for the Redevelopment Agency was approved by the Agency Board in November 2010.

Through April, payments totaling \$2.5 million have been received from the Central Fire District for fire services provided by the City. The current-year collections are tracking 15.3% below the prior-year level of \$3.0 million. In February 2011, in conjunction with the 2010-2011 Mid-Year Budget Review, the City Council approved a \$540,000 decrease to the budget estimate for this category. The modified budget estimate of \$5.1 million allows for a decline of 15.3% from the actual 2009-2010 collection level. The reduction to the revenue estimate, based on information from the Central Fire District staff, is due to the drop in Property Tax receipts and the impact of annexations by the City. Therefore, the year-end estimate is expected to be met.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Overall, the other reimbursements from various agencies are tracking within or above estimated levels through April. Revenues in this category are projected to end the year close to the budgeted estimates, and the City Manager's Budget Office will bring forward any necessary adjustments.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Departmental Charges	\$ 29,610,267	\$ 26,025,567	\$ 20,329,489

Through April, Departmental Charges revenues of \$26.0 million were tracking 28.0% above the 2009-2010 collection level of \$20.3 million. This level of growth exceeds the 8.5% increase over the prior year required to meet the 2010-2011 budget estimate. This increase from the prior year is due primarily to the increase in collections in the Parks, Recreation and Neighborhood Services Department (PRNS) associated with the timing of the re-opening of the Happy Hollow Park and Zoo, the increase in Public Works fee collections, and an increase in Miscellaneous Departmental Changes.

The Miscellaneous Departmental Charges category, which is budgeted at \$5.2 million, includes the Solid Waste Enforcement Fee with a budgeted estimate of \$3.5 million, various Animal Control Fees budgeted at \$708,000, and other miscellaneous fees budgeted at \$992,000. Solid Waste Enforcement Fee revenues of \$2.7 million were tracking 30.7% above the prior year level of \$2.1 million. With receipts at 77.1% of the budgeted estimate of \$3.5 million through April, it is projected that this fee will end the year within the budgeted estimate. Animal Care and Services Departmental Charges are budgeted at \$708,000 and include Animal Control Fees for a variety of services. Collections through April of \$520,000 are tracking below anticipated levels and may fall below the budgeted level at year-end.

Through April, Police revenues of \$1.5 million were tracking below (6.1%) expected levels of \$1.6 million and at the same levels as the prior year, \$1.5 million. The lower than anticipated revenue collections can be attributed to lower collections for Impounded Vehicle Releases, Photostats (Police Records/Reports), and Tow Service Dispatch. These lower than anticipated collections are partially offset by higher collections in Police Officer Standards and Training (POST), Restitution Permits, and Police Officers Attending Civil Court. The Police Department and City Manager's Budget Office will continue to closely monitor performance, and at this time, revenue is tracking to end the year approximately \$120,000 below estimated levels.

Public Works Development Fee Program revenues through April of \$4.2 million are 40.8% above the prior year level of \$3.0 million due to increased activity in both the Development Fee and Utility Fee Programs. However, the volatile nature of development activity should temper any inclination to consider this large increase as indicative of a trend. It is anticipated that the Public Works Fee Program will exceed the budgeted estimate of \$4.3 million by approximately

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

\$1.0 million. Any net additional funding will be placed in the Public Works Fee Program Reserve as part of the year-end reconciliation.

Transportation fee collections through April totaled \$927,000, up 32.7% from the prior year amount of \$698,000. This collection level exceeds the budgeted estimate of \$779,000. The year-over-year increase primarily results from recognizing Department of Transportation reimbursements for special event costs as Departmental Charges revenue rather than including those reimbursements in an aggregated special events item reported in the Other Revenue category as was done in prior years.

Adjusted for a delay in the posting of quarterly payments, Library departmental revenue of \$880,000 is tracking well below expected levels through April due to lower than projected fine revenue. Based on prior year performance and current collection trends, Library revenues may fall below the revenue estimate of \$1.9 million by year-end. If necessary, a year-end adjustment to this category will be brought forward.

Through April, Planning Development Fee Program revenue of \$2.2 million was slightly above prior year-to-date collections, and 16% above estimated year-to-date revenue levels. Should this trend continue, the Planning fee program is on track to exceed the \$2.4 million revenue estimate. This estimate represents a 12% reduction from the prior year actuals, given projections of very slow activity for 2010-2011. However, because overall slow activity levels remain a concern, the City Manager's Budget Office and the Department will continue to monitor Development Fee Program revenues closely for the remainder of the year.

Through April, Parks, Recreation, and Neighborhood Services Departmental Charges revenue of \$11.7 million is well ahead of the 2009-2010 level of \$8.3 million, primarily due to Happy Hollow Park and Zoo (HHPZ), which had just re-opened in March 2010. With an overall revenue target of \$13.1 million, year to date collections have achieved approximately 89% of the budgeted estimate. Categories with higher than anticipated collections include Fee Activity, Parking, and After-School Recreation. It is anticipated at this time that overall year end collections will exceed the budgeted revenue estimate by approximately \$1.5 million. A portion of the excess Fee Activity revenue, however, will be recommended to be allocated to support the Fee Activity-related expenses as part of the 2010-2011 year-end budget actions.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Other Revenue	\$ 89,965,501	\$ 87,781,043	\$ 13,166,745

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through April totaled \$87.8 million. Although this represents an increase of \$73.3 million from the April 2010 level of \$13.2 million, the current year total includes \$75.0 million

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes in July (\$40.0 million) and October (\$35.0 million) 2010. Adjusting for the TRANs issuance, Other Revenue collections through April 2011 totaled \$12.8 million – a decrease of \$300,000 (3.0%) from the prior year level.

Collections in this category are expected to end the year approximately \$2.4 million above the budgeted estimate. Following is a discussion of the major sub-categories in the Other Revenue category:

Through April, the City has received \$4.9 million in HP Pavilion Rental, Parking, Suite, and Naming revenue, which is approximately 4.9% above the budgeted estimate of \$4.6 million.

Investment Cost Reimbursement and Banking Services revenues through April of \$1.6 million and \$761,000, respectively, are tracking within estimated levels. Any variances in these categories would be offset by a corresponding variance in related expenditures.

Through April, revenue from the Sale of Surplus Property totaled \$6,000 which is well below the budgeted estimate of \$1,800,000. Although the Office of Economic Development currently anticipates that a portion of this revenue will be received in 2010-2011, it is likely that revenues in this category will fall below the budgeted estimate.

One-time revenues, which were not anticipated as part of the 2010-2011 Adopted Budget, were received in this category during 2010-2011 and have been incorporated into the 2011-2012 Proposed Budget. These include the \$2.0 million option payment from a developer for purchase of a portion of the Airport West property and a \$70,000 gift from the Friends of the San José Mounted Unit.

Revenue	2010-2011 Estimate	YTD Actual	Prior YTD Collections
Transfers and Reimbursements	\$ 93,339,330	\$ 79,234,790	\$ 77,626,611

This category includes overhead reimbursements from operating and capital funds, transfers, and other reimbursements. Transfers and Reimbursement collections of \$79.2 million through April were tracking above the prior year level of \$77.6 million due primarily to one-time transfers from the Healthy Neighborhoods Venture Fund, the Construction Excise Tax Fund, the Integrated Waste Management Fund, and the Construction and Conveyance Tax Fund. Those additional transfer revenues have been partially offset by lower levels of overhead reimbursements. Overall, collections in the Transfers and Reimbursements category are expected to fall below the budgeted estimate by as much as \$1.0 million by year-end. The City Manager's Budget Office will continue to monitor the collections in this category closely and bring forward any necessary adjustment.

GENERAL FUND (Cont'd.)

KEY GENERAL FUND REVENUES (Cont'd.)

Overhead associated with operating funds and special funds is currently budgeted at \$23.7 million, of which \$23.6 million has been received through April. This budget estimate is below the 2009-2010 actual overhead reimbursements of \$28.2 million from the operating funds and special funds based on the 2010-2011 overhead rates and the 2010-2011 staffing levels. In addition, overhead associated with capital funds is budgeted at \$10.6 million, of which \$8.8 million has been received through April. This budget estimate is also below the 2009-2010 actual overhead reimbursements from capital funds of \$12.3 million due to a reduction in the number of capital projects. Overall, overhead collections of \$32.4 million through April were tracking to meet the budgeted estimate of \$34.3 million by year-end.

Transfers from other funds collections of \$39.2 million are currently tracking slightly below the budget estimate of \$41.7 million, primarily due to lower than anticipated interest earnings transfers from other funds to the General Fund. These transfers associated with interest earnings have already been adjusted downwards once this year. Additional downward adjustments may be necessary at year-end based on actual interest earnings in these funds.

The budget estimate for the Reimbursements for Services category is \$17.4 million, of which \$16.6 million is expected to be generated from the three Gas Tax Funds. Gas Tax revenues through April were tracking approximately \$1.0 million below the budgeted estimate, and the City Manager's Budget Office will continue to monitor Gas Tax revenues closely and bring forward adjustments to this category, if necessary, by year end.

EXPENDITURES

Through April, General Fund expenditures of \$711.5 million were 9.7% above the prior year level of \$648.6 million. Encumbrances of \$29.4 million were 9.7% above the prior year level of \$26.8 million. Expenditures and encumbrances (\$740.8 million) through April constitute 77.7% of the total 2010-2011 revised budgeted uses of funds (\$953.5 million, excluding reserves). Overall, cumulative departmental and non-departmental expenditures are tracking within budgeted levels.

It should be noted that the City Council approved actions as part of the Mid-Year Budget Review to capture \$8.5 million of current year savings in the 2010-2011 Ending Fund Balance reserve. These savings, along with additional expenditure savings, excess revenues, and the liquidation of prior year carry-over encumbrances totaling \$9.8 million, for a grand total unrestricted ending fund balance estimate of \$18.3 million, have been factored into the 2011-2012 Proposed Operating Budget for the General Fund.

Several departments are currently experiencing or are expected to experience higher than budgeted personal services expenditures due to unbudgeted vacation sell-back expenses and/or

GENERAL FUND (Cont'd.)

EXPENDITURES (Cont'd.)

vacation and compensatory time payouts associated with employee separations from retirements or layoffs (June 26, 2011) that are anticipated to occur by year-end, as well as an increased retirement contribution amount that resulted from the transition to the fixed-payment "retirement floor" methodology which will be implemented in 2011-2012. Departments will absorb these additional costs to the extent possible through savings from the employee turnover, overtime controls, and/or identifying potential offsets through non-personal/equipment appropriation savings.

Net-zero budget adjustments were approved as part of the Mid-Year Budget Review to reflect transfers between appropriations to address projected Personal Services expenditure overages for the following departments: City Attorney's Office, City Manager's Office, Fire Department, General Services Department, and the Information Technology Department. However, additional funding may need to be distributed to some departments by the end of the fiscal year to prevent appropriation over-runs. These year-end adjustments will be brought forward for City Council consideration on June 21, 2011.

KEY GENERAL FUND EXPENDITURES

Department	2010-2011 Budget	YTD Actual	Prior YTD Actual
Police	\$ 297,814,043	\$ 227,640,923	\$ 229,468,399

On an overall basis, Police Department expenditures are tracking slightly below estimated levels. Personal Services expenditures of \$214.6 million tracked under anticipated levels (77.5% compared to the par of 79.3%). Through the end of April, the Department had 48 sworn vacancies, offset by two temporary sworn personnel, one Police Lieutenant position and one Police Officer position, funded by Urban Area Security Initiative (UASI) grants. Overtime expenditures of \$7.3 million through April tracked below anticipated levels with 59.3% expended. The compensatory time balance at the end of April 2011 was 190,482 hours for sworn personnel. This represents an increase of 2,608 hours (1.4%) from the February 2011 balance of 187,874, but a 29,187 hour decrease (13.3%) compared to the April 2010 balance of 219,669. The slight increase in the compensatory time balance from February can be attributed to a greater need for sworn personnel as the weather improves and more people are in Downtown for special events and other activities. However, the overall reduction in the compensatory time balance from the 2009-2010 level can be attributed to a number of factors including higher than normal attrition in 2009-2010 (leading to compensatory time balances being paid out at the time of separation as demonstrated by higher expenditures in full-time salaries), and additional overtime controls implemented during 2009-2010, which have continued through 2010-2011.

The overtime management process requires preapproval by a supervisor, and additional timesheet coding is required to determine the type of usage in order to readily identify mandatory

GENERAL FUND (Cont'd.)

KEY GENERAL FUND EXPENDITURES (Cont'd.)

versus discretionary usage. This process has been useful in reducing discretionary overtime expenditures. The Budget Office and Police Department will continue to closely monitor Personal Services to ensure expenditures are within appropriated levels by year-end.

A total of \$15.6 million (75.2%) of the Department's Non-Personal/Equipment budget was expended or encumbered through April. Excluding the remaining balances for centrally-determined details, including electricity, gas, and vehicle operation and replacement, the Department has approximately \$2.5 million, or 21.8% of the non-centrally-determined appropriation, available for the remainder of the fiscal year. The Budget Office and the Department will monitor expenditures closely to ensure expenditures are within appropriated levels by year-end.

Department	2010-2011 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 154,206,091	\$ 121,629,103	\$ 120,504,133

Overall, expenditures for the Fire Department were tracking at budgeted estimates through April, with 78.9% expended. Although Personal Services expenditures through April of \$116.7 million were tracking at 79.4% of budget (slightly above the par level of 79.3%), cost saving measures implemented by the Department are currently anticipated to bring expenditures within the appropriation level by year-end. However, if additional retirements occur before the end of 2010-2011, the Personal Services appropriation may be over expended due to vacation and compensatory time payouts. The Fire Department's Non-Personal/Equipment budget of \$7.1 million was 80.6% expended or encumbered through April. These expenditures are also expected to end the year within the budgeted allocation.

Personal Services expenditures are tracking within estimated levels because the overtime savings is just enough to offset the higher salary and benefit costs. Expenditures for salaries and benefits tracked higher than estimates largely due to higher than budgeted expenditures related to leave balance payouts for 49 Firefighters laid off at the end of July and leave balance payouts for retirees through 2010-2011. An increase to this appropriation may be required at year-end if higher than anticipated retirements occur in May and June that increase the gap between the budget for retiree payouts and actual payouts. The Department will be reviewing expenditures and encumbrances in its Non-Personal/Equipment appropriation and recommendations may be brought forward as part of the year-end clean-up actions that transfer funding from this appropriation to the Personal Services appropriation.

Overtime expenditures of \$7.7 million tracked below par levels (67.1% compared to the par of 79.3%) through April. Although overtime expenditures tracked below par levels, the level of overtime savings currently being generated is not as high as anticipated due to a higher sworn absence rate in 2010-2011 compared to the 2009-2010 absence rate. Through the end of April,

GENERAL FUND (Cont'd.)

KEY GENERAL FUND EXPENDITURES (Cont'd.)

the Department had 39 sworn vacancies. When relief staffing can not meet vacancies in duty positions, absences are filled by overtime. Higher absences in 2010-2011 are primarily the result of more sworn positions being absent from line duty due to illness, modified duty, or disability than previously experienced in 2009-2010. To address higher expenditures, the Department will continue implementing overtime control measures for activities not related to minimum staffing.

Through April, the Fire Department was staffed with 172 filled Firefighter Paramedic positions (159 front-line Firefighter paramedics, 5 Supervisors, and 8 support) compared to the 139 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. The Department projects it will have no issues maintaining the target staffing level of 139 front-line Firefighter Paramedics. As part of the City Council's approval of Department Absence and Vacancy Rates (March 2010), it should be noted that the number of sworn administrative staff in the Department through April was 27, which is within the authorized number of 34.

Department	2010-2011 Budget	YTD Actual	Prior YTD Actual
City Attorney's Office	\$ 11,415,510	\$ 9,043,476	\$ 10,422,138

Personal services expenditures of \$8.7 million are tracking above estimated levels, while non-personal/equipment expenditures and encumbrances of \$543,000 are tracking below estimated levels. Additional actions to clean-up personal services expenditures in the City Attorney's Office are anticipated before year end.

Through April, the personal services appropriation is tracking at 82.2% expended, which is 3.66% (or \$308,000) above the par level of 79.3%. The primary cause of the overage is that salaries reallocated to alternative funding sources as a 2010-2011 balancing strategy were not implemented as originally planned, accounting for approximately \$275,000 of the overage. The 2010-2011 Adopted Operating Budget included the reallocation of City Attorney's Office staff from the General Fund and the Workforce Investment Act (WIA) Fund to the False Claims Act appropriation and the Municipal Solar Grant Program. The current workload associated with these projects has not occurred at the levels approved as part of the 2010-2011 Adopted Budget; therefore the City Attorney has assigned staff to unbudgeted General Fund legal work. Also, vacancies have been insufficient to meet a budgeted vacancy factor of 0.5% and vacation sellback expenses. Overall, an overage of roughly \$500,000 in City Attorney's Office Personal Services is anticipated by year end and expenditures continue to be monitored closely.

Non-personal/equipment expenditures are below par through April despite the reallocation of \$150,000 in funding to personal services in the 2010-2011 Mid-Year Review. Additional savings of \$100,000 in this appropriation are anticipated to be used to partially offset the higher than anticipated expenditures in personal services.

HONORABLE MAYOR AND CITY COUNCIL

June 8, 2011

Subject: Bi-Monthly Financial Report for March/April 2011

Page 19

GENERAL FUND (Cont'd.)

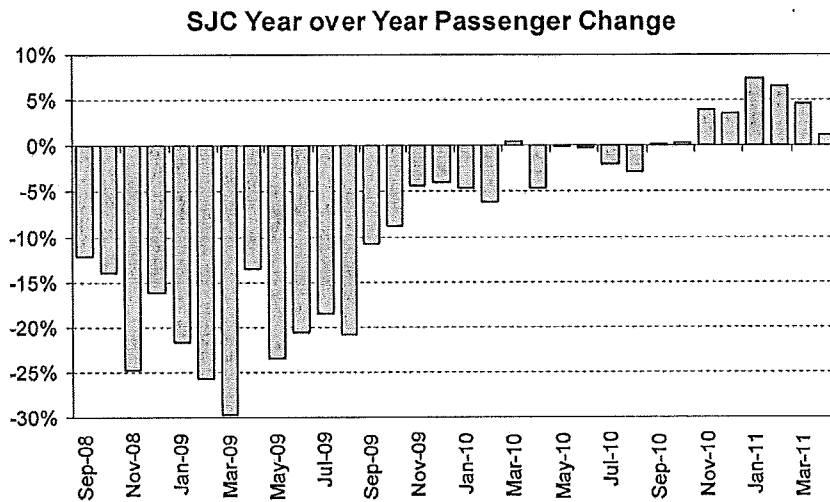
CONTINGENCY RESERVE

The General Fund Contingency Reserve remains at \$29.3 million through April, with no revisions through the first ten months of the fiscal year.

OTHER FUNDS

Airport Funds

On a fiscal year-to-date basis, the Norman Y. Mineta San José International Airport has enplaned and deplaned 6.9 million passengers, an increase of 2.1% from the figures reported through April of the prior year. This is the eighth consecutive month passenger activity has increased compared to the same period a year ago (passenger activity in April 2011 was 1% above activity in April 2010) as shown in the chart below. However the number of passenger operations (landings and takeoffs) fell in April, and the fiscal year-to-date total continues to trail the prior year through April by 7.8%. Load factors (the number of passengers per available seat) increased 4.9% from what was reported for the period July through April 2010. In summary, the quantity of flights was down, yet the number of passengers on those flights increased.



Fiscal year-to-date mail, freight and cargo totaled 79.2 million pounds, which represented a 13.6% decrease from 2009-2010. Landed Weights were below estimates by 4.2%, and Taxicab Operations exceeded last fiscal year by 1.7%. Passenger Facility Charge revenues were below the prior year level by less than 1% (0.5%).

Overall revenue performance at the Airport for the ten months ending April 2011 tracked above the budget estimate by 1.6%. Airline rates and charges were 1.8% above the budget estimate. Airfield revenues exceeded budget projections by 10.0%, primarily due to increased in-flight kitchen and ground concession revenues. The terminal concessions and miscellaneous rents category also performed above expected levels by 4.3%, and the parking and roadway category was 4.9% higher than the estimated budget, primarily due to higher public parking and rental car concession activity. Landing fees and terminal rentals also performed above the budget estimate. Other general and non-aviation revenues, on the other hand, were slightly below the budget estimate (by 2.1%) due to lower than expected interest income. The Airport anticipates ending the year with overall revenue levels above estimated levels.

OTHER FUNDS (Cont'd.)

Year-to-date Personal Services expenditures through April were 78.0% of budget, which was slightly below the benchmark of 79.3%. Staff retirements are expected to result in additional savings. Non-Personal/Equipment expenditures through April totaled 61.0% of budget compared to the benchmark of 76.5%. Current encumbrances of \$7.1 million bring total Personal Services and Non-Personal/Equipment commitments to \$52.7 million or 77.4% of the budget.

In the Airport Customer Facility and Transportation Fee Fund, Personal Services and Non-Personal/Equipment expenditures combined tracked below the budget estimate (at 57.6% of budget).

Construction and Conveyance Tax Funds

Construction and Conveyance (C&C) Tax revenues are currently expected to exceed budgeted estimates by approximately \$1.5 million by year-end. Collections through April 2011 totaled \$15.2 million (76% of the 2010-2011 estimate of \$20.0 million), which represents a decline of 5.5% from the \$16.1 million collected last year through April 2010. The City has since received May Conveyance Tax receipts totaling \$2.2 million, which represents a 12.6% increase from the \$2.0 million received in May 2010. Although tax revenues are tracking slightly lower than last year, the adopted C&C Tax estimate allowed for an 11.1% drop from the 2009-2010 collection level.

Nearly 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers, which are the main driver in this revenue category. The housing market appeared to be recovering during the first several months of the fiscal year, but that trend has now reversed itself. Although the April 2011 median home price of \$485,000 for single family homes within the City improved slightly from the prior month, it fell 6.5% below the April 2010 median of \$518,500. April marked the seventh month in a row that the median home price decreased from the same month in the prior year. Another indicator of the continuing challenges in the local real estate market is the increase in the amount of time to complete a transaction. The average days-on-market for all types of residences totaled 94 in April 2011, close to the peak of 97 days-on-market in June 2009. One bright spot in the real estate data is the number of property transfers (sales) for all types of residences which totaled 758 in April, representing a slight increase of approximately 1.2% from the 749 sales that occurred in the same month in the prior year.

Other Construction-Related Revenues

Through April, permit valuation for residential construction activity is above prior year levels; however, permit valuation for commercial and industrial construction activity is below prior year levels. Residential permit activity in the month of December spiked to its highest level in over a decade (1,641 units), and year-to-date permit valuation for residential activity totaled \$370.1 million through April, which is significantly higher than prior year-to-date collections of \$101.8

OTHER FUNDS (Cont'd.)

million. This surge in activity was primarily due to two very large development projects in the North San José area and should not be interpreted as a sustainable trend. Commercial activity was slow in April, with permit valuation at \$16.4 million; and permit valuation year-to-date totaled \$176.8 million, which is tracking slightly lower than at this point last year (\$183.3 million). Industrial permit activity for new construction was also slow, with valuation at \$7.9 million through April, compared to \$65.6 million collected through the same period last year, and the permit activity for alterations was high, with valuation at \$56.3 million through April, compared to \$41.4 million collected through the same period last year. Overall, industrial permit activity remains well below prior year-to-date collections. These permit activities drive the revenue collections in several categories, including the Construction Excise Tax, the Building and Structure Construction Tax, and the Residential Construction Tax, and are an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

Through April, actual receipts for the ten revenue sources monitored for this report totaled \$25.6 million, which represents an increase of 120.9% from the \$11.6 million collected through the same period last year. Seven of the ten revenue categories are currently exceeding budgeted levels primarily as a result of the high revenue collections in December. Following is a discussion of the performance for the individual revenue categories:

- *Building and Structure Construction Tax* – Receipts through April totaled \$8.4 million, which well exceeds the 2010-2011 revenue estimate of \$4.5 million. This collection level is over double prior year collections (\$3.7 million) through April. This significant increase is due to a high collection level in December as a result of residential permits pulled for two new housing developments in the North San José area. It should be noted that this higher revenue collection is not at a sustainable level. The 2011-2012 Proposed Budget factored in the higher actual collections in 2010-2011 and a sustainable revenue estimate for 2011-2012.
- *Construction Excise Tax* – Receipts of \$12.1 million almost doubled from the \$6.1 million collected during the same period last year. This collection level well exceeds the 2010-2011 revenue estimate of \$6.0 million. This significant increase is due to a high collection level in December as a result of residential permits pulled for two new housing developments in the North San José area. It should be noted that this higher revenue collection is not at a sustainable level. The 2011-2012 Proposed Budget factored in the higher actual collections in 2010-2011 and a sustainable revenue estimate for 2011-2012.
- *Residential Construction Taxes* – Receipts totaled \$185,000, which well exceeds the current 2010-2011 estimate of \$60,000, and is significantly higher than the receipts received through the same period last year (\$17,000).
- *Municipal Water Service Connection Fees* – Receipts totaled \$25,000, representing a decrease of 45.6% compared to the \$46,000 collected through the same period last year. Because Municipal Water Service Connection Fees recover actual costs to install new services, this lower collection level is offset by lower costs. This collection level is 14.3% of the current 2010-2011 revenue estimate of \$175,000.

OTHER FUNDS (Cont'd.)

- *Municipal Water Major Facilities Fees* – Receipts totaled \$417,000 through April, which was unanticipated. No estimated revenue collection for 2010-2011 was assumed in the development of the 2010-2011 Adopted Budget. The additional revenues will be reconciled and allocated as part of the 2010-2011 Annual Report actions.
- *Municipal Water Advance System Design Fees* – Receipts totaled \$44,000 through April, which represents a significant increase compared to the revenues collected through the same period last year (\$8,000). This collection level is 88.5% of the current 2010-2011 revenue estimate of \$50,000.
- *Municipal Water Meter Installation Fees* – Receipts totaled \$45,000, representing a significant increase compared to the \$7,000 collected through the same period last year. This collection level is 90.7% of the current 2010-2011 revenue estimate of \$50,000.
- *Sanitary Sewer Fees* – Fees totaled \$513,000, which well exceeds the current 2010-2011 estimate of \$350,000. This collection level is significantly higher than the fees collected through the same period last year (\$211,000). This higher collection level was also factored into the development of the 2011-2012 Proposed Budget.
- *Storm Drain Fees* – Storm Drain Fees totaled \$106,000, which exceeds the current 2010-2011 estimate of \$100,000. This collection level is 25.5% higher than the fees received through the same period last year (\$85,000).
- *North San José Traffic Impact Fees* – Receipts totaled \$3.7 million through April, which was unanticipated. No revenue collection was assumed in the development of the 2010-2011 Adopted Budget as a result of the volatility of development activity in this area; however, as part of the 2010-2011 Mid-Year Budget Review, recommendations were approved to recognize \$2.3 million of actual revenues received. Any additional revenues received in 2010-2011 will be recognized and appropriated to the Reserve for North San Jose Traffic Impact Fees as part of the 2010-2011 cleanup actions.

Convention and Cultural Affairs Fund

The Convention and Cultural Affairs Fund accounts for Team San José's (TSJ) operation of the City's Convention and Cultural Facilities. Extensive expenditure reductions were approved as part of the 2010-2011 Adopted Operating Budget to ensure the long-term health of the fund. At the May 19, 2011, Public Safety, Finance and Strategic Support Committee meeting, the Team San José Quarterly Performance and Incentive Measure report was presented in which the need for additional resources before year-end was detailed, based on additional activity and revenue levels.

Revenues through April are tracking significantly ahead of anticipated levels. While operating revenues of \$11.6 million have been recognized, additional revenues of \$2.2 million have been reported by TSJ but not yet recognized in the fund. With a budgeted revenue estimate of \$13.9

OTHER FUNDS (Cont'd.)

million, it is now anticipated that year-end revenues of approximately \$17.8 million will exceed the budgeted estimate by \$3.9 million. The primary drivers of the better than anticipated revenue collections are food and beverage sales (approximately \$1.0 million higher than anticipated) and building rental (approximately \$600,000 higher than anticipated) While operating revenues are significantly higher than anticipated, a portion of these revenues will be required to offset associated expenses. In addition to operating revenues, the Convention and Cultural Affairs Fund receives a portion of the revenue from the Transient Occupancy Tax Fund. The transfer of the budgeted amount of \$5.0 million from the Transient Occupancy Tax Fund is expected by year-end.

Expenditures in the Non-Personal/Equipment category, which support food and beverage expenses, parking, the Broadway series, all variable labor costs, administration, and various other costs, are tracking higher than anticipated, due to increased activity at the Convention Center and other cultural facilities. Through April, the appropriation is approximately \$110,000 higher than anticipated. TSJ projects that year-end expenditures will exceed the budgeted level of \$16.9 million by \$1.6 million due to additional activity and end the year with approximately \$18.5 million in expenditures. As part of the year-end clean-up actions, a recommended increase of \$1.6 million will be brought forward to bring the appropriation in line with anticipated expenditures. That increase would be more than offset by the associated additional revenue.

Expenditures in the personal services and Workers' Compensation categories continue to track above anticipated levels and it is anticipated that year-end increases will be required. The projected overage of \$250,000 in the personal services category is due primarily to unbudgeted compensation time payouts and overtime expenses and is expected to result in year-end expenses of \$2.0 million in this appropriation. The projected overage of \$200,000 in the Workers' Compensation category is due to a higher level of claims than experienced in prior years and is expected to result in year-end expenses of \$300,000 in this appropriation. It is anticipated that the increases for both of these appropriations will be offset by the recognition of additional revenue at year-end.

Other expenditures in this Fund are expected to end the year within anticipated levels. On an overall basis, total funding sources for this fund are expected to exceed the total funding uses, generating additional Unrestricted Ending Fund Balance above the modified budget level. This additional fund balance will help keep the Fund in sound fiscal condition during the Convention Center renovation period.

Municipal Golf Course Fund

Revenues booked into the Municipal Golf Course Fund represent collections at the courses. In the case of the San Jose Municipal Golf Course the City receives a fixed percentage of the operator's gross revenues regardless of the operator's costs. For the Los Lagos and Rancho del Pueblo courses, the City receives the net of any expenses incurred by the operators. In months

OTHER FUNDS (Cont'd.)

where revenues are not sufficient to cover the operator's expenses, the Municipal Golf Course Fund covers the difference.

Through April, revenues generated at the golf courses are far behind 2009-2010 collections through the same period. Revenues from the San Jose Municipal Golf Course of \$420,000 are \$50,000 below the 2009-2010 level of \$470,000. Net revenues from the Los Lagos course of \$52,000 are \$216,000 below the 2009-2010 level of \$268,000. The Rancho Del Pueblo course has no net revenues to contribute to the fund, and year to date net costs at the course are \$56,000 greater than last year. These revenue shortfalls are primarily due to decreased activity levels at the courses due to the prolonged economic downturn and this year's unusually cool weather. The courses are also experiencing increased expenses due to higher labor rates resulting from prevailing and living wage adjustments, as well as increased rates for potable and non-potable water. Through April, total expenditures in the fund are \$195,000 higher than the 2009-2010 year to date level.

The negative current-year revenue and expenditure trends in the Municipal Golf Course Fund were identified in the Mid-Year Budget Review, and the City Council approved actions at that time to bring the budgeted revenues and expenditures into alignment with the projected actual performance. Consequently, it is anticipated at this time that these actions will be sufficient and the fund will end the year within estimated levels.

Transient Occupancy Tax Fund

Through April 2011, receipts recorded in the TOT Fund of \$7.8 million are 3.4% above the prior year collection level for the same period. The 2010-2011 budget assumed an increase of 2% from the 2009-2010 estimated level, however the budget now allows for a decline of 3.1% based on higher than anticipated 2009-2010 collections. It is anticipated that TOT receipts will exceed the budgeted revenue estimate of \$10.0 million by year-end. The 2011-2012 Proposed Operating Budget incorporates a 2010-2011 TOT revenue estimate of \$10.6 million, with the \$600,000 difference between budgeted and estimated levels placed into a Reserve for Future Distribution. It is anticipated that these additional funds will be recommended for distribution as part of the 2010-2011 Annual Report based on the final TOT receipts.

The 2010-2011 allocations to the three recipient organizations (Convention and Cultural Affairs Fund, Convention and Visitors Bureau, Cultural Grants/Programs and Services) are anticipated to be fully expended by the end of the year.

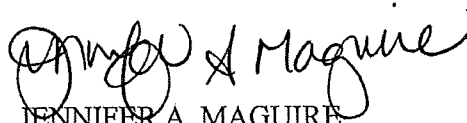
Through April, the average hotel occupancy rate at the 14 major hotels was 57.8%, an improvement from the 54.5% occupancy rate for the same period in 2009-2010. For the same 14 hotels, the average daily room rate through April was \$119.68, up from the \$117.06 room rate for the same period in 2009-2010. The year-to-date average revenue-per-available-room (RevPAR) metric of \$69.26 represents an increase of 8.4% from the prior year level.

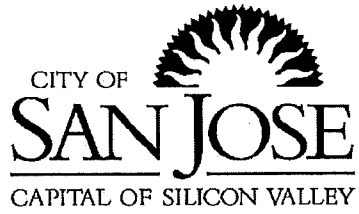
CONCLUSION

The slow and uneven pace of recovery from the economic recession continues to dampen growth in the City's economically sensitive revenue categories.

As the 2010-2011 year-end approaches, the City's various operating and capital funds are currently tracking to meet overall year-end expectations as revised at the 2010-2011 Mid-Year Budget Review. As previously discussed, the City Council approved actions as part of the Mid-Year Budget Review to capture \$8.5 million of current year savings in the 2010-2011 Ending Fund Balance reserve. These savings, along with additional expenditure savings, excess revenues, and the liquidation of prior year carry-over encumbrances totaling \$9.8 million (for a total of \$18.3 million), have been factored into the 2011-2012 Proposed Operating Budget for the General Fund. Also as discussed above, Sales Tax revenue for the third quarter will be received later in June. If the third quarter collections exceed current projections, the Mayor's June Budget Message for 2011-2012 directs the Administration to issue a Manager's Budget Addendum to the 2011-2012 Proposed Budget recognizing that additional revenue and restoring as many Police patrol officers as possible. Any additional revenues or expenditure savings will be reconciled and allocated as part of the 2010-2011 Annual Report.

A 2010-2011 year-end clean-up memorandum will be brought forward for City Council consideration on June 21, 2011, with recommended adjustments to align the budget with actual activity levels in the General Fund and various special and capital funds and to avoid overages in budgeted appropriations. As always, staff will continue to report to the City Council any significant developments impacting the City's financial condition.


JENNIFER A. MAGUIRE
Budget Director



FINANCE DEPARTMENT
Monthly Financial Report

Financial Results for the 10 Months Ended April 30, 2011
Fiscal Year 2010-11
(*UNAUDITED*)

Finance Department, City of San José
Monthly Financial Report
Financial Results for the 10 Months Ended April 30, 2011
Fiscal Year 2010-11
(UNAUDITED)

Table of Contents

	<i>Page Reference</i>
General Fund	
Comparison of Current Year's Monthly Cash Balance vs. Prior Year's Balance.....	1
Comparison of Current Year-to-Date Revenues vs. Prior Year-to-Date Revenues.....	2
Comparison of Current Year-to-Date Expenditures vs. Prior Year-to-Date Expenditures.....	2
Comparison of Current Year-to-Date Revenues for Major Revenue Sources vs. Prior Year-to-Date Revenues.....	3
Comparison of Current Year-to-Date Expenditures by Type vs. Prior Year-to-Date Expenditures.....	3
Schedule of Sources and Uses of Funds.....	4
Supplemental Schedule of Departmental Revenues.....	7
Other Funds	
<i>Special Revenue Funds</i>	
Comparison of Construction & Conveyance Tax Funds YTD Revenues vs. Prior Year's Corresponding YTD Revenues.....	8
Comparison of Construction & Conveyance Tax Funds YTD Expenditures vs. Prior Year's Corresponding YTD Expenditures.....	8
Schedule of Sources and Uses of Funds	9
<i>Enterprise Funds</i>	
YTD Revenues and YTD Expenditures for:	
Airport Revenue Fund 521 and Airport Maintenance & Operating Fund 523.....	11
WPCP Operating Fund 513.....	12
Parking Operations Fund 533.....	13
Schedule of Sources and Uses of Funds	14

Finance Department, City of San José
Monthly Financial Report
Financial Results for the 10 Months Ended April 30, 2011
Fiscal Year 2010-11
(UNAUDITED)

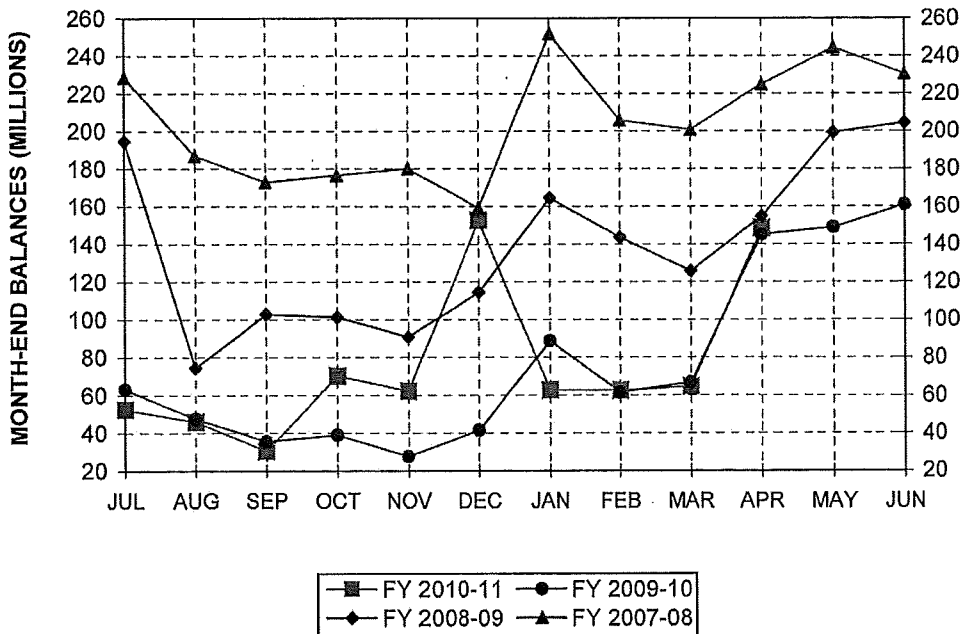
Table of Contents

	<i>Page Reference</i>
Other Funds (Cont'd)	
<i>Capital Project Funds</i>	
Schedule of Sources and Uses of Funds.....	15
<i>Other Fund Types</i>	
Schedule of Sources and Uses of Funds.....	16

Submitted by:


SCOTT P. JOHNSON
Director, Finance Department

GENERAL FUND Comparison of Cash Balances



GENERAL FUND MONTHLY CASH BALANCES

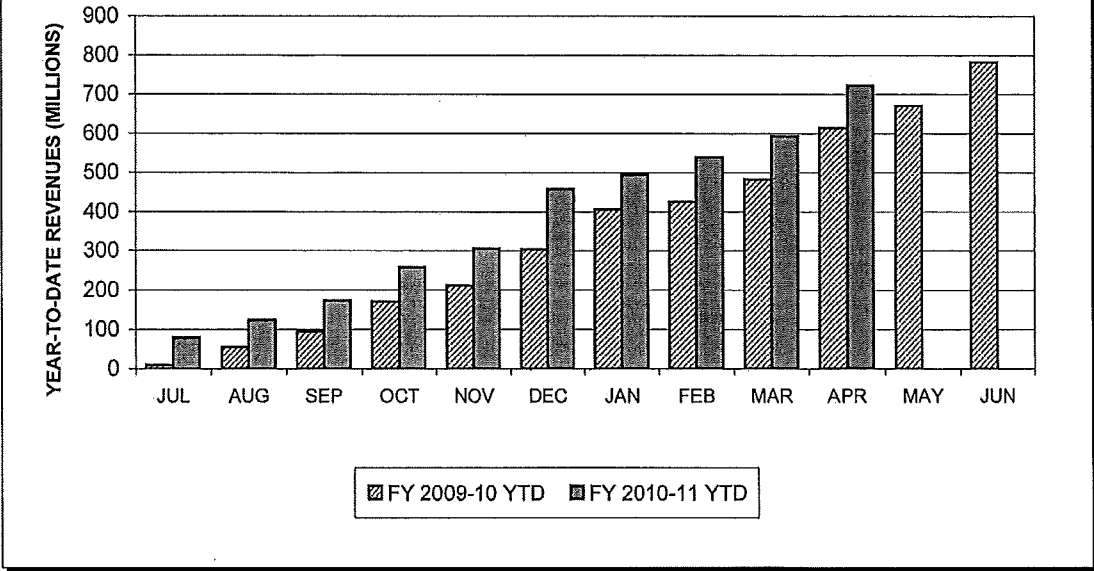
MONTH	FY 2010-11	FY 2009-10	FY 2008-09	FY 2007-08
JULY (1)	\$ 52,614,304	\$ 63,344,537	\$ 194,527,843	\$ 228,551,607
AUGUST (1)	45,992,983	47,689,216	74,677,718	186,835,010
SEPTEMBER	30,525,385	35,662,298	102,811,355	173,043,887
OCTOBER	70,246,706	38,946,966	101,433,688	176,617,539
NOVEMBER	62,333,059	27,736,074	90,892,525	180,164,388
DECEMBER (2)	152,493,162	41,491,217	114,535,815	159,164,830
JANUARY (3)	62,749,463	88,749,418	164,539,700	251,792,153
FEBRUARY	62,572,017	61,606,869	143,802,507	205,882,438
MARCH	64,768,564	66,979,823	125,900,953	200,763,696
APRIL	148,465,097	145,213,763	154,701,704	225,008,853
MAY		149,064,276	199,321,150	244,545,422
JUNE		161,013,785	204,474,123	230,556,706

Note: (1) The General Fund cash balance decrease in July 2010 (also in August 2008 and July 2009) was mainly due to the Council's direction to annually pre-fund the employer share of retirement contributions in a lump-sum to achieve budgetary savings to the City.

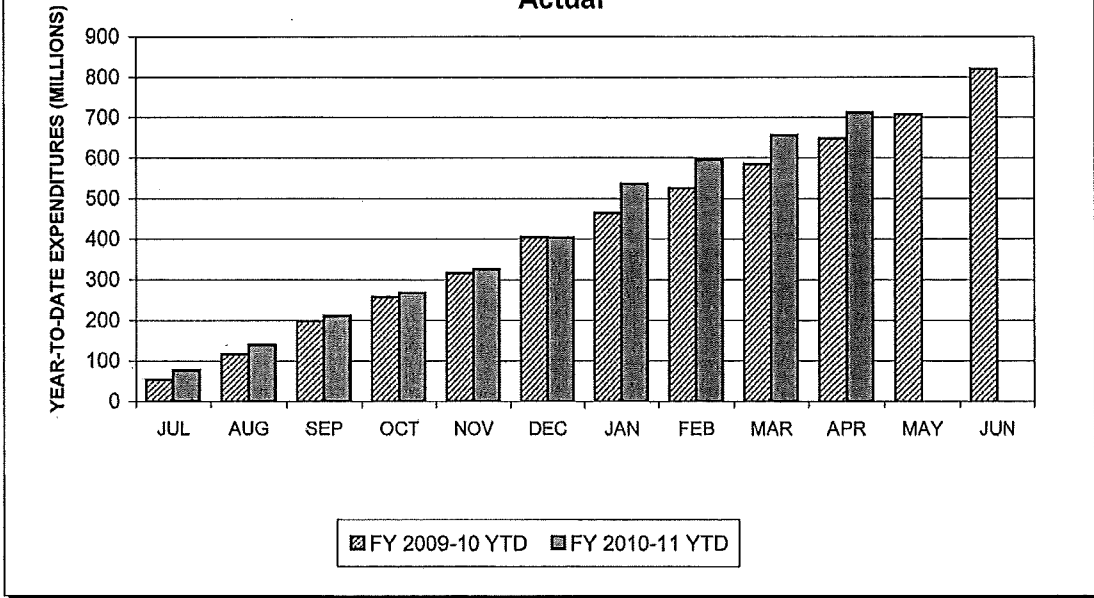
Note: (2) The General Fund cash balance increase in December 2010 was mainly due to the timing of the receipt of \$88.5 million in Property Tax revenue and \$16.7 million in Sales Tax revenue. In addition, these revenues were posted in January in the prior three fiscal years.

Note: (3) The General Fund cash balance decrease in January 2011 was mainly due to the repayment of the Tax and Revenue Anticipation Notes (TRANS) in the amount of \$75 million.

**GENERAL FUND
Comparison of YTD Revenues
Actual**



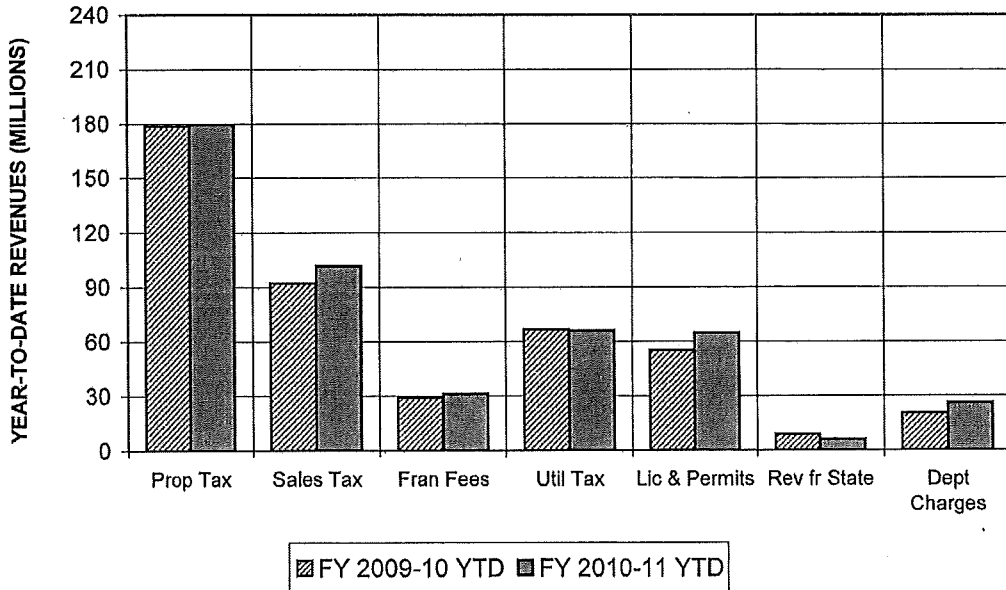
**GENERAL FUND
Comparison of YTD Expenditures
Actual**



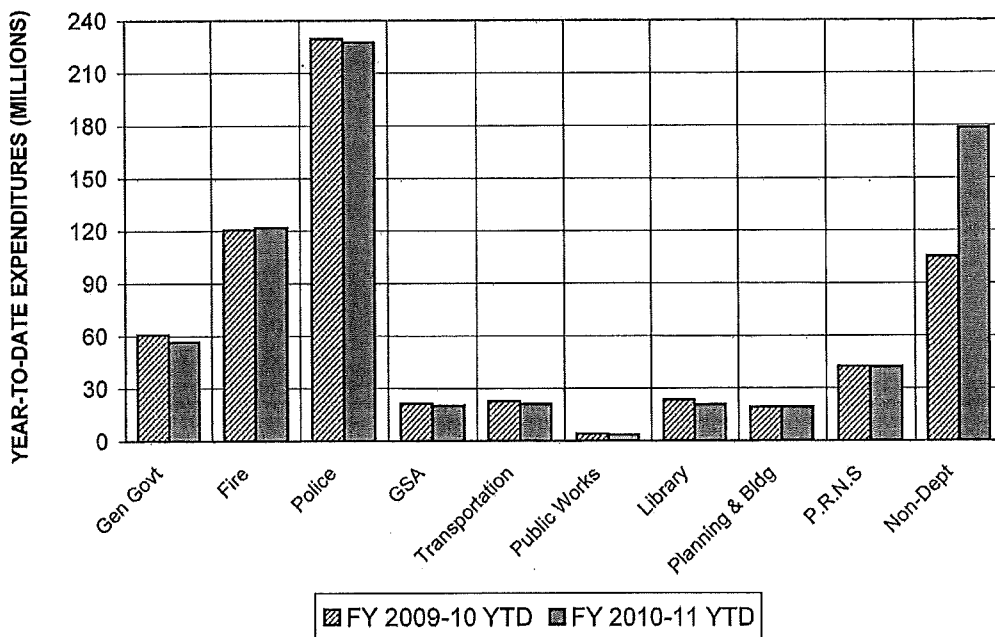
General Fund Revenue includes issuance of Tax and Revenue Anticipation Notes (TRANS) in the amount of \$75 million (\$40 million in July 2010 and \$35 million in October 2010) for cash flow borrowing.

General Fund Expenditures includes repayment of TRANS in the amount of \$75 million in January 2011.

GENERAL FUND MAJOR REVENUES
Comparison of YTD Actual vs. Prior YTD Actual
For the 10 Months Ended April 30, 2011



GENERAL FUND MAJOR EXPENDITURES
Comparison of YTD Actual vs. Prior YTD Actual
For the 10 Months Ended April 30, 2011



CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
FUND BALANCE, REVENUE, TRANSFERS & REIMBURSEMENTS
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	CUR YTD ACTUAL	CUR YTD ACTUAL % OF BUDGET	PRIOR YTD ACTUAL	PRIOR YTD % OF PRIOR YEAR-END		PRIOR YEAR-END BUDGETARY BASIS		CUR YTD LESS PRIOR YTD ACTUAL	% CHANGE CUR YTD ACTUAL LESS PRIOR YTD ACTUAL
								ACTUAL	ACTUAL	ACTUAL	ACTUAL		
Fund Balance													
Prior Year Encumbrances	\$ -	-	16,087	16,087	16,087	100.00%	23,629	105.38%	22,422	-	(7,542)	-	-31.92%
Liquidation of c/o Encumbrance Available Balance	134,807	6,591	-	141,398	141,398	100.00%	173,213	100.00%	173,213	-	(31,815)	-	-18.37%
Total Fund Balance	134,807	6,591	16,087	157,485	157,485	100.00%	196,842	100.62%	195,635	-	(39,357)	-	-19.99%
General Revenues													
Property Tax	199,052	(4,143)	-	194,909	179,512	92.10%	178,711	88.39%	202,186	-	801	801	0.45%
Sales Tax (Note 1)	127,232	7,447	-	134,679	101,452	75.33%	91,930	72.25%	127,238	-	9,522	9,522	10.36%
Telephone Line Tax	20,525	-	-	20,525	15,509	75.56%	15,360	74.93%	20,500	-	149	149	0.97%
Transient Occupancy Tax	6,684	-	-	6,684	5,152	77.08%	4,983	72.22%	6,900	-	169	169	3.39%
Franchise Fees	43,121	(850)	-	42,271	30,967	73.26%	28,970	75.42%	38,410	-	1,997	1,997	6.89%
Utility Tax	92,932	(5,500)	-	87,432	65,989	75.47%	66,663	76.06%	87,651	-	(674)	(674)	-1.01%
Licenses and Permits	71,727	(3,525)	-	68,198	64,671	94.83%	54,949	83.27%	65,985	-	9,722	9,722	17.69%
Fines, Forfeits and Penalties	17,130	790	-	17,920	15,536	86.70%	12,962	81.02%	15,998	-	2,574	2,574	19.86%
Use of Money and Property	3,050	(383)	-	2,667	3,174	119.01%	2,336	73.21%	3,191	-	838	838	35.87%
Revenue from Local Agencies	45,613	69	-	45,682	36,085	78.99%	34,648	72.08%	48,067	-	1,437	1,437	4.15%
Revenue from State of California	19,190	(272)	-	18,918	5,900	31.19%	8,607	73.25%	11,749	-	(2,707)	(2,707)	-31.45%
Revenue from Federal Government	15,438	4,983	-	20,421	5,249	25.70%	2,568	46.75%	5,493	-	2,881	2,881	104.40%
Departmental Charges (Note 2)	29,581	29	-	29,610	26,026	87.90%	20,334	74.53%	27,282	-	5,692	5,692	27.99%
Other Revenues (Note 3)	13,420	76,546	-	89,966	87,781	97.57%	13,167	48.73%	27,023	-	74,614	74,614	566.67%
Total General Revenues	704,695	75,187	-	779,882	643,003	82.45%	536,188	77.97%	687,673	-	106,815	106,815	19.92%
Transfers & Reimbursements													
Overhead Reimbursements	33,868	435	-	34,303	32,387	94.41%	36,304	89.57%	40,530	-	(3,917)	(3,917)	-10.79%
Transfers from Other Funds	37,553	4,129	-	41,682	39,242	94.15%	29,014	77.36%	37,504	-	10,228	10,228	35.25%
Reimbursements for Services	17,348	6	-	17,354	7,605	43.82%	12,308	72.76%	16,916	-	(4,703)	(4,703)	-38.21%
Total Transfers & Reimburse	88,769	4,570	-	93,339	79,234	84.89%	77,626	81.75%	94,950	-	1,608	1,608	2.07%
Total Sources	\$ 928,271	86,348	16,087	1,030,706	879,722	85.35%	810,656	82.87%	978,258	-	69,066	69,066	8.52%

Note 1 - State Budget Balancing actions resulted in the "Triple Flip", which suspended a portion of local governments' Sales and Use Tax and Motor Vehicle License Fee revenues and replaced them with local property tax revenues.
The 2010-2011 impact through April 2011 is approximately \$13.7 million.
Note 2 - See Supplemental Schedule on Page 7.

CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
EXPENDITURES
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	YEAR-TO-DATE		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
					ACTUAL	ENCUMBR						
General Government												
Mayor and Council	\$ 10,222	(74)	104	10,252	6,021	58	58.73%	6,258	80.76%	7,749	(237)	-3.79%
City Attorney	11,545	(426)	296	11,415	9,043	242	79.22%	10,422	79.68%	13,083	(1,379)	-13.23%
City Auditor	1,961	(55)	4	1,910	1,433	4	75.03%	1,716	81.10%	2,116	(283)	-16.49%
City Clerk (2)	4,750	(743)	10	4,017	3,427	42	85.31%	1,669	80.94%	2,062	1,758	105.33%
City Manager	10,391	128	488	11,007	7,948	652	72.21%	8,552	79.30%	10,785	(604)	-7.06%
Finance	11,435	(84)	301	11,652	8,603	401	73.83%	8,890	78.98%	11,255	(287)	-3.23%
Information Technology	15,301	168	674	16,143	10,817	1,330	67.01%	12,222	78.87%	15,496	(1,405)	-11.50%
Human Resources	7,335	(154)	56	7,237	5,562	270	76.86%	6,103	79.27%	7,899	(541)	-8.86%
Redevelopment Agency	1,707	(157)	-	1,550	1,051	-	67.81%	1,530	80.70%	1,896	(479)	-31.31%
Independent Police Auditor	831	40	-	871	642	1	73.71%	520	74.93%	694	122	23.46%
Office of Economic Development	2,968	(47)	144	3,065	2,150	106	70.15%	2,926	80.27%	3,645	(776)	-26.52%
Total General Government	78,446	(1,404)	2,077	79,119	56,697	3,106	71.66%	60,808	79.51%	76,480	(4,111)	-6.76%
Public Safety												
Fire	153,332	583	291	154,206	121,629	847	78.87%	120,504	78.98%	152,579	1,125	0.93%
Police	297,499	(693)	1,008	297,814	227,641	2,584	76.44%	229,468	79.21%	289,709	(1,827)	-0.80%
Total Public Safety	450,831	(110)	1,299	452,020	349,270	3,431	77.27%	349,972	79.13%	442,288	(702)	-0.20%
Capital Maintenance												
General Services	25,596	(5)	379	25,970	19,986	1,484	76.96%	21,228	79.83%	26,593	(1,242)	-5.85%
Transportation	28,227	54	648	28,929	20,942	1,276	72.39%	22,563	76.70%	29,418	(1,621)	-7.18%
Public Works	5,091	(35)	-	5,056	3,613	8	71.46%	3,950	82.84%	4,768	(337)	-8.53%
Total Capital Maintenance	58,914	14	1,027	59,955	44,541	2,768	74.29%	47,741	78.55%	60,779	(3,200)	-6.70%

(1) Does not include encumbrance balance.

(2) Mainly due to \$1.93 million in Elections expenditures for the cost of the June 8, 2010 and November 2, 2010 elections.

CITY OF SAN JOSE
GENERAL FUND SOURCE AND USE OF FUNDS
EXPENDITURES
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)

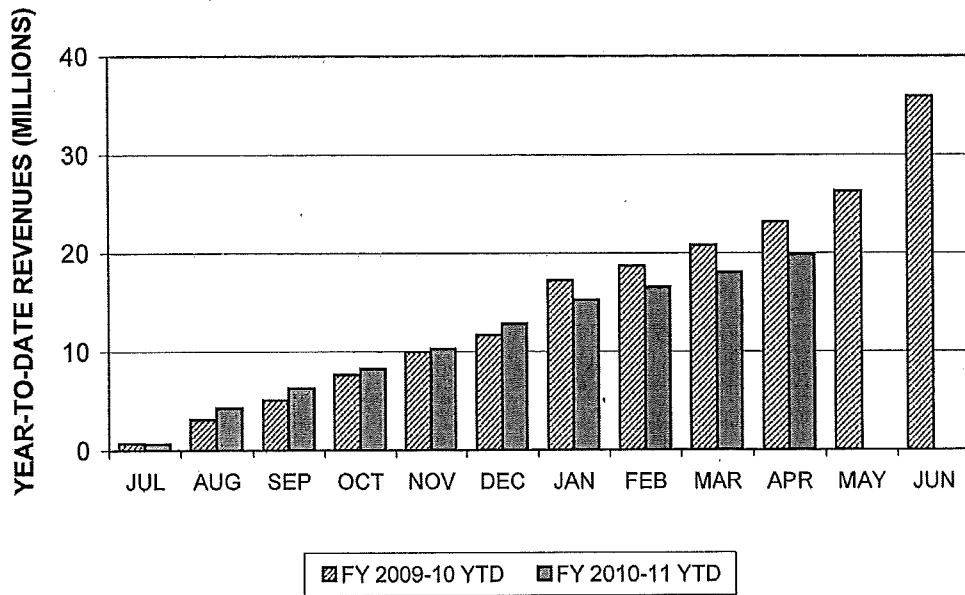
	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	YEAR-TO-DATE		CUR YTD ACTUAL % OF BUDGET	PRIOR YTD ACTUAL(1)	PRIOR YTD % OF PRIOR YEAR-END ACTUAL	PRIOR YEAR-END		% CHANGE CUR YTD ACTUAL LESS PRIOR YTD ACTUAL
					ACTUAL	ENCUMBR				BUDGETARY BASIS ACTUAL	CUR YTD LESS PRIOR YTD ACTUAL(1)	
Community Service												
Library	26,258	(992)	92	25,358	20,628	223	81.35%	23,236	77.84%	29,851	(2,608)	-11.22%
Planning, Bldg & Code Enf.	25,476	95	160	25,731	19,033	455	73.97%	18,999	80.59%	23,575	34	0.18%
Park, Rec & Neigh Svcs	57,735	(1,345)	327	56,717	42,174	2,519	74.36%	42,289	75.86%	55,749	(115)	-0.27%
Environmental Services	610	67	40	717	404	99	56.35%	551	91.23%	604	(147)	-26.68%
Total Community Services	110,079	(2,175)	619	108,523	82,239	3,296	75.78%	85,075	77.50%	109,779	(2,856)	-3.33%
Total Dept. Expenditures	\$ 698,270	(3,675)	5,022	699,617	532,747	12,601	76.15%	543,596	78.86%	689,326	(10,849)	-2.00%
Non-Dept Expenditures												
City-wide Expenditures:												
Econ & Neighborhood Develop.	\$ 24,914	1,621	1,343	27,878	22,088	2,289	79.23%	19,660	78.75%	24,966	2,428	12.35%
Environmental & Utility Services	11,588	1,517	-	13,105	2,713	3,125	20.70%	1,233	83.88%	1,470	1,480	120.03%
Public Safety	21,731	4,679	659	27,069	15,814	645	58.42%	15,094	82.72%	18,248	720	4.77%
Recreation & Cultural Services	13,910	107	878	14,895	10,620	3,457	71.30%	9,138	78.30%	11,670	1,482	16.22%
Transportation Services	4,512	459	338	5,309	3,244	825	61.10%	2,945	73.30%	4,018	299	10.15%
Strategic Support (2)	42,250	78,798	1,983	123,031	92,411	2,426	75.11%	22,925	71.83%	31,915	69,488	303.10%
Total City-wide Expenditures	118,905	87,181	5,201	211,287	146,890	12,767	69.52%	70,985	76.93%	92,287	75,895	106.90%
Capital Contributions	8,935	(714)	5,864	14,085	3,208	4,019	22.78%	9,294	73.83%	12,588	(6,088)	-65.48%
Transfers to Other Funds	29,039	(505)	-	28,534	28,616	-	100.29%	24,732	97.27%	25,425	3,884	15.70%
Total Non-Dept Expenditures	156,879	85,962	11,065	253,906	178,714	16,786	70.39%	105,021	80.60%	130,300	73,693	70.17%
Reserves												
Contingency Reserves	29,309	-	-	29,309	-	-	0.00%	-	0.00%	-	-	0.00%
Earmarked Reserves	43,813	4,061	-	47,874	-	-	0.00%	-	0.00%	-	-	0.00%
Total Reserves	73,122	4,061	-	77,183	-	-	0.00%	-	0.00%	-	-	0.00%
Total Uses	\$ 928,271	86,348	16,087	1,030,706	711,461	29,387	69.03%	648,617	79.14%	819,626	62,844	9.69%

(1) Does not include encumbrance balance.
(2) Includes repayment of Tax and Revenue Anticipation Notes (TRANs) in the amount of \$75 million in January 2011.

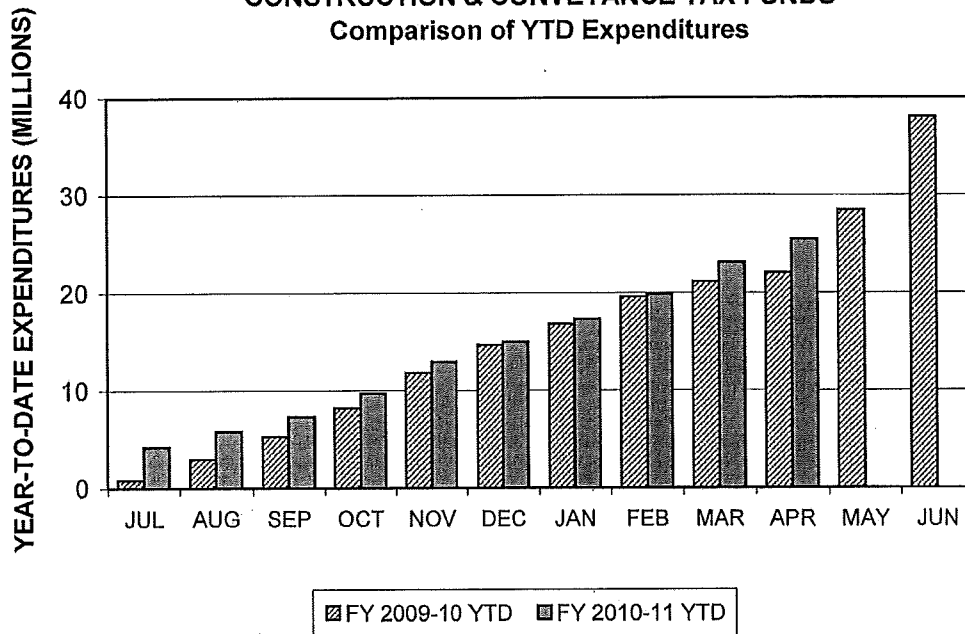
CITY OF SAN JOSE
 GENERAL FUND SOURCE AND USE OF FUNDS
 FOR THE 10 MONTHS ENDED APRIL 30, 2011
 SUPPLEMENTAL SCHEDULE - DEPARTMENTAL REVENUES
 (UNAUDITED)
 (\$'000's)

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	CUR YTD ACTUAL	CUR YTD ACTUAL % OF BUDGET	PRIOR YTD ACTUAL	PRIOR YTD % OF PRIOR YEAR-END ACTUAL	PRIOR YEAR-END		CUR YTD LESS PRIOR YTD ACTUAL	% CHANGE CUR YTD ACTUAL LESS PRIOR YTD ACTUAL
									BUDGETARY BASIS	ACTUAL		
Police	1,921	-	-	1,921	1,472	76.63%	1,474	75.86%	1,943	(2)	-0.14%	
Public Works	4,325	-	-	4,325	4,222	97.62%	2,998	70.96%	4,225	1,224	40.83%	
Transportation	739	40	-	779	927	119.00%	698	70.43%	991	229	32.81%	
Library	1,916	-	-	1,916	880	45.93%	1,157	71.73%	1,613	(277)	-23.94%	
Planning, Bldg & Code Enf	2,500	(112)	-	2,388	2,163	90.58%	2,122	78.07%	2,718	41	1.93%	
Parks Rec & Neigh Svcs	12,685	421	-	13,106	11,716	89.39%	7,556	68.45%	11,039	4,160	55.06%	
Miscellaneous Dept Charges	5,495	(320)	-	5,175	4,646	89.78%	4,329	91.08%	4,753	317	7.32%	
Total Departmental Revenues \$	29,581	29	-	29,610	26,026	87.90%	20,334	74.53%	27,282	5,692	27.99%	

**CONSTRUCTION & CONVEYANCE TAX FUNDS
Comparison of YTD Revenues**



**CONSTRUCTION & CONVEYANCE TAX FUNDS
Comparison of YTD Expenditures**



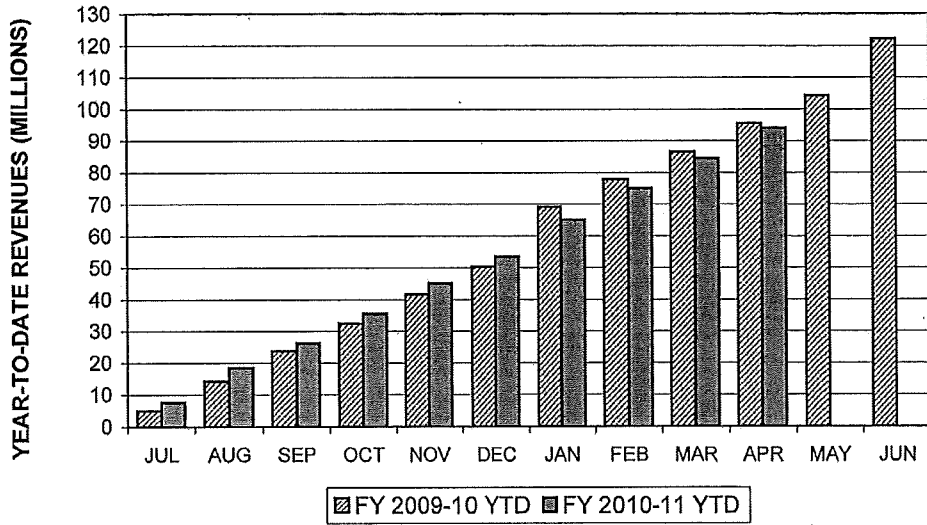
**CITY OF SAN JOSE
SPECIAL REVENUE FUNDS
SOURCE AND USE OF FUNDS
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED	YTD	C/O	REVISED	YEAR-TO-DATE		PRIOR
	FY 2010-11	BUDGET		FY 2010-11	ACTUAL	ENCUMBR	Y-T-D
	BUDGET	AMENDMENTS	ENCUMBR	BUDGET			ACTUAL
Construction/Conveyance Tax							
Prior Year Encumbrance	\$ -	-	8,000	8,000	8,000	N/A	7,532
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	62,292	14,574	-	76,866	76,866	N/A	80,147
Revenues	31,261	819	-	32,080	19,809	N/A	23,186
Total Sources	93,553	15,393	8,000	116,946	104,675	N/A	110,865
Total Uses	93,553	15,393	8,000	116,946	25,474	10,549	22,021
Gas Tax							
Prior Year Encumbrance	-	-	-	-	-	N/A	-
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	-	-	-	-	-	N/A	-
Revenues	16,626	-	-	16,626	7,269	N/A	11,949
Total Sources	16,626	-	-	16,626	7,269	N/A	11,949
Total Uses	16,626	-	-	16,626	7,269	0	11,949
Building and Structures							
Prior Year Encumbrance	-	-	5,070	5,070	5,070	N/A	3,664
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	6,385	4,125	-	10,510	10,510	N/A	15,589
Revenues	22,997	2,493	-	25,490	13,268	N/A	9,496
Total Sources	29,382	6,618	5,070	41,070	28,848	N/A	28,749
Total Uses	29,382	6,618	5,070	41,070	11,327	6,035	13,876
Residential Construction							
Prior Year Encumbrance	-	-	-	-	-	N/A	-
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	311	648	-	959	959	N/A	1,310
Revenues	65	135	-	200	189	N/A	34
Total Sources	376	783	-	1,159	1,148	N/A	1,344
Total Uses	\$ 376	783	-	1,159	37	0	85

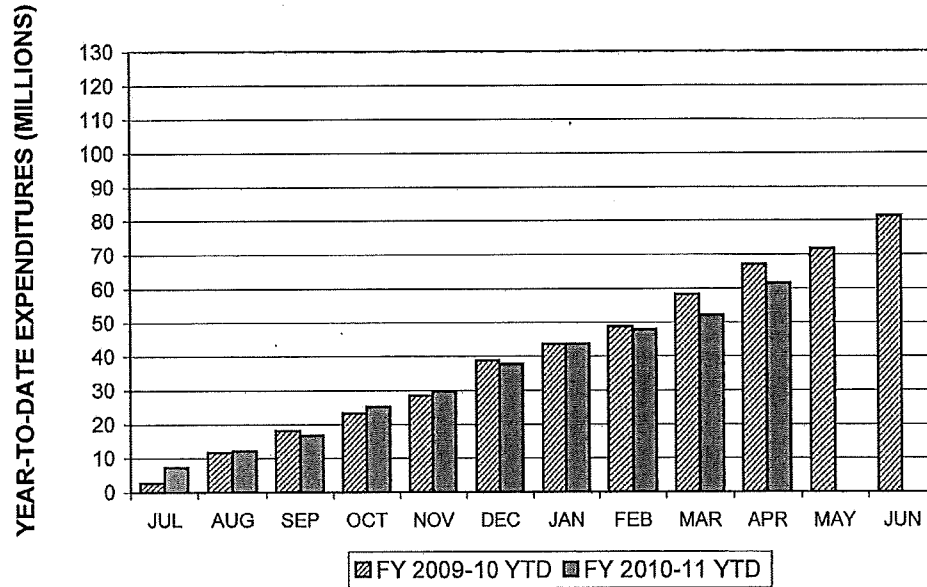
**CITY OF SAN JOSE
SPECIAL REVENUE FUNDS
SOURCE AND USE OF FUNDS
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED	YTD	C/O	REVISED	YEAR-TO-DATE		PRIOR
	FY 2010-11	BUDGET		FY 2010-11	ACTUAL	ENCUMBR	Y-T-D
	BUDGET	AMENDMENTS	ENCUMBR	BUDGET	ACTUAL	ENCUMBR	ACTUAL
Transient Occupancy Tax							
Prior Year Encumbrance	\$ -	-	196	196	196	N/A	314
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	2,737	629	-	3,366	3,366	N/A	1,417
Revenues	10,034	(4)	-	10,030	7,806	N/A	7,554
Total Sources	12,771	625	196	13,592	11,368	N/A	9,285
Total Uses	12,771	625	196	13,592	8,194	444	5,818
Conventions, Arts & Entertainment							
Prior Year Encumbrance	-	-	510	510	510	N/A	345
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	6,130	197	-	6,327	6,327	N/A	9,891
Revenues	19,195	241	-	19,436	15,614	N/A	15,771
Total Sources	25,325	438	510	26,273	22,451	N/A	26,007
Total Uses	25,325	438	510	26,273	17,972	528	21,202
Golf							
Prior Year Encumbrance	-	-	7	7	7	N/A	7
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	817	257	-	1,074	1,074	N/A	1,188
Revenues	1,940	(302)	-	1,638	1,491	N/A	1,794
Total Sources	2,757	(45)	7	2,719	2,572	N/A	2,989
Total Uses	2,757	(45)	7	2,719	2,191	7	1,996
Other Funds							
Prior Year Encumbrance	-	-	57,418	57,418	57,418	N/A	54,346
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	187,195	25,775	-	212,970	212,970	N/A	223,045
Revenues	444,011	20,271	-	464,282	335,106	N/A	411,621
Total Sources	631,206	46,046	57,418	734,670	605,494	N/A	689,012
Total Uses	\$ 631,206	46,046	57,418	734,670	310,157	93,716	361,693

**AIRPORT REVENUE FUND 521
Comparison of YTD Revenues**

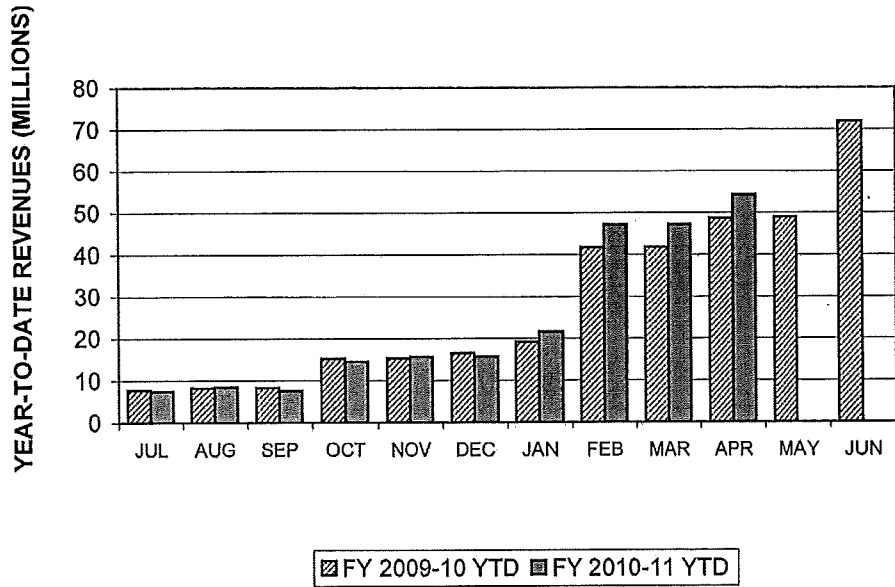


**AIRPORT MAINTENANCE & OPERATING FUND 523
Comparison of YTD Expenditures**

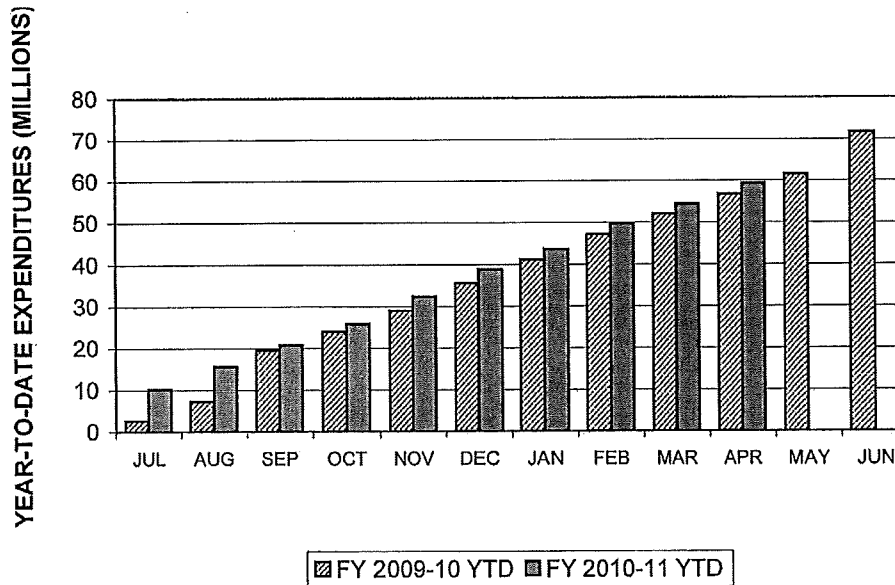


Note: The graphs above include the airport revenue fund (521) and operating fund (523) only.

**WPCP OPERATING FUND 513
Comparison of YTD Revenues**

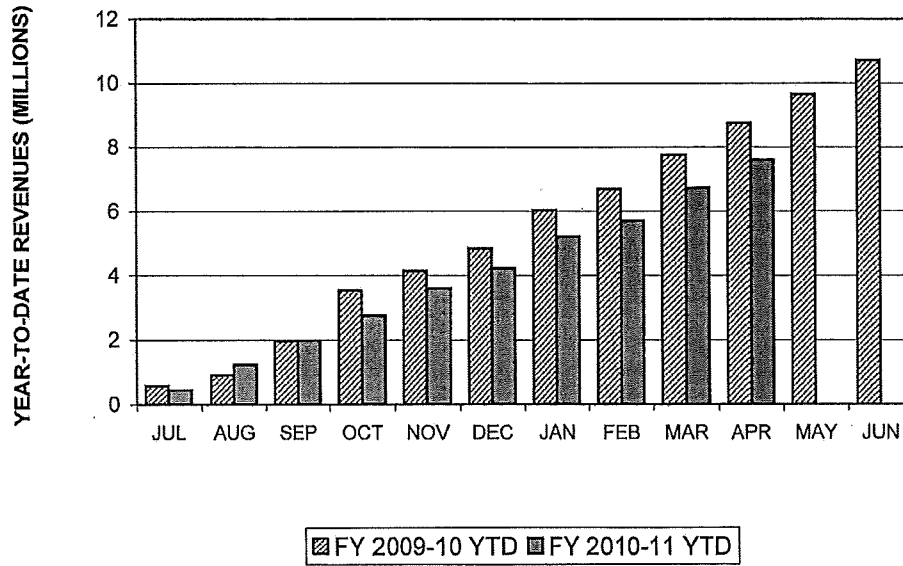


**WPCP OPERATING FUND 513
Comparison of YTD Expenditures**

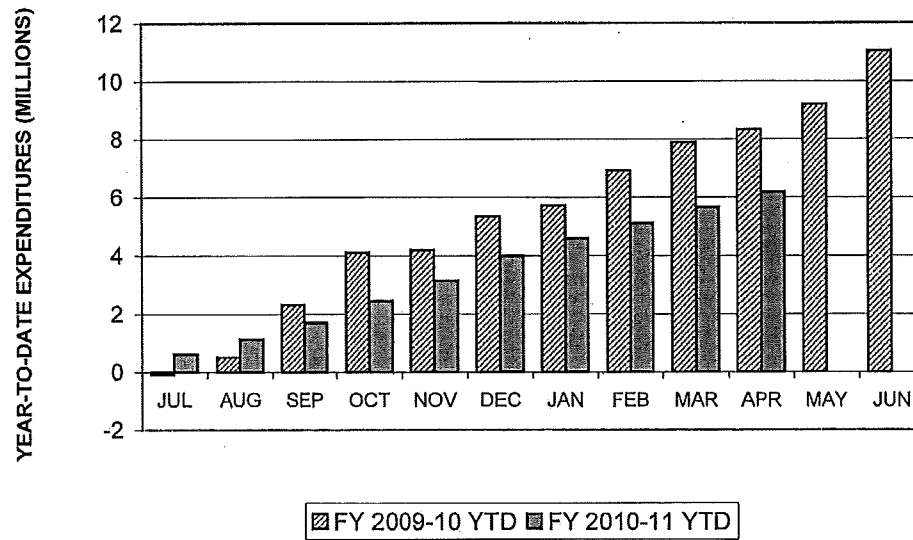


Note: Graphs above are only for WPCP operating fund (513).

**PARKING OPERATING FUND 533
Comparison of YTD Revenues**



**PARKING OPERATING FUND 533
Comparison of YTD Expenditures**



**CITY OF SAN JOSE
ENTERPRISE FUNDS
SOURCE AND USE OF FUNDS
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	YEAR-TO-DATE		PRIOR Y-T-D ACTUAL
					ACTUAL	ENCUMBR	
Airport							
Prior Year Encumbrance	\$ -	-	77,530	77,530	77,530	N/A	325,235
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	403,901	66,778	-	470,679	470,679	N/A	485,127
Revenues	341,905	7,110	-	349,015	297,989	N/A	323,915
Total Sources	745,806	73,888	77,530	897,224	846,198	N/A	1,134,277
Total Uses	745,806	73,888	77,530	897,224	332,100	64,709	439,529
(Note 1)							
Waste Water Treatment							
Prior Year Encumbrance	-	-	44,394	44,394	44,394	N/A	42,966
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	193,589	24,070	-	217,659	217,659	N/A	206,538
Revenues	274,221	(1,783)	-	272,438	222,608	N/A	215,118
Total Sources	467,810	22,287	44,394	534,491	484,661	N/A	464,622
Total Uses	467,810	22,287	44,394	534,491	171,234	48,398	143,040
(Note 2)							
Municipal Water							
Prior Year Encumbrance	-	-	757	757	757	N/A	892
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	11,265	2,032	-	13,297	13,297	N/A	11,088
Revenues	30,793	(100)	-	30,693	25,750	N/A	24,141
Total Sources	42,058	1,932	757	44,747	39,804	N/A	36,121
Total Uses	42,058	1,932	757	44,747	20,174	1,749	19,966
Parking							
Prior Year Encumbrance	-	-	724	724	724	N/A	1,468
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	11,391	1,730	-	13,121	13,121	N/A	14,220
Revenues	8,658	(90)	-	8,568	7,606	N/A	8,750
Total Sources	20,049	1,640	724	22,413	21,451	N/A	24,438
Total Uses	\$ 20,049	1,640	724	22,413	6,171	2,081	8,324

Note 1 - All Airport Funds, including operating, revenue, capital and debt service.

Note 2 - All Waste Water Funds, including operating, revenue, capital and debt service.

**CITY OF SAN JOSE
CAPITAL PROJECT FUNDS
SOURCE AND USE OF FUNDS
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED	YTD	C/O	REVISED	YEAR-TO-DATE		PRIOR
	FY 2010-11	BUDGET		FY 2010-11	ACTUAL	ENCUMBR	Y-T-D
	BUDGET	AMENDMENTS	ENCUMBR	BUDGET			ACTUAL
Construction Excise							
Prior Year Encumbrance	\$ -	-	7,239	7,239	7,239	N/A	5,794
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	10,949	7,850	-	18,799	18,799	N/A	20,238
Revenues	36,754	10,028	-	46,782	36,683	N/A	12,190
Total Sources	47,703	17,878	7,239	72,820	62,721	N/A	38,222
Total Uses	47,703	17,878	7,239	72,820	33,433	5,893	22,561
Redevelopment Projects							
Prior Year Encumbrance	-	-	2,756	2,756	2,756	N/A	4,431
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	2,172	1,053	-	3,225	3,225	N/A	9,514
Revenues	88	75	-	163	158	N/A	1,203
Total Sources	2,260	1,128	2,756	6,144	6,139	N/A	15,148
Total Uses	2,260	1,128	2,756	6,144	3,977	938	6,774
Other							
Prior Year Encumbrance	-	-	21,193	21,193	21,193	N/A	60,214
Liquidation of c/o Enc.	-	-	-	-	-	N/A	-
Beginning Fund Balance	65,312	2,549	-	67,861	67,861	N/A	106,617
Revenues	14,787	(80)	-	14,707	2,334	N/A	3,612
Total Sources	80,099	2,469	21,193	103,761	91,388	N/A	170,443
Total Uses	\$ 80,099	2,469	21,193	103,761	22,122	8,862	67,069

**CITY OF SAN JOSE
OTHER FUND TYPES
SOURCE AND USE OF FUNDS
FOR THE 10 MONTHS ENDED APRIL 30, 2011
(UNAUDITED)
(\$000's)**

	ADOPTED FY 2010-11 BUDGET	YTD BUDGET AMENDMENTS	C/O ENCUMBR	REVISED FY 2010-11 BUDGET	YEAR-TO-DATE		PRIOR Y-T-D ACTUAL
					ACTUAL	ENCUMBR	
Trust and Agency							
Prior Year Encumbrance	\$ -	-	15	15	15	N/A	3
Liquidation of c/o Enc	-	-	-	-	-	N/A	-
Beginning Fund Balance	2,257	154	-	2,411	2,411	N/A	2,301
Revenues	114	568	-	682	1,202	N/A	803
Total Sources	<u>2,371</u>	<u>722</u>	<u>15</u>	<u>3,108</u>	<u>3,628</u>	<u>N/A</u>	<u>3,107</u>
Total Uses	\$ <u>2,371</u>	<u>722</u>	<u>15</u>	<u>3,108</u>	<u>638</u>	<u>6</u>	<u>363</u>

Review Notes to MFR
Period 10 CP11 – as of April 30, 2011

General Fund Revenues: Pages 3 and 4

10.36% increase in Sales Tax Revenue (\$9.52M)

- \$8.29M increase due to higher VLF/Triple Flip apportionments for January
- \$903k increase due to higher VLF/Triple flip apportionment for May

17.69% increase in Licenses and Permits revenue (\$9.72M)

- \$1.34M increase in New Residential Building Permits revenue
- \$304k increase in All Other Building Permits revenue
- \$1.43M increase in Cardroom Business Tax
- \$470k increase in Current Business Tax
- \$1.29M increase in Building Plan Check revenue
- \$699k increase in Architectural Plan Review revenue
- \$885k increase in Electrical Permits
- \$623k increase in Mechanical Permits
- \$423k increase in Plumbing Permits
- \$433k increase in Permit Processing Fees
- \$388k increase in Multiple Housing Permits
- \$285k increase in Annual Renewable Permits revenue
- \$287k decrease in Disposal Facility Tax revenue

19.86% increase in Fines and Forfeitures (\$2.57M)

- \$930k increase in Admin Citations Fines and Penalties
- \$645k increase in Other Penalties
- \$479k increase in Parking Fines – Contractors revenue
- \$303k increase in Franchise Tax Board Collections revenue (new for CP11)
- \$264k increase in Parking Fines – DMV revenue

4.15% increase in Revenue from Local Agencies (\$1.44M)

- \$1.25M increase in SB720 Automated Fingerprint Identification System (AFIS) revenue
- \$344k increase in CAL-ID Contributions
- \$297k increase in Childcare Portables Debt Service (from CSJFA 1997B SJ Unified Childcare Facilities)
- \$457k decrease in central Fire District payments
- \$123k decrease in Alum Rock Branch Cost Share revenue
- \$27k decrease in Reimbursements from RDA

31.45% decrease in Revenue from the State (\$2.71M)

- \$1.51M decrease in revenue from Airplanes
- \$675k decrease in Martin Park Gas Cutoff Grant revenue (non-existent in CP11)
- \$600k decrease in Watson Phase 1 Improvement Grant revenue
- \$175k decrease in OES Reimbursement for Strike Teams

- \$175k increase in Motor Vehicle In-Lieu revenue
- \$280k increase in 911 Emergency Comm Reimbursement revenue

104.40% increase in Revenue from Federal Government (\$2.68M)

- \$1.41M increase in ARRA Energy Efficiency Conservation Block (EECBG) Grant revenue
- \$405k increase in DOE SAC 2 Grant Revenue (ARRA)
- \$667k increase in 2009 COPS Technology Program revenue
- \$606k increase in Summer Youth & Teen Nutrition revenue (non-existent in CP10)
- \$405k decrease in UASI-0405 Grant revenue
- \$244k decrease in Homeland Security Grant revenue

566.67% increase in Other Revenue (\$74.61M)

- \$75.0M increase in of Tax and Revenue Anticipation Notes (TRANS) Proceeds – \$40M in July 2010 and \$35M in October 2010
- \$315k increase in Willow Senior Center Fire Damage revenue
- \$314k increase in Kaiser & Blue Shield Wellness revenue
- \$215k increase in Litigation Settlements
- \$432k decrease in SB90 Reimbursement revenues
- \$422k decrease in Investment Cost Reimbursement
- \$339k decrease in Unclaimed Credit Balance revenue
- \$326k decrease in A/R Interest & Misc revenue
- \$276k decrease in Sale of Real Properties deposits

Departmental Revenues: Page 7

40.83% increase in Public Works Departmental Revenue (\$1.22M)

- \$401k increase in Residential & Non-Residential Engineering revenue
- \$325k increase in Utility Excavations revenue
- \$118k increase in Streetlight Design & Inspection revenue

23.94% decrease in Library Departmental Revenue (\$277k) – \$267k of which is due to the decrease in Fines and Fees revenue

55.064% increase in Parks & Rec Departmental Revenue (\$4.16M)

- \$3.84M increase related to the re-opening of Happy Hollow Park & Zoo in March 2010
- \$601k increase in Parking Fees revenue
- \$664k decrease in Family Camp related revenue

General Fund Expenditures: Pages 5 and 6

105.33% increase in City Clerk Departmental expenditures (\$1.76M)

- \$903k Elections expenditures posted in July 2010 (for cost of June 8, 2010 election)
- \$1.03M Elections expenditures posted in January 2011 (November 2, 2010 election)
- \$114k decrease in Personal expenditures

23.46% increase in Independent Police Auditor expenditures (\$122k) – mainly due to the hiring of the new IPA in May 2010 (no acting IPA since Dec 2008)

0.93% increase in Fire Departmental expenditures (\$1.13M)

- \$2.01M increase in Personal expenditures
- \$896k decrease in Non-Personal expenditures

12.35% increase in City-Wide Economic & Neighborhood Development expenditures (\$2.43M)

- \$3.89M increase in Convention Center Lease payments
- \$297k decrease in Convention/Visitor Marketing expenditures
- \$163k decrease in San Jose Green Vision expenditures
- \$147k decrease in Arts Grants Multi-year Stability expenditures
- \$147k decrease in Mexican Heritage Plaza Maintenance & Ops expenditures
- \$111k decrease in Small Business Chambers expenditures (none in CP11 as of yet)
- \$108k decrease in Technology Center Subsidy expenditures

120.03% increase in City-Wide Environmental & Utility Services expenditures (\$1.48M)

- \$1.61M increase in ARRA Energy Efficiency Conservation Block Grant expenditures
- \$481k increase in ARRA Solar Market Transformation Grant expenditures
- \$477k decrease in Commercial Solid Waste Fee expenditure (nothing paid in CP11)
- \$296k decrease in Garbage Disposal Contract fees (nothing budgeted for/paid in CP11)

4.77% increase in City-wide Public Safety expenditures (\$720k)

- \$767k increase in Workers' Compensation claims (Fire & Police)
- \$748k increase in 2009/2010 COPS Technology Grant expenditures
- \$367k increase in Mobile ID Services expenditures
- \$137k increase in Silicon Valley Interoperability expenditures
- \$1.24M decrease in SUASI grants expenditures

16.22% increase in City-wide Recreation and Cultural Services expenditures (\$1.48M)

- \$1.08M increase in Healthy Neighborhood Volunteer Fund expenditures (new for CP11)
- \$1.05M increase in Children's Health Initiative expenditures (new for CP11)
- \$847k increase in NHVF-Senior Services expenditures (new for CP11)
- \$659k increase in Workers' Comp Claims expenditures
- \$481k increase in Summer Youth Nutrition Program expenditures (new for CP11)
- \$721k decrease in Parks Maintenance Enhancement expenditures
- \$629k decrease in Community Action and Pride expenditures
- \$530k decrease in Summer Safety Initiative expenditures
- \$286k decrease in SNI (Expanded) expenditures

303.10% increase in City-Wide Strategic Support expenditures (\$69.49M)

- \$75.00M increase due to the repayment of the TRAN in January 2011
- \$2.37M decrease in Property Tax Admin expenditures (none in CP11 to-date)
- \$1.98M decrease in Community Center Debt Service Payments (none in CP11 to-date)
- \$936k decrease in Sick Leave Payment Upon Retirement expenditures



COUNCIL AGENDA: 06/24/11
ITEM: 3.1

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Alex Gurza

**SUBJECT: RETIREMENT BENEFIT OPT IN
PROGRAMS**

DATE: June 23, 2011

Approved

Date

6/23/11

RECOMMENDATION

Accept staff report.

BACKGROUND

There has been significant discussion regarding retirement benefit opt in programs in which employees voluntarily choose to opt into a lower retirement benefit design. This first began with a proposal made by the San Jose Fire Fighters, IAFF Local 230 on a retirement benefit opt in program in February 2011. The City and the San Jose Fire Fighters reached an agreement during those contract negotiations that included a side letter to continue discussions on retirement reform that could include an opt in program.

While opt in programs may be one component of an overall solution to the City's retirement costs, there are many aspects of opt in programs that need to be considered and resolved prior to an opt in program, if any, being instituted within the City's retirement plans. As will be discussed in this memorandum, it is very important to note that any type of opt-in program would need Internal Revenue Service (IRS) approval in order to provide it under the auspices of a tax qualified retirement plan.

There are two ways that have been discussed to structure an opt in program. Opt in programs that have been proposed by some bargaining units would be structured so that when an employee chooses to opt into the new program, they leave behind all of their benefits already accrued (except years of service) and their retirement benefit is calculated only based upon the new benefit structure. For example, if the opt in program's benefit is 2% at 60 and the employee has 20 years of service, when they opt in, they will get 2% for all years of service, including the 20 years already accrued.

Another way that has been discussed to structure an opt in program is that an employee's past years of service will be calculated under the prior benefit structure and future years of service will accrue at the new rate. Using the same example above, if an employee gets 3% per year under the current benefit formula, they will opt in with 3% for 20 years already accrued and

future service will accrue at 2%. For the purposes of this memorandum, we are discussing opt in programs where all years of service would change for an employee who opts in.

During the May 24, 2011, Council meeting, the Administration was asked to study two different opt in programs developed by Councilmember Rocha and Councilmember Constant. These proposals have been studied and are discussed further in the analysis section of this memorandum.

ANALYSIS

There are many considerations regarding opt in programs. The primary issues are discussed below.

IRS Issues Associated with Opt In Programs

One critical aspect of an opt in program is the need to obtain IRS approval prior to implementation in order to ensure that investment income would be allowed to accumulate on a pre-tax basis and to ensure that employee contributions can be made on a pre-tax basis. It is our understanding that the IRS has not approved any opt in plans since at least 2005 and that there are currently 22 such requests pending with the IRS. Orange County has had their retirement opt in program for current employees on hold waiting on IRS approval.

Implementation of any opt in program would have to be contingent upon receiving IRS approval, as specified in the recent agreement with the San Jose Police Officers' Association. Because of the uncertainty of when and if an opt in program would receive IRS approval, it is difficult to determine when and if any savings could be achieved.

Irrevocable Employee Election Required For Opt In Program

If an opt in program is implemented, employees would be required to irrevocably give up their existing level of retirement benefits and voluntarily choose reduced benefits. Employees would need to sign a legal document that explains that their decision is irrevocable and that they would not be able to change their minds in the future and go back to a more generous benefit structure.

We have been advised that because of community property interests, an employee's spouse would also need to sign the document that irrevocably reduces the employee's retirement benefits. As will be discussed in the following section, any cost savings from an opt in program are dependent upon the number of employees and demographics of those employees that choose to opt in. It is very difficult to predict how many employees would voluntarily enter into a lower benefit structure. Therefore, employees would be asked to sign an irrevocable waiver without knowing the exact savings that would be achieved.

Design of Opt In Program

If the City were to pursue implementation of an opt in program, in addition to tax considerations, it is also important to consider how the benefit design of the opt in program fits in with the

pending benefits structure for new employees and the current benefit structure. For example, one goal could be to have an opt in program that matches the benefits structure for new employees that would be designed so that the costs are sustainable and risks are reduced.

Another goal could be that the opt in program does not alter the benefits formula for years of service already worked, but reduces the benefit formula for future years of service. An opt in program could also be designed to achieve a savings goal through the combination of the reduced cost of the opt in program and increased employee contributions for those employees that choose to stay in the existing benefit structure.

Cost Savings of Opt In Programs

As noted above, the actual savings of an opt in program will not be known until after the program has been implemented and employees have irrevocably decided to opt in. Although estimates can be developed in order to determine the actual savings of an opt in program, actuaries would need to know the demographics of the employees who have elected to opt in. In addition, the potential cost savings from the opt in program are dependent on the particular design of the opt in program.

There are potential options to incent employees to opt into a lower level of retirement benefits:

- Potential for a lower employee contribution rate
- Requiring employees who stay in Tier 1 to pay a higher contribution rate
- Higher wages for employees who opt in

The cost savings of the opt in program would also be dependent upon any specific incentives for employees to opt into the lower level of retirement benefit.

Various Opt In Programs

San Jose Fire Fighters, IAFF Local 230 Proposal

In February 2011, in negotiations over a successor Memorandum of Agreement (MOA), the San Jose Fire Fighters made a proposal on a second tier retirement benefit for new employees. This proposal was discussed in an information memo dated April 13, 2011, which is attached to this memorandum as Attachment A. This proposal also included an opt in program where current employees could opt into the second tier, which was as follows:

San Jose Fire Fighters Second Tier Retirement Proposal		
	Current Pension Benefits (FIRE)	2 nd Tier Pension Benefits As Proposed by Local 230 with opt in for current employees
Eligibility	50 w/25 years of service 55 w/20 years of service 30 years at any age	No change
Vesting	10 year of Service Only if 20 years have lapsed from date of membership	No change
Maximum Benefit ¹	90%	75%
Formula	Years 0-20: 2.5% per year of service At the end of 20 years of service: 3.0% for all years	Years 0-30: 2.5% per year of service
Calculation	Based on Highest 12 Months	Based on Average of the Highest 36 Months
Annual Cost of Living Adjustment	3% Fixed (compounded)	Maximum 2% based on CPI

What is important to note about the San Jose Firefighters' opt in program proposal was that any savings that the City received from the opt in program would be shared equally between the employees and the City. The San Jose Fire Fighters' proposal states that 50% of the actuarial savings would either be paid to the employee or put in a 401(a) type plan for each employee. In addition, this proposal does **not** make any changes to the retirement age, which is one of the factors that contributes the most to the cost of retirement benefits.

The City and the San Jose Fire Fighters have an agreement to continue negotiating pension and retiree healthcare benefits for current and future employees. The San Jose Fire Fighters' proposal would be included in those discussions.

San Jose Police Officers' Association

During successor MOA negotiations, the POA provided the following proposal on an opt in program for current employees:

¹ Includes base pay and any premium pays that are pensionable.

San Jose Police Officers' Association Opt In Program Proposal		
	Current Pension Benefits (POLICE)	Opt In Program As Proposed by POA
Eligibility	50 w/25 years of service 55 w/20 years of service 30 years at any age	No change
Vesting	10 year of Service Only if 20 years have lapsed from date of membership	No change
Maximum Benefit ²	90%	80%
Formula	Years 0-20: 2.5% per year of service 21-30 years of service: 4.0% per year	Years 0-20: 2.5% per year of service 21-30 years of service: 3.0% per year
Calculation	Based on Highest 12 Months	Based on Average of the Highest 36 Months
Annual Cost of Living Adjustment	3% Fixed (compounded)	Maximum 2% based on CPI

One of the most significant issues in the negotiations with the POA over an agreement on a new contract that included a 10% reduction in total compensation was the POA's desire to include an agreement to implement their opt in program. The outcome of those negotiations was an agreement that included a side letter on Retirement Reform, which is included as Attachment B. This side letter stated that in the event the City and the POA do not reach an agreement on the specific design of an opt in program by November 1, 2011, at the POA's option the City will implement the opt in program that was proposed by the POA during contract negotiations, effective December 25, 2011, under two conditions. The first condition was that 40% of the employees represented by the POA sign an irrevocable waiver to elect to go into the opt in program and that the POA decides to continue with the implementation of the opt in program. The second condition was that any implementation of an opt in program is contingent upon receiving an IRS qualification letter. If less than 40% of the employees represented by the POA opt in, the opt in program could proceed if the City and the POA agreed.

The City and the POA will be continuing their discussions on retirement reform, including this opt in program.

Association of Engineers and Architects, IFPTE Local 21, City Association of Management Personnel, IFPTE Local 21, Association of Maintenance and Supervisory Personnel (AEA, CAMP and AMSP)

During successor MOA negotiations, AEA, CAMP and AMSP also provided a second tier retirement benefit proposal that included an opt in program for current employees. This proposal has not been costed, but will be the subject of the upcoming negotiations.

² Includes base pay and any premium pays that are pensionable.

Councilmember Constant and Councilmember Rocha's Opt In Programs

In addition, on May 24, 2011, the City Council provided the Administration with direction to cost out and study two different opt in programs. Those are as follows:

	Councilmember Rocha (Predetermined Design)	Councilmember Constant (Design based on 50% of City's normal cost)
Police and Fire	2.33% per year 70% maximum Age- 57 1.5% COLA 3 year final average salary	1.50% per year 45% maximum Age- 57 1.0% COLA 3 year final average salary
Federated	2.00% per year 60% maximum Age- 62 1.5% COLA 3 year final average salary	1.25% per year 37.5% maximum Age- 62 1.0% COLA 3 year final average salary

Estimated Cost Savings

The Department of Retirement Services has completed an analysis of the various opt in programs above (San Jose Fire Fighters, POA, Councilmember Rocha and Councilmember Constant's) and the following summarizes the estimated normal cost of the pension benefits as described above. The normal cost is the cost of funding the retirement benefit for each year of service. It is important to note that the normal cost does not include any of the unfunded liability costs, but using the normal cost allows for a comparison of a particular benefit structure for future years of service.

Although the estimated normal cost below is calculated for a new employee, it can also be assumed that this would be the estimated normal cost if 100% of current employees opted into the second tier. As discussed earlier in this memorandum, it is difficult to estimate the potential savings of an opt in program as there are many factors that are unknown. For example, it is unknown how many employees would elect this option, whether employees with fewer years of service would be more likely to elect this option, or whether employees who are closer to retiring would consider electing this option. These along with many other factors, including the cost sharing for the normal cost and unfunded liability could significantly impact the City and employee costs.

	Current Normal Cost	Police Opt In Proposal	Fire Opt In Proposal	CM Rocha	CM Constant
7.75% (25% Probability) Earnings Assumption	38.50%	30.32%	28.38%	23.27%	N/A
6.75% (50% Probability) Earnings Assumption	48.6%	36.32%	36.65%	29.58%	19.76%

	Federated Current Normal Cost	Federated CM Rocha	Federated CM Constant
7.75% (25% Probability) Earnings Assumption	17.44%	10.85%	N/A
6.75% (50% Probability) Earnings Assumption	22.1%	13.57%	8.93%

In addition, the Department of Retirement Services has provided an estimate of the savings to the City if 100% of employees represented by the San Jose Fire Fighters opted into their opt in program, if 100% of employees represented by the POA opted into the opt in program proposed by the San Jose Fire Fighters and if 100% of both opted into the opt in program. This chart was shown during the presentation to the City Council on May 18, 2011, and is also attached to this memorandum as Attachment C.

EVALUATION AND FOLLOW-UP

Opt in programs will be discussed during the upcoming retirement reform negotiations with the City's bargaining units. Additional information regarding opt in programs and other council direction from May 24, 2011, will be provided during the presentation during the Council meeting on June 24, 2011.

COORDINATION

This memorandum was coordinated with the Department of Retirement Services and the City Attorney's Office.

CEQA

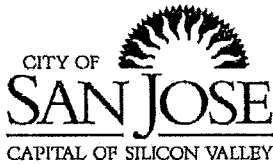
CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.



Alex Gurza
Director of Employee Relations

Attachments:

- A: Information Memorandum Dated April 13, 2011
- B: Retirement Reform Side Letter with the San Jose Police Officers' Association
- C: Opt In Estimated Savings Chart



SENT TO COUNCIL:

Distributed on:

APR 14 2011

City Manager's Office

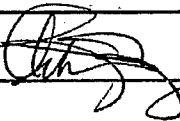
Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Alex Gurza

SUBJECT: **Estimated Retirement Pension
Benefits Costs -
San Jose Fire Fighters, IAFF
Local 230 Proposal dated
February 28, 2011**

DATE: April 13, 2011

Approved 

Date

4/13/11

INFORMATION

On January 25, 2011, the City Council approved direction to the City Manager to negotiate 2nd Tier pension and retiree healthcare benefits for new employees that achieves a normal cost to the City and employees that does not exceed 12.4% of pensionable pay. Further, if a defined benefit plan or hybrid is considered, the following factors should be included: cost sharing – pension unfunded liability, cost of living adjustment (COLA), retirement age, pension formula, determination of final compensation, retirement service credit, minimum service requirements (vesting), joint and survivor benefits, retiree healthcare benefits, retiree dental benefits, retroactive disability retirement applications, Supplemental Retiree Benefit Reserve (SRBR) or "13th Check," and Workers' Compensation offset in the Police and Fire Department Retirement Plan. In addition, the Council direction included exploring options for current employees.

During the negotiations with the San Jose Fire Fighters, IAFF, Local 230, hereafter referred to as "Local 230," Local 230 provided a proposal on 2nd Tier Retirement benefits. The proposal also included an Opt-In Option for current employees. (Please see attached Local 230 proposal dated February 28, 2011)

The City and Local 230 reached an agreement for a successor contract on March 3, 2011. Changes to the retirement benefits were not included in the agreement, however, part of the overall agreement included a side letter to continue negotiations on pension and retiree healthcare benefits for current and future employees.

The agreement was approved by the City Council on March 22, 2011. At the Council Meeting on March 22nd, the City Council made a referral to the City Administration to provide the Normal Cost of Local 230's 2nd Tier proposal. This memorandum is intended to provide a response to the referral made at the City Council meeting on March 22, 2011, on the Local 230 proposal.

Comparison of Current Pension Benefit and 2nd Tier Pension Benefit Proposal

The following chart summarizes the current pension and retiree healthcare benefits provided to employees represented by Local 230, compared to the 2nd Tier proposal made by Local 230 on

February 28, 2011.¹ Local 230 is proposing to roll back the maximum benefit from 90% to 75% of pensionable pay for new employees, as was provided prior to February 1996. In addition, the proposal includes calculating the pension benefit using the average of the highest 36 months and providing a 2% Cost of Living Adjustment (COLA) based on the Consumer Price Index (CPI).

	Current Pension Benefits (FIRE)	2 nd Tier Pension Benefits As Proposed by Local 230
Eligibility	50 w/ 25 years of service 55 w/20 years of service 30 years at any age	50 w/ 25 years of service 55 w/20 years of service 30 years at any age
Vesting	10 Years of Service only if 20 years have lapsed from date of membership	10 Years of Service only if 20 years have lapsed from date of membership
Maximum Benefit ²	90%	75%
Formula	Years 0-20: 2.5% per year of service At the end of 20 years of service: 3.0% per year	Years 0-30: 2.5% per year of service
Calculation	Based on Highest 12 Months	Based on Average of the highest 36 months
Annual Cost of Living Adjustment	3% Fixed (compounded)	Maximum 2% based on CPI

Fiscal Year 2011-2012 Retirement Costs for Fire Employees

The following chart includes the board adopted retirement contribution rates for Fiscal Year 2011-2012 for current Fire employees in the Police and Fire Department Retirement Plan. The Normal Cost is currently split in an 8:3 ratio (City – 73% and Employees 27%). The proposal provided was not proposing to change the cost sharing for the Normal Cost. The City would remain responsible for 100% of the unfunded pension liability. The proposal does not make any changes to the cost sharing for the pension unfunded liability.

Fiscal Year 2011-2012 Retirement Contribution Rates (FIRE)			
Current Benefit	City	Employee	Total
Pension			
Normal Cost	28.53%	10.70%	39.23%
Unfunded Liability/Prior Service Cost	23.01%	0.06%	23.07%
Subtotal	51.54%	10.76%	62.30%
Medical and Dental³	3.92%	3.61%	7.53%
Total	55.46%	14.37%	69.83%

¹ The 2nd Tier Retirement proposal made by Local 230 also includes closing the SRBR program to new employees and changes to the retiree healthcare benefits. For purposes of this memorandum, cost estimates only include the changes to the pension benefit.

² Includes base pay and any premium pays that are pensionable.

³ Medical and Dental rates for the City and Employees are for Fiscal Year 2010-2011. It is anticipated that the Fiscal Year 2011-2012 rates will be available in May.

Normal Cost of 2nd Tier Pension Benefit for New Employees

The Department of Retirement Services completed an analysis of the 2nd Tier retirement (pension only) proposal and the following summarizes the estimated Normal Cost of the pension benefit as described above. It should be noted that during the negotiations, Local 230 indicated that their actuary estimated the Normal Cost for new employees to be approximately 28% of pensionable pay, which is consistent with Retirement Services analysis. As a comparison, the current Normal Cost for the pension benefit is 39.23%.

2 nd Tier Pension Benefit as proposed by Local 230 on February 28, 2011				
	Local 230 estimated Cost	City's estimated Cost using current earnings assumption of 7.75%	City's estimated Cost using earnings assumption of 6.75% ⁴	City's estimated Cost using earnings assumption of 4.00% ⁵
Normal Cost	28%	28.38%	45.6%	89.5%

In preparing the analysis, the Department of Retirement Services used three different earnings assumptions. The earnings assumption (Investment Rate of Return) is the estimated future net rate of return on current and future assets. This rate is used to discount the actuarial liability for each plan, and is one of the most important assumptions.

The Police and Fire Department Retirement Board recently lowered the current earnings assumption (Investment Rate of Return) assumption from 8.0% to 7.75% for the 2010 valuation, which was used to establish the retirement contribution rates for Fiscal Year 2011-2012. The Board is also considering whether to lower the earnings assumption further for the 2011 valuation, which would be used to establish the retirement contribution rates for Fiscal Year 2012-2013.

The earnings assumption actuarial change was made to more closely align expected net rates of return to assumed net investment rates of return. If the investments do not result in earnings that are at least as much as the assumptions set by the retirement boards, it results in an unfunded pension liability that must be entirely paid by the City.

As illustrated in the chart above, if the earnings assumption is lowered, the Normal Cost of the benefit increases. For example, the Department of Retirement Services estimated the Normal Cost to be 89.5% if a 4% earnings assumption were used. This was used to illustrate the impact of using a very conservative and nearly risk-free earnings assumption.

The Unfunded Actuarial Accrued Liability for the Police and Fire Pension Benefits as of June 30, 2010 was \$0.65 billion on an actuarial basis and \$1.0 billion on a market value basis. If the 2nd Tier proposal were accepted for new employees, it would result in no immediate change to the unfunded liability.

It is important that realistic actuarial assumptions are used to maintain adequate funding. The higher the earnings assumption, the higher the risk and ultimately the higher the costs will be if investment returns do not meet the earnings assumption. Actuarial assumptions do not determine the actual cost of the plan. The actual cost is determined by the benefits paid out,

⁴ Includes changes to mortality and merit pay increase assumptions.

⁵ Includes changes to mortality and merit pay increase assumptions.

HONORABLE MAYOR AND CITY COUNCIL

April 13, 2011

Subject: Estimated Retirement Pension Benefits Costs –Local 230 Proposal dated February 28, 2011

Page 4 of 4

offset by the investment income received. The Boards need to adhere to funding policies that are based on sound actuarial methods to avoid intergenerational transfers of benefit costs.

Opt-In Option for Current Employees

In addition to the 2nd Tier Retirement Proposal for new employees, Local 230 proposed an Opt-In Option for current employees. Under the proposal, current employees would be allowed to opt-in to the 2nd Tier pension plan. Any savings resulting from employees electing to opt-in to the 2nd Tier would be shared equally between the employees and the City. This means that 50% of the actuarial savings would either be paid to the employee or put in a 401(a) type plan for each employee.

At this time it is difficult to determine what the potential savings for this Opt-In Option would be because there are many factors that are unknown. For example, it is unknown how many employees would elect this option, whether employees with fewer years of service would be more likely to elect this option, or whether employees who are closer to retiring would consider electing this option. These along with many other factors, including the cost sharing for the Normal Cost and Unfunded Liability could significantly impact the City and employee costs. If the City Council provides direction on an Opt-In Option, there are many details that would need to be discussed during the negotiation process.

Conclusion

The City and Local 230 have an agreement to continue negotiating pension and retiree healthcare benefits for current and future employees. The Local 230 proposal would be included in those discussions.



Alex Gurza
Director of Employee Relations

Attachment



San Jose Fire Fighters • Local 230

425 E. Santa Clara Street, Suite 300, San Jose, CA 95113 • (408) 286-8718 • FAX (408) 286-2577



SECOND TIER RETIREMENT (Plan 2)

For all applicable members initially hired after the effective date of this contract, Local 230 agrees to full pension reform by turning back the clock on pension benefits to the following:

- Maximum retirement benefit 75% of final average salary
- 2.5% per year for years 1-30
- Final average salary to be calculated as the annual average of the highest 36 months.
- Retiree Annual Cost of Living Adjustment (COLA) calculated to match the CPI index rate up to a maximum of 2.0%
- Supplemental Retirement Benefit Reserve benefit closed to new members who are hired after effective date of agreement.
- The retiree medical benefit will be defined as the minimum plan amount paid to active members at the time the employee retires without future increases.

VESTED MEMBER OPT - IN OPTION (Plan 2)

The following pension plan changes shall apply prospectively to any current San Jose Fire Department Employee who at their option select to join the second tier retirement plan (Plan 2). The actuarial savings from a member opting into the second tier retirement plan shall be shared equally between the employee and City at a 1:1 ratio. For the employee, the savings can be applied in either of two methodologies:

1. Applied to a new 401(a) account to be dispersed within plan and IRS guidelines upon separation of employment or retirement, OR
2. Paid directly to the employee as compensation on a biweekly basis.

If a current employee selects to join the second tier retirement plan the member shall remain in the second tier retirement plan or, on a one time basis, an employee could re-join the Tier 1 plan but must pay all resultant UAAL attributed to that individual prior to re-joining the first tier plan (Plan 1).

Tentatively Agreed _____
AG _____ JW *[Signature]*

Side Letter Agreement

BETWEEN

THE CITY OF SAN JOSE

and

SAN JOSE POLICE OFFICERS' ASSOCIATION

RETIREMENT REFORM

The City and the San Jose Police Officers' Association agree to continue meeting and conferring on pension and retiree healthcare benefits for current and future employees, including but not limited to healthcare benefits. The negotiations may include modification of healthcare (medical and dental) plans available to current employees, including but not limited to plan design.

Either the City or Union may provide notice to the other of its request to meet and confer. Upon such notice, the parties shall continue these negotiations within ten (10) calendar days after the City or Union receives notice from the other. The City and Union shall meet and confer in good faith in an effort to reach a mutual agreement. If the parties are at impasse and no agreement is reached, the parties shall submit the issues for determination in accordance with the applicable provisions under the Employer-Employee Relations Resolution No. 39367 and/or City Charter Section 1111.

Opt In Program

As part of the negotiations related to retirement reform, the parties will meet and confer regarding an opt in program in which current employees could voluntarily choose to opt out of the current level of pension benefits into a lower level of benefits.

In the event that the City and the POA do not reach an agreement on the specific design of an opt in program by November 1, 2011, at the POA's option the City will implement the opt in program that was proposed by the POA during contract negotiations (2.5% for the first 20 years and 3% after 20 years with an 80% maximum, 2% fixed COLA and 3 year final average salary) effective December 25, 2011, under the following conditions:

1. 40% of the employees represented by the POA sign an irrevocable waiver to elect to go into the opt in program described above. Employees would be required to sign a document indicating that they understand that if the

program is implemented, this is an irrevocable election and that they will not be able to opt back into the former tier of benefits.

AND

2. Any implementation of an opt-in program is contingent upon receiving an IRS qualification letter.

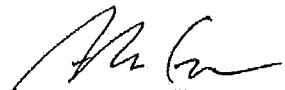
Even if 40% of the employees represented by the POA sign an irrevocable waiver to opt in and IRS approval has been received, the POA will have the option not to proceed with implementation of the opt in program. If less than 40% of the employees represented by the POA sign an irrevocable waiver to opt in and IRS approval has been received, the opt in program may still be implemented by mutual agreement of both the City and the POA.

The parties agree that the dates contained herein regarding the opt in program can be modified by mutual agreement of the parties.

The POA expressly acknowledges that this opt in program is not the solution to the costs of the City's retirement benefits and the unfunded liabilities for both pensions and retiree healthcare. The City has informed the POA that even if the opt in program is implemented, further changes will be required to significantly reduce the costs of pension and retiree healthcare benefits and the unfunded liabilities, which may include a substantially lower cost tier for new employees and reduced benefits and/or increased employee contributions for current employees, including those who may elect the opt in program. Neither party waives any legal rights including the Union's nor any member's right to assert that certain benefits are vested.


This Agreement is tentative and shall become effective only as part of the overall agreement on, and only during the term of, a successor Memorandum of Agreement.

FOR THE CITY:

 6-3-11

Alex Gurza Date
Director of Employee Relations

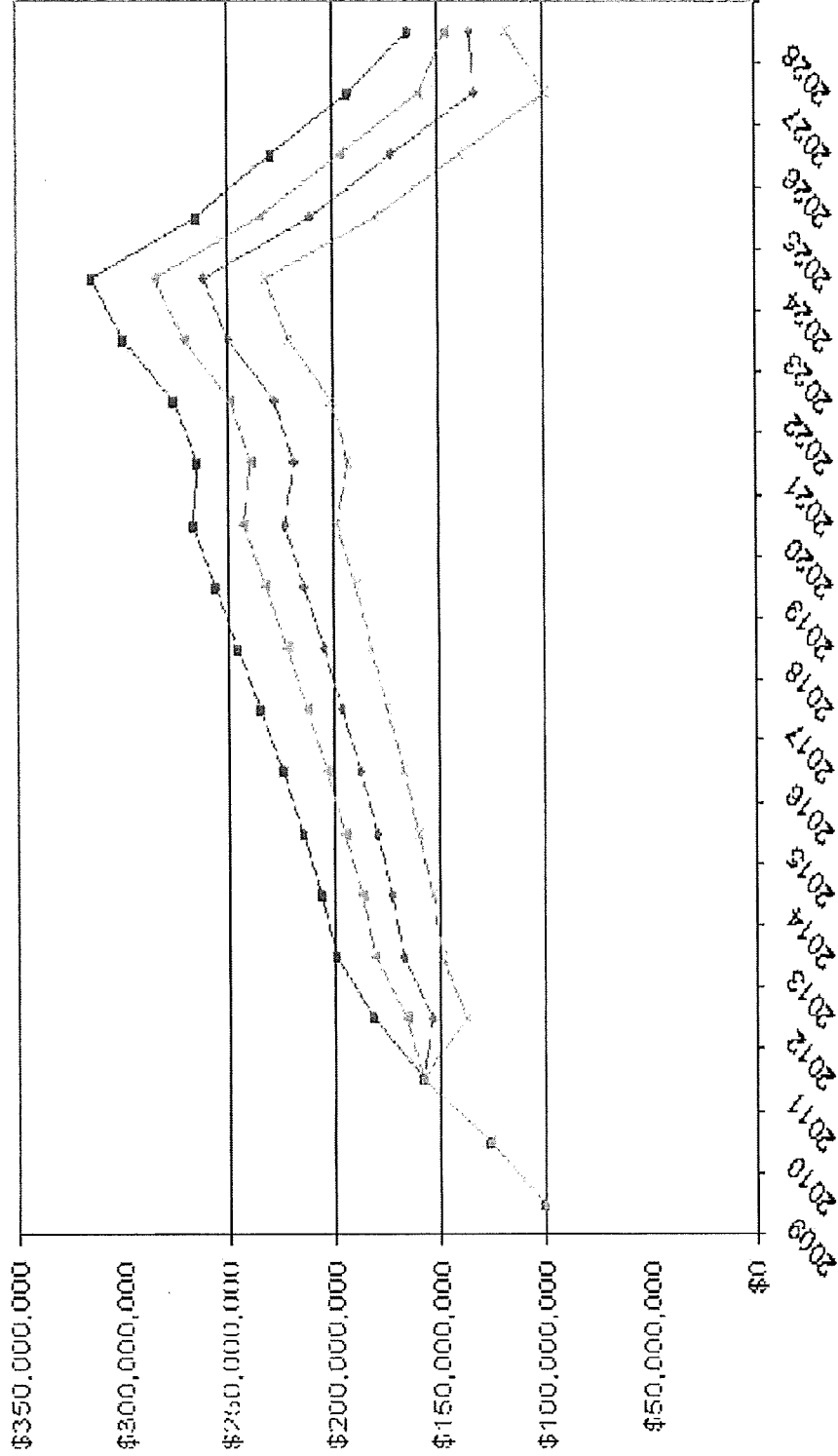
FOR THE UNION:

 6/3/2011

George Beattie Date
President, San Jose Police Officers' Association

Opt In Program

20 year Outlook of City Contributions
Police and Fire Department Retirement Plan



■ 20-Year Outlook of City P&F Contributions
 ● 100% Opt in for Police (3% benefit after 21, 3 year FAS, 7% COLA), 75% maximum
 ▲ 100% Opt in for Fire (3% benefit after 20, 3 year FAS, 2% COLA), 75% maximum
 ○ 100% Opt in (3% benefit after 20, 3 year FAS, 2% COLA), 75% maximum